REVIEW.
OUTLOOK.
VISION.

THE HUMAN TOUCH OF AUTOMOTIVE TECHNOLOGY

ANNUAL REPORT

2008

PWO

KEY FACTS & FIGURES

in EUR '000	2004	2005	2006	2007	2008
Group sales	201,092	219,706	225,339	259,566	260,356
Total output (consolidated)	197,544	221,121	227,048	262,600	264,810
Material expenses	99,982	114,293	117,750	141,332	149,306
Staff expenses	57,658	60,241	62,760	68,765	70,652
EBITDA	25,654	29,052	31,938	32,908	24,184
EBIT	14,366	15,522	15,792	16,719	7,715
Net profit for the period	7,114	7,915	8,840	7,673	1,351
Cash flow from operating activities	22,254	16,267	25,296	17,902	25,031
Cash flow from investing activities	-16,411	-16,517	-13,179	-26,007	-33,937
Cash flow from financing activities	-3,094	700	-7,828	-958	13,497
Equity ratio in % of balance sheet total	33.0	40.7	41.8	40.0	33.1
Return on equity in % (based on EBT)	26.9	19.8	18.5	16.8	3.8
Return on equity in % (based on net profit)	16.8	12.4	12.9	10.0	2.0

For a detailed overview of the key financials, please refer to the management report on page 36.

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WE THINK OUTSIDE THE BOX WHEN IT COMES TO INNOVATION – AND REDUCING COSTS.

01
LETTER TO SHAREHOLDERS

Dear Shareholders,

A long period of growth in the German automotive industry came to an abrupt end in the fourth quarter of 2008. Consistent market share gains, especially in foreign markets, produced six record years that almost made us forget the cyclical nature of the automotive industry. The global downturn caused by the financial crisis in 2008 was especially harsh, because it came suddenly and brought considerably heavier consequences than were felt in past cycles.

The general recession that began last autumn made a significant impact on consumer behaviour which played a role in the current automotive sales crisis. There were other key factors as well. Due to the financial crisis, many markets saw reductions in the inexpensive leasing options and financing alternatives that had been instituted to encourage sales. Particularly in Germany, discussions of a future vehicle taxation added to consumer restraint.

PWO continued on a path of robust growth in the first half of the year. Percent figures in performance even reached the double digits until a dramatic downturn hit in the fourth quarter. It will prove vital going forward that we did not lose any orders for serial production in 2008. On the contrary, we gained a number of attractive new orders. The fact remains that clients have drastically curbed their own production in the short term and adapted to the demands of the market. They have also looked to reduce their build-up of new vehicle inventories from the past year, which led to further cutbacks in production.

We made the right choice by taking action early, with a focus on the Oberkirch and Kitchener production sites, since the effects of these measures are sometimes delayed. We began by reducing the temporary and fixed-term workforce, cutting down flexitime and vacation accrual, and adjusting expenses. At the end of September, we had reached a 6 percent increase over the previous year in series production business for the largest PWO production site in Oberkirch, but then sales dropped more than 30 percent in the fourth quarter and they stayed well under the break-even point through November and December. The market-related drop in sales that we had expected at the production site in Kitchener, Canada was clearly worsened by the slump in the fourth quarter, and it ended the year with a total decrease of about 30 percent. Significantly higher sales were seen at our production sites in the Czech Republic (+67 percent from the previous year) and Mexico (+7 percent from the previous year) due to the launch and ramp up of new products. However, we had to absorb temporary high start-up costs and burdens due to currency fluctuation, as well as restructuring expenses. Progress at the new production site in Suzhou, China proceeded according to plan.

01
LETTER TO SHAREHOLDERS

We generated total revenue of EUR 260.4 million (prev. year: EUR 259.6 million). Total output was also slightly higher than the previous year at EUR 264.8 million (prev. year: EUR 262.6 million). EBIT was considerably lower than the previous year's figure, owing to costs of building up our new international production sites, as well as the lost profits due to reduced sales in the fourth quarter. In spite of these combined negative factors, the annual net profit remained positive, although the level is far from satisfactory.

We will continue to feel the effects of the current economic and financial crisis in 2009. PWO will cautiously stay on the course for international growth, since there is no other way to ensure the future of the company. We have always followed the strategy of only installing additional domestic or international production capacity when we were certain of adequate demand. Our strategy for international growth has not only won us new orders abroad, but has also ensured that our home production site in Oberkirch could operate at maximum capacity, since it was our international presence that gave us access to our clients global platform projects.

We will continue to enhance development and sales in the future. We were able to attain substantial new orders in 2008, as mentioned above, thanks to innovative solutions for a wide variety of demands from our clients, and for the necessary production processes that go along with them. Additional potential is also offered by further portions of global platform projects which are soon to be allocated.

We would like to take this opportunity to give special thanks to our employees. They have shown great flexibility and willingness to adapt to the new situation, and their motivated and intensive cooperation will help get PWO through the current difficult situation. Their experience, often with decades of employment in our company, is extremely valuable. The Management Board feels all the more obligated to go to every length to soften the impact of the sales slump on our employees.

We also thank you, our shareholders, for your trust during a time when our shares cannot avoid the impact of the steep declines on the capital markets. We are certain that PWO profits will see disproportional benefits from the next upturn, and we will continue to work to make that happen.

Karl M. Schmidhuber (Chairman) | Bernd Bartmann | Dr. Winfried Blümel

IN SHORT:
A GOOD IDEA IS THE BOTTOM LINE.

02

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board of Progress-Werk Oberkirch Aktiengesellschaft reports below on its activities during the financial year 2008. Focuses of this report include the cooperation between the Supervisory Board and the Management Board, the important subjects treated during Supervisory Board meetings, with particular attention to the procedure concerning the annual and consolidated financial statements, as well as committee work.

During the financial year 2008, the Supervisory Board fulfilled its duties and responsibilities as defined by German law, by the Articles of Association of Progress-Werk Oberkirch and by the Rules of Procedure formulated for the Supervisory Board. The Supervisory Board continually maintained close collaboration with the Management Board, regularly acting in an advisory capacity and supervising the management of business affairs.

The Supervisory Board was directly involved in all decisions of material importance to the company. Cooperation between the Supervisory Board and the Management Board is centred around a regular dialogue on all significant company issues. In particular, the definition of the Group's strategic direction results from close collaboration between the Management Board and the Supervisory Board.

The Management Board regularly provides verbal and written reports to the Supervisory Board in a timely and comprehensive manner. This communication addresses all significant issues concerning market trends, short-term and long-term business planning, the current course of business and the state of affairs within the Group. This includes the risk situation, as well as risk management, investment activities, development projects and the strategic development of the Group. All significant business transactions and events were thoroughly discussed by the Supervisory Board on the basis of detailed reports provided by the Management Board.

Departures from specified performance targets and forecasts, as well as measures aimed at rectifying such developments, were outlined by the Management Board on a case-by-case basis and subsequently reviewed by the Supervisory Board. The Supervisory Board thoroughly examined and discussed reports and proposals put forward by the Management Board. On the basis of this review, the Supervisory Board gave its approval in cases where legal provisions or the Articles of Association required it.

The Supervisory Board convened on six occasions during the financial year 2008. One meeting took place at the Mexican subsidiary PWO de México in Puebla. In its meetings, the Supervisory Board thoroughly examined the financial situation and the operative and strategic development of the Group.

Between meetings, the Management Board issued written reports to immediately and thoroughly inform the Supervisory Board of extraordi-

02

REPORT OF THE SUPERVISORY BOARD

nary business transactions. Such reports were made when transactions were deemed vital to the assessment of the Group's situation and development, and to the management of the Group. The Management Board presented issues requiring Supervisory Board approval in a timely manner for deliberation.

As Chairman of the Supervisory Board, I maintained regular close contact with the Chairman of the Management Board, and I stayed informed concerning the current course of business and the important business transactions. With two exceptions, the Supervisory Board meetings were attended by all members.

During the reporting year, there were no conflicts of interest among members of the Management Board and Supervisory Board that required immediate disclosure to the Supervisory Board and instruction of the Annual General Meeting. The services rendered by the law firm Gleiss Lutz, with whom Supervisory Board member Dr. Gerhard Wirth is a Partner, were approved by the Supervisory Board.

Plenary meetings

In the financial year 2008, the activities of the plenum of the Supervisory Board of Progress-Werk Oberkirch Aktiengesellschaft focused on issues relating to revenues and earnings, cash flows and capital expenditure, as well as the overall employment situation. There was also particular focus on development projects, which form an integral basis for future growth within the Group.

Beyond this, the meetings focused on international expansion, particularly in China and Mexico. This included the complete acquisition and integration of PWO's Mexican subsidiary, as well as plans for its future expansion. In view of growth in China, there was intensive discussion of investments in the company-owned production site in Suzhou, progress in its expansion, the key opportunities and risks associated, and strategy concerning the Chinese joint venture.

The Group's medium-term plans for all locations as a whole were discussed and generally approved in plenary meetings, focusing on revenue and earnings, capital expenditure and business development, as well as financing, risks and alternative scenarios.

The Supervisory Board convened for an additional meeting on November 27, 2008, due to the dramatic downturn in the development of the international automobile markets during the fourth quarter of 2008. The discussion thoroughly examined current market developments and their impact on the Group. The primary subjects of discussion included financing, short-term adjustment measures for the remainder of the financial year 2008 and the outlook and scenario analysis for the financial year 2009 in consideration of the new general conditions.

At its meeting of December 15, 2008, the Supervisory Board and Management Board jointly approved the Declaration of Compliance for Progress-Werk Oberkirch Aktiengesellschaft, as required under Section 161 of the Stock Corporation Act (Aktiengesetz – AktG). This Declaration relates to the recommendations of the "Government Commission on the German Corporate Governance Code" in the version of June 6, 2008 (published on August 8, 2008), as posted in the electronic federal gazette by the German Federal Ministry of Justice. All departures from the Code's recommendations were specified.

At the same meeting, the Supervisory Board performed its assessment of its own efficiency. Focus of this review was the thoroughness and regularity with which the Supervisory Board fulfilled its obligation regarding questions to be directed to the Management Board. The report of the Management Board relating to corporate governance at Progress-Werk Oberkirch Aktiengesellschaft, as published in the annual report for the financial year 2008, also applies to the Supervisory Board.

Pursuant to Section 315a of the German Commercial Code (Handelsgesetzbuch – HGB), no consolidated financial statement was prepared according to the HGB. The accounting and annual financial statements of Progress-Werk Oberkirch Aktiengesellschaft, the consolidated financial statements and the combined management report for the parent company and the

02

REPORT OF THE SUPERVISORY BOARD

Group, as well as the related-party disclosure of the Management Board pursuant to Section 312 AktG were audited by Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Stuttgart, appointed as auditor by the Annual General Meeting on May 20, 2008, and were granted an unqualified audit opinion.

The audit opinion furnished by Ernst & Young AG with regard to related-party disclosure was as follows [translation]: "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." As regards information disclosed in accordance with Section 289 (4) and Section 315 (4) HGB, please refer to page 57 of the management report.

The audit reports compiled by the auditor and the Management Board proposal regarding the appropriation of net retained profits ("Bilanzgewinn", i.e. the distributable profit) were forwarded to all members of the Supervisory Board in a timely manner. These were discussed extensively at the Audit Committee meeting on March 10, 2009, as well as at the Supervisory Board meeting on April 1, 2009. The auditor attended both meetings and presented the significant findings of his audit.

The Supervisory Board independently examined the annual financial statements, consolidated financial statements, as well as the related-party disclosure and the Management Board proposal regarding the appropriation of profits. Following the recommendation of the Audit Committee, the auditor's results were approved. There were no objections raised after conclusion of the final examination. The Supervisory Board approved the annual financial statements and consolidated financial statements, concluding their validity. The Supervisory Board raised no objections to the statement issued by the Management Board at the end of the related-party disclosure report.

Furthermore, the Supervisory Board agreed with the proposal for the appropriation of net retained profits ("Bilanzgewinn") for 2008. At the Annual General Meeting on May 26, 2009, the Supervisory Board and Management Board will be proposing payment of a dividend in the amount of EUR 0.55 per entitled ordinary share.

Committee work

In order to ensure the efficient discharge of its duties, the Supervisory Board established a Personnel Committee and an Audit Committee in accordance with its Rules of Procedure, conferring on them specific rights to the extent that this is permissible under law. The committees are responsible for preparing the relevant topics and resolutions to be discussed by the plenum.

The Supervisory Board Chairman heads the Personnel Committee and regularly reports to the plenum on committee activities. The Personnel Committee is responsible for preparing the HR-related decisions made by the Supervisory Board, as well as deciding directly on employment contracts and retirement benefit agreements entered into with members of the Management Board. It also represents the company in dealings with Management Board members and grants authorisation for outside or competing offices held by members of the Management Board. In addition, the Personnel Committee has the authority to grant loans to Management and Supervisory Board members and authorise contracts with Supervisory Board members for duties beyond their activities as members of the Supervisory Board.

The Personnel Committee convened on two occasions during the period under review. In this context, Mr Karl Schmidhuber was reappointed as member and Chairman of the Management Board.

In the past financial year, the Audit Committee met on three occasions. It particularly addressed the annual accounts for the financial year 2007, as well as issues concerning the fundamental structure and further development of risk management and of the internal controlling system. In addition, it received reports from the Management Board, with special attention to the Group's profitability, valuation issues including those regarding investments, control and financial reporting, and internal auditing. The Audit Committee regularly assessed the alignment of the Group's current developments with ongoing plans, and it discussed appropriate action.

02

REPORT OF THE SUPERVISORY BOARD

The Audit Committee also obtained the auditor's Declaration of Impartiality pursuant to Section 7.2.1 of the German Corporate Governance Code, and the Committee monitored the auditor's impartiality. Further, the allocation of mandates to the auditor for services unrelated to auditing was addressed. During the year in review, the Audit Committee found no evidence that cast doubt on the auditor's impartiality. For this reason, it did not initiate measures to ensure this impartiality.

In a meeting on November 7, 2008, the Audit Committee issued an audit mandate to the auditor, defined the focal points of the audit and determined the level of remuneration. The auditor attended the meeting of the Audit Committee on March 11, 2008 and furnished detailed information on duties performed as part of the audit.

In the financial year under review, the committees included the following members:

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

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

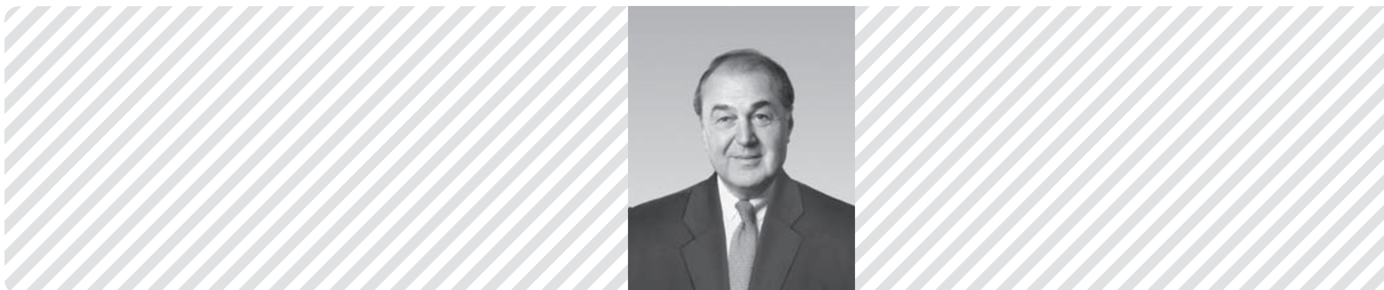
Changes at Board level

There were no changes to the structure of the Management Board or Supervisory Board during the financial year 2008.

Message of Gratitude from the Supervisory Board

The commitment displayed by the Management Board and employees in recent years substantially contributed to the Group's development. Milestones in the financial year 2008 include the success of the Group's strategy for international expansion, and the continued strengthening of PWO's domestic site, Oberkirch, which was achieved through reengineering of the existing site layout. Particularly in light of the current crisis in automobile manufacturing worldwide, this commitment helped strengthen competitive potential and future perspectives of PWO Group on the international automobile market, while securing jobs. The Supervisory Board would like to thank all those involved in PWO Group for their exceptional contribution, and to express its confidence that PWO will successfully overcome the current economic and financial crisis.

Oberkirch, April 1, 2009



Dieter Maier
(Chairman)

SOMETIMES IDEAS ARE THE SOURCE OF BRAND NEW PROSPECTS.

03
CORPORATE GOVERNANCE

Legal framework

As a stock corporation under German law, Progress-Werk Oberkirch AG is subject to the relevant statutory provisions pertaining to the management and supervision of such entities. Its management and control structure is divided into a three-member Management Board and a six-member Supervisory Board. The Supervisory Board is composed of both shareholder and employee representatives, in accordance with the One-Third Participation Act on Supervisory Boards. The Supervisory Board has formed the committees set out in its Rules of Procedure and reports on their activities in its report on the financial year. The Management Board is solely responsible for the operational management and strategic development of the company. The Supervisory Board monitors and advises the Management Board in these matters. The company's principles of corporate management and supervision are based on the German Corporate Governance Code. The Declaration of Compliance relating to this Code has been published on the PWO web site at www.progress-werk.de under Corporate Governance and is included at the end of this chapter.

Principles of Corporate Governance

The principles of corporate governance and the Articles of Association of PWO correspond to the standards of good corporate governance embraced by the German business community. All shareholders receive fundamentally equal treatment. The unrestricted purchase and disposal of shares is guaranteed.

The Management Board is committed to a policy of extensive communication that observes and surpasses the statutory requirements and stock exchange regulations governing timely reporting in observance of the principle of shareholder equality (annual and interim reports as well as ad hoc announcements, Directors' Dealings and any changes to shareholder voting rights necessitating disclosure upon receipt of information by the company). Accordingly, it has continuously expanded its communication activities within the capital markets. All reports and releases are documented at www.progress-werk.de. The website also includes other information about corporate governance at PWO.

The Management Board feels a special obligation to the company's owners. They provide the risk capital needed to maintain and extend PWO's market position. The Management Board is committed to continually strengthening the competitiveness of PWO Group, while generating the most attractive return possible on the capital provided, at a level that is sustainable in the long term. This also means taking measures to minimise corporate risk, including the implementation of a modern and efficient risk management system, which is regularly upgraded.

The Management Board and Supervisory Board firmly believe that the best interests of all stakeholders in PWO and its subsidiaries, in particular the employees of these companies, are best served by strengthening the company's competitive position and achieving an attractive return on equity to secure its financial needs.

Interaction between the Management Board and Supervisory Board

The Management Board and Supervisory Board work in close cooperation for the benefit of the company. The duties of the Boards and guidelines for their interaction are set out in separate Rules of Procedure for each of the two bodies. These Rules are written in accordance with those specified in the German Corporate Governance Code. This pertains in particular to the rights and duties of Board members – insofar as the company has not departed from specific recommendations – and the assignment of responsibilities.

Offices held by Management Board members

Outside of PWO Group, Karl M. Schmidhuber currently holds the office of Chairman of the Advisory Board at Beru-Eichenauer GmbH, Hatzenbühl. The other two Management Board members do not currently hold positions outside of the Group.

Contract terms of the management board members

Karl M. Schmidhuber:	until May 17, 2012
Bernd Bartmann:	until December 31, 2012
Dr. Winfried Blümel:	until April 18, 2012

03
CORPORATE GOVERNANCE

Management Board compensation

The compensation of each Management Board member is presented in the management report beginning on page 55. The following principles apply with regard to the structure of compensation: Compensation is set at a level that reflects prevailing market conditions, in order to attract high-calibre professionals. The compensation package includes a performance-based bonus as an incentive for above-average performance, calculated on the basis of profit after taxes. An absolute limit has been defined for this bonus, in order to retain a degree of symmetry with the level of wages and salaries paid to staff who play a pivotal role in creating value within the Group. The members of the Management Board are also covered by a retirement, disability and widow's pension scheme.

Supervisory Board compensation

Supervisory Board compensation is set out in the Articles of Association of Progress-Werk Oberkirch AG. The details relating to each member's compensation are individually presented in the management report beginning on page 56 of this publication. The members of the Supervisory Board who are staff representatives employed by PWO receive their contractually agreed salaries in addition to Supervisory Board compensation.

Shares held by the governing bodies

At the end of the financial year 2008, the Deputy Chairman of the Supervisory Board, Dr. jur. Klaus-Georg Hengstberger held 55.282 percent of the shares outstanding in PWO via Consult Invest Beteiligungsberatungs-GmbH, Böblingen, a company of which he is the Managing Director. There were no transactions in the past financial year that oblige reporting under Section 15a of the Securities Trading Act.

Declaration of Compliance pursuant to Section 161 AktG

The Management Board and Supervisory Board hereby declare that Progress-Werk Oberkirch AG will comply with the recommendations of the German Corporate Governance Code in the version of June 6, 2008, as promulgated by the Government Commission, with the following exceptions:

POINT 3.8

The D&O insurance policy does not include a deductible for the members of the governing bodies. This policy is constructed as a group insurance for the governing bodies, officers with Prokura (power of attorney governed by the German Commercial Code) and other senior managers. Officers employed at the company's foreign subsidiaries and members of staff vested with authority comparable to that of Prokura are deemed to be on equal terms. We do not find it necessary to differentiate between members of the governing bodies and other managers.

POINT 5.3.3

The Supervisory Board still finds it unnecessary to form a Nomination Committee.

POINT 5.4.1

There is currently no age limit for membership in the Supervisory Board. The Supervisory Board believes that age should not be a central criterion to judge recommendations for election to the Board. Instead, the qualification and relevant experience of the candidate should be the top priorities.

POINT 5.4.7

There is no separate compensation granted to Supervisory Board members for membership in committees.

The recommendations of the Government Commission German Corporate Governance Code in the version of June 14, 2007, and the amended version of June 6, 2008, (published on August 8, 2008), have been complied with since the issuance of the last Declaration pursuant to Section 161 AktG in December 2007, with the exception of those points specified.

Oberkirch, December, 2008

Progress-Werk Oberkirch AG

The Supervisory Board The Management Board

WE CAN GET OUR HEAD AROUND LATERAL THINKING TO COME UP WITH INNOVATIVE SOLUTIONS.

04

PWO SHARE PERFORMANCE

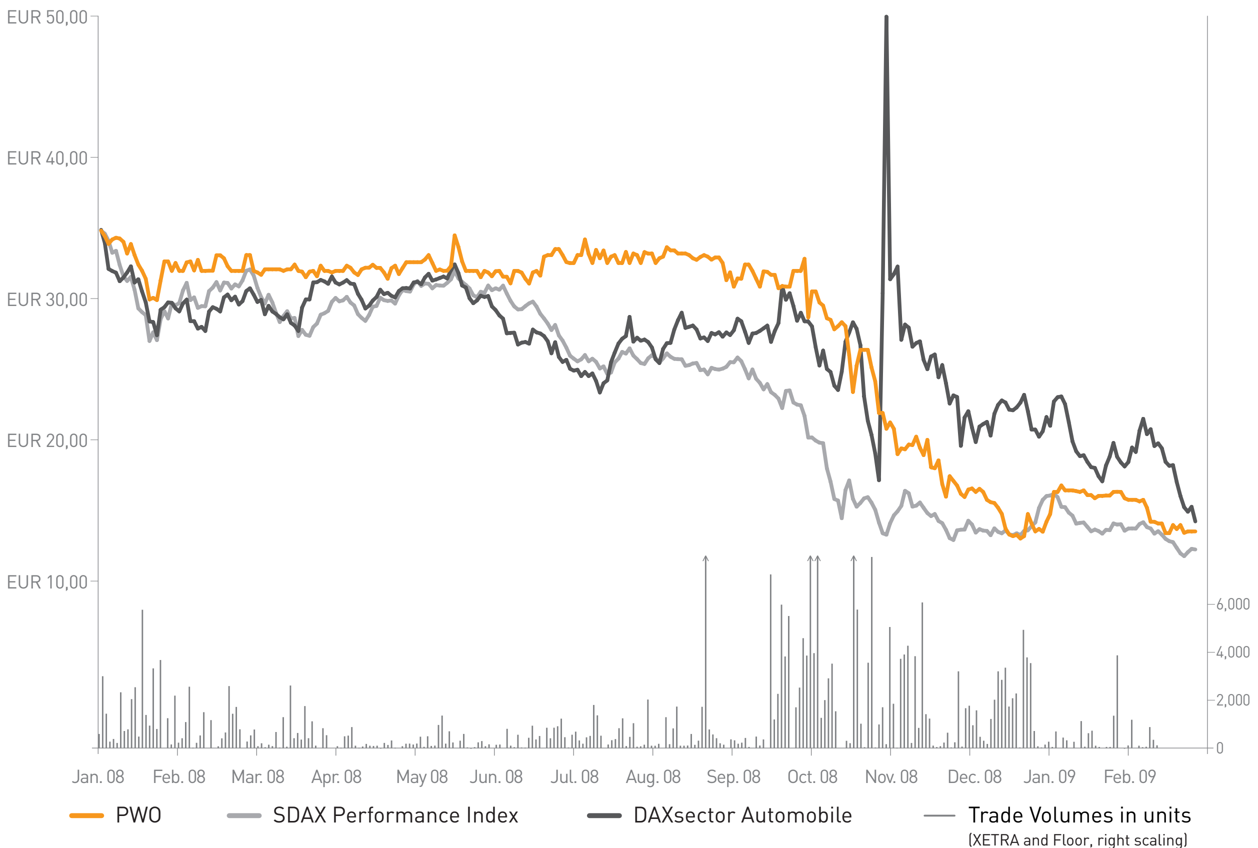
PWO stock fluctuated within a narrow corridor of +/- 10 percent of its opening price of EUR 35.55 for most of the financial year 2008 until the end of September. With a net fall in price of -11 percent, the stock did considerably better over that period then the Deutsche Börse's Small Cap Index (SDAX), with the SDAX down 47 percent from the start of the year.

Over the course of the worsening international automotive crisis, customer standby orders dropped abruptly and massively in the second half of September. This caused us to release an ad hoc announcement on the revision of our forecast for the year. Following that announcement, with the cumulative bad news emanating from the financial markets in general and the automotive industry in particular, the beginning of October introduced a hefty correction to the PWO stock which lasted through to the end of the year. At the close of 2008, the share price stood at EUR 17.00 – down 54 percent from its opening price for the year. The SDAX fell 48 percent on the year.

The average daily volume of PWO shares traded was 1,331 shares after last year's figure of 1,686. The unsatisfactory progress in trading volume for our shares prompted us to take on a new designated sponsor, ICF Kursmakler AG Securities Trading Bank, at the beginning of 2009.

PWO share price development 2008

The indices are based on the first day of trading of PWO shares in 2008 (EUR 35.55).



04
PWO SHARE PERFORMANCE

Investor Relations

The Management Board of Progress-Werk Oberkirch AG again strengthened the company's profile on the capital markets during the year under review. In 2007, we ramped-up our communication efforts and the expansion continued into 2008. A number of analyst, investor and media gatherings were held in Frankfurt to present the strategy pursued by the company as well as recent business developments. This enabled us to establish new contacts with investors.

Our greater profile within the capital markets continued to be met with good response in 2008. Our biennial Capital Markets Day at our Oberkirch site on September 30, 2008 was an especially great success. In spite of the profit warning the day before and the tumultuous events on the capital markets surrounding it, many analysts and journalists took the opportunity to ask the Management Board for details on current Group developments and its international growth strategy. A tour of the plant, highlighting the progress in modernising and fortifying Oberkirch's operations, was also given.

Equity structure and changes

Details of PWO's equity structure and authorised capital can be found on page 57 of the management report. Changes relating to capital and reserves are set out in the Statement of Changes in Equity, which forms an integral part of the annual financial statements (cf. page 68). There were no changes to the scope or structure of share capital in the period under review.

As in the past, no share options have been offered as a form of remuneration to employees or members of the PWO Management Board. The Management Board is of the opinion that the link between individual staff performance and the company's share price is insignificant and that share options do not provide any additional incentive.

04

PWO SHARE PERFORMANCE

		2004	2005	2006	2007	2008
Company Facts & Figures						
Sales	EUR m	201.1	219.7	225.3	259.6	260.4
EBIT	EUR m	14.4	15.5	15.8	16.7	7.7
Sales per share	EUR	100.55	105.63	90.12	103.84	104.16
Earnings per share	EUR	3.56	3.80	3.54	3.10	0.58
Dividend per share	EUR	1.10	1.10	1.20	1.30	0.55[1]
Book value per share	EUR	21.21	25.44	27.52	30.72	27.19
Stock Data						
High[2]	EUR	37.10	37.00	42.00	39.00	34.40
Low[2]	EUR	25.02	29.40	32.89	31.80	15.75
Year-end closing price[2]	EUR	32.06	34.99	36.00	35.00	17.00
Market capitalisation	EUR m	64.1	87.5	90.0	87.5	42.5
Net debt	EUR m	39.2	40.5	33.1	49.9	67.2
Enterprise Value (EV)	EUR m	103.3	128.0	123.1	137.4	109.7
Share price/Sales		0.3	0.3	0.4	0.3	0.2
Price/Earnings ratio		9.5	9.2	10.2	11.3	29.3
EV/Sales		0.5	0.6	0.5	0.5	0.4
EV/EBIT		7.2	8.3	7.8	8.2	14.2
Dividend yield	%	3.3	3.1	3.3	3.7	3.2
Share price/Book value		1.5	1.4	1.3	1.1	0.6

All data based on year-end closing price.
1) Proposal to the 86th Annual General Meeting 2) Floor trading prices, Frankfurt

04
PWO SHARE PERFORMANCE

Shareholder structure

There were no changes to the shareholder structure in the period under review. No announcements in accordance with section 15a of the Securities Trading Act (Directors' Dealings) were received by the company.

Consult Invest Beteiligungsberatungs-GmbH,
Böblingen 55,282 %
Free Float 44,718 %

Delta Lloyd Europees Deelnemingen Fonds NV, Amsterdam, Netherlands, announced that it held a share of 5.12 percent on October 15, 2008.

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WE NOT ONLY WORK UNDER PRESSURE, WE CAN EVEN STORE IT.

05
THE COMPANY

The PWO business model is durable

We first developed our current approach at the start of the 1990s and focused particularly on being sustainably successful in a sector which typically endures substantial cyclical ups and downs.

Our expertise in forming steel, stainless steel and aluminium are at the heart of our business model as are high quality joining and assembly technologies and building the related high precision tools. We are now making use of this expertise in an ever increasing number of areas of application. Our know-how about the behaviour of metals at the limits of metal forming has increased over the course of our now 90 year history. We are systematically expanding our expertise by tapping new areas of application and working closely with universities and research institutes. The potential of our sales markets remains far from exhausted.

The focus on marketing our expertise as opposed to a fixed company product range allows us to widely diversify our orders. We produce over a thousand different components and sub-assembly groups at the Oberkirch site alone.

Limiting the cyclical fluctuations of our business model ...

... from the life cycles of products and vehicle models

This approach contributes to reducing the cyclical fluctuations of our business model in a number of ways: Firstly, the life cycles, which would apply to company products, do not apply. On top of that, the market success of individual vehicle models has less bearing on the development of our revenue and the success of our business. In the past financial year, 40.6 percent of our revenue came from customers which generate five percent or less of our Group revenue. And, just as with larger customers, we provide them with components for a whole range of vehicle models.

Our components go into making a variety of vehicle models with differing life cycles, providing us with balanced capacity utilisation in production.

At the Oberkirch site, for instance, there is a large range of different forming presses, each of which typically makes a range of different components. All in all, this allows us to plan the capacity utilisation of the machines much more flexibly and therefore use the press best suited to each job. The upshot is low unit costs, which reinforces PWO's competitive edge.

... from the growth cycles of individual components

As we are also constantly expanding the number of areas of the vehicle we produce components for, we are able to balance out the growth cycles of individual components. Take the strong growth in airbags during the 1990s for example. We produce a wide range of components for this area of the car, but this amount has reduced significantly as vehicles are now fitted from the manufacturer with several airbags as standard. We have balanced this reduction by diversifying into new areas of application. The growth in electric motors, for which we produce the casing, has in contrast been sustained as the number of electrically supported features in automobiles continues to rise substantially – although individual features like window lifts are now also being offered in the lowest vehicle classes as electric systems from the manufacturers.

Our current new areas of application, which now have a notable influence on revenue and income, are seat structures and seat adjustment systems as well as steering columns and shock absorber struts. The development of the latter area is a perfect example of how we tap new markets: In 2001 we began the development and production of a pneumatic spring pot and systematically expanded the product portfolio after that.

Pneumatic shock absorbers are typically available in the luxury car segment as a standard or optional extra to increase comfort. Since then we have developed a wide range of solutions for conventional shock ab-

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THE COMPANY

sorbers and in doing so opened up a much broader market. In the past few years we have systematically built up a high indirect market share through leading TIER 1 suppliers.

... from fluctuations in demand in individual geographical regions

Internationalisation in recent years has gone a long way towards making us less dependent on the development of individual markets. Although the proportion of revenue contributed by the new production sites is still relatively low compared to Oberkirch, it is important that we are now present in all relevant markets and are therefore included in the tendering process for global platform projects by our customers.

The relevant markets are characterised by automobile manufacturers' or TIER 1 suppliers' consistently high outsourcing volumes in our market segment.

PWO specialises in the mass production of high tech metal components in the million unit range. This means that the local growth potential is not the only significant factor in opting to expand into a region – the absolute production figures for the region are just as important. That's why some markets are still too undeveloped for in-house production. But we also cover these markets if customer orders make it necessary. We have been working successfully like this with several cooperation partners for over 13 years, who produce for us locally under licence.

In the case of continuous shifts in demand, our international presence can be used to optimise capacity utilisation at our sites, by transferring tools as long as comparable forming presses are available at other locations. It is even conceivable to move presses between sites if this would make business sense and the required order volumes could be secured for PWO.

... from the differing success of specific automobile manufacturers in the market

PWO is not dependent on the market success of individual vehicles. Take our largest customer Daimler for instance. We supply it with components for practically all vehicle models in a wide range of market segments. It is a similar picture with our large customers in the TIER 1 supplier area. They supply systems to a wide variety of vehicles produced by various manufacturers. However, it is the continued diversification of PWO – the broadening of the product range and the internationalisation of the Group – which provides new customers. These customers currently supply systems for new models from the brands Audi, BMW, Daimler, Opel, Porsche and Volkswagen.

... from the increasingly modular construction of components and sub-assembly groups

The growth in PWO's size in recent years has meant that developing modular construction kit systems for flexible use in different vehicles and platforms now makes business sense. This allows us to tap new potentials but also conserve our resources.

This enables us to extend the delivery radius of our products as it is logistically simpler and better value to transport individual modular construction kits than complete components or sub-assembly groups. Final assembly is done at the nearest site where our products can be processed further.

Thanks to this approach, our new generation of crossbeams are enjoying a lot of success, as they are particularly well suited for use in platform concepts due to the increasingly modular construction following the construction kit principle. Our solutions in the field of seat mountings also follow this construction kit approach.

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THE COMPANY

The PWO business model also serves as a buffer against market cycles

PWO Group's broad diversification finally also allows the Group to better absorb the cyclical fluctuations which are typical for the automobile market. The extent of the current cyclical phase, in which all markets and market participants are moving in the same direction, deviates significantly from typical developments in the past.

In the last few months of 2008, management had the task of adjusting costs and capacities to the lowest level as quickly as possible and thoroughly reviewing investment plans under the changed conditions. We will closely track market development in 2009, and consistently adjust the cost situation where required.

We can rely on an experienced workforce, which is well prepared for the flexibility required in this field and ready to work towards constructive solutions. In addition, our PWO Production System allows us to carry out detailed processes, which allow necessary applications to be controlled precisely and implemented in a structured way.

Nevertheless, we cannot lose sight of the next upturn. Opportunities which the Group has opened up in recent years have to be taken advantage of. Up to now we had planned a significant increase in growth for 2010 from new batch production start ups. This projection still applies even if it is on a lower level and it possibly involves lower volumes than were anticipated up to summer 2008.

All in all, the current crisis will lead automobile suppliers to recognise the competitive edge of innovative solutions along with concepts for cost-effective components which can be shipped worldwide. The quality of the balance sheet as well as access to refinancing funds are important selection criteria in allocating new orders. It should also not be forgotten that years of supply loyalty and zero-error quality also strengthens our competitive position. That's why PWO is perfectly aligned to successfully overcome the current crisis and record above average growth when markets rebound.

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THE COMPANY

PWO locations

PWO
Germany
Czech Republic
Canada
Mexico
China

Cooperation partners
Argentina
Brazil
Great Britain
India
Portugal

CREATING A SOUND BASIS FOR THE FUTURE WITH DIVERSE, TARGETED PRODUCTS AND EFFICIENT OPERATING STRUCTURES.

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MANAGEMENT REPORT

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MANAGEMENT REPORT FOR THE GROUP AND PWO AG

The report below contains the combined management report for Progress-Werk Oberkirch AG and the PWO Group for the financial year ending December 31, 2008. The Group prepares its financial statements in accordance with the international accounting standards IFRS, Progress-Werk Oberkirch AG prepares its financial statements in accordance with the provisions set out in the German Commercial Code (Handelsgesetzbuch – HGB). Compared to the financial year 2007, we increased our shareholding in the Mexican Cartec S.A. de C.V. in May 2008 from 60 to 100 percent. The company has since been renamed as PWO de México S.A. de C.V. In addition, during the financial year 2008 we began expanding our subsidiary in China after receiving the business licence in April 2008, and opted to sell the interest in our Chinese joint venture in December 2008. The latter resulted in a one-off book loss which negatively impacted profit in the year under review.

Group profile

PWO is one of the leading automotive suppliers of high-end metal components and subsystems designed to contribute to the safety and comfort of motor vehicles. These areas are recording a sustained above-average growth trend above and beyond market cycles, as the need for safety in all vehicle classes and sales regions is increasing. The desire for more comfort is also leading to constantly improving features in new vehicles.

The company specialises in developing and manufacturing components and subsystems made of steel, high-grade steel and aluminium, the emphasis being on mass production in volumes often reaching several million units per series. PWO is the global market leader for deep-drawn electric motor housings, with a market share of 40 percent in Europe and 20 percent in North America. We mainly manufacture the housings at the Oberkirch site and have developed the world's quickest transfer process for complex metal forming for this purpose.

PWO positions itself as a leading innovator in both customer-centric product development and the corresponding manufacturing processes. We regularly bring ground-breaking innovations in modern mass production for the global automotive industry to the market. More than 400 employees in our R&D centre and our internal tooling unit work on solutions for products and processes, which are perfectly tailored to customer specifications and price schedules.

One of our unique selling points is that we make our own tools. In engineering the power to innovate is the critical factor for parts quality, production speed and the integration into downstream metal forming stages. This means that the capacity to develop finely tuned tools is the main driver for the quality and cost of the finished product.

About a third of PWO's revenue is generated in the areas:

- Mechanical components for electrical and electronic systems
- Safety components for airbags, seats and steering
- Structural components and subsystems for the vehicle body and chassis

This means that we are the only producer in the world to offer such a broadly-based product range and which is in a position to cover the entire value chain from made-to-order and customer related development to tooling and series production.

We supply mechanical components for electrical and electronic systems and safety components for airbags, seats and steering. Together, these account for around two-thirds of revenue and are primarily made for well-known international TIER 1 suppliers, which deliver these components in their systems for numerous vehicle models with various manufacturers. On the other hand, structural components and subsystems for the vehicle body and chassis are also sold directly to vehicle manufacturers. Structural components and subsystems for vehicle bodies and chassis are typically supplied directly to automotive manufacturers for specific models. As a result of the high proportion of products for TIER 1 suppliers as well as the broad range of vehicles in different categories we are largely not dependent on the success of individual vehicle models.

The Group is headquartered in Oberkirch, in the south west of Germany, and is therefore located in one of the centres of German automotive manufacturing. PWO also has its own production sites in Canada, the Czech Republic, China and Mexico. Other Countries or regions are covered by cooperation partners. The Group employed an average workforce of 1,939 during the year under review.

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MANAGEMENT REPORT FOR THE GROUP AND PWO AG

Economic trends

GLOBAL ECONOMY

From the second half of 2008 on, the crisis on international financial markets increasingly spilled over into the global economy. Growth rates crashed around the world in autumn, equally impacting industrialized, emerging and developing countries. The symmetrical nature and speed of the economic downturn have since then sent the world into a deep recession, the full impact of which is still difficult to gauge. Numerous international observers and organizations expect the crisis to be more severe than all the downturns we have seen since the Second World War. The fact that the recessionary development around the world is happening simultaneously is a threat to employment at a global level which in turn has sent down consumer demand for durable goods. In addition to that, banks are more restrictive in their lending practises which has caused even more uncertainty among consumers. Companies are also massively reigning in their investments against the backdrop of slumping order entries and in an effort to protect their liquidity. This is especially the case in transport and logistics. Both of these factors are affecting vehicle manufacturing, cars and commercial vehicles in particular.

INDUSTRY DEVELOPMENT

Automotive manufacturing

This means that the 2008 downturn has hit the international automotive industry earlier than other industries. According to the German Automotive Association (VDA), vehicle sales in industrialized nations and high-growth emerging markets dropped by 5 percent to 62.8 million vehicles in 2008. All key markets were impacted by the crisis almost simultaneously.

In Germany new vehicle registrations in 2008 fell by 2 percent, reaching only 3.09 million units. This level has not been reached since reunification nearly 20 years ago. Until midyear there were still signs of strong growth: In July new vehicle registrations were still up 2 percent against previous year levels, only to be followed by an abrupt collapse. From August on, the figures for every month were below previous year levels. In the fourth quarter, new vehicle registrations were down 11 percent year-on-year.

Besides declines at home, exports also slumped in the second half of the year. According to VDA, exports in 2008 fell by 4 percent to 4.13 million units. At the end of the third quarter 2008, German automotive manufacturers quickly adjusted their production to collapsing demand on international automotive markets. While domestic manufacturing had been up 2 percent year-on-year in the first half of the year, the second half saw a significant decline. As a result, German automotive production in 2008 dropped by 3 percent to around 5.5 million units.

Car sales in Europe also crashed in the second half of 2008. In the full year, new vehicle registrations were down by 8 percent at 13.6 million vehicles. German manufacturers were able to further expand their Western European market share by half a percent to in excess of 47 percent.

Incentives from the bonus-malus-system initially triggered positive impulses for the French car market. This means that the decline in registrations in France for the full year is still rather limited, down 1 percent to 2.1 million vehicles, despite the downturn being of similar magnitude. The situation is very different in the UK, where the severe real estate crisis has a substantial impact on the economy and consumers: In 2008, new vehicle registrations reached 2.1 million, 11 percent lower than in the previous year. In Italy car sales were even down by 13 percent reaching 2.2 million vehicles. Over the course of the year, the initially stimulating 'scrapping premium' lost momentum. In Spain, the recession is resulting in high unemployment rates, which in turn is resulting in a dramatic impact on demand for cars. New vehicle registrations reached 1.2 million units, down 28 percent year-on-year.

New EU countries are showing similar developments: After a good start to the year, momentum flagged during the second half of the year. In total new vehicle registrations were down about 1 percent in 2008, declining to 1.2 million units. Development however varied significantly: While demand in Poland (+9 percent) and in the Czech Republic (+8 percent) remained generally robust, it slumped by 9 percent both in Romania and Hungary.

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MANAGEMENT REPORT FOR THE GROUP AND PWO AG

Despite sales softening toward the end of the year, about 2.9 million cars were sold in Russia in 2008, marking a 16 percent increase year-on-year. Sales by foreign brands increased by 26 percent to 2.1 million, driving down the sales of domestic car makers. German brands were even up by 28 percent to 457,600 units and reached a market share of almost 16 percent.

In the USA, sales of light vehicles were down by 18 percent to 13.2 million units, the worst sales result since 1992. Sales in all vehicle categories were on the decline. The "Big Three" domestic manufacturers General Motors, Ford and Chrysler were hit especially hard: Their US market share declined by around 4 percentage points to below 50 percent. Sales by German manufacturers were only down by six percent with a total of 889,900 cars. The market share increased to 6.7 percent, a new high. Asian manufacturers were down 12 percent year-on-year and increased their share to 44.8 percent.

North American production of light vehicles in 2008 reached 12.6 million units, down 16 percent year-on-year. Manufacturing of light trucks reached 6.4 million units, which amounts to a dramatic decline of 25 percent. Car production reached 6.2 million units and only fell short of previous year production by 4 percent.

Supplier industry

According to figures released by VDA, German suppliers recorded a decline in orders of 35 percent in November 2008. As a result the annualized rate reached minus 7 percent. Orders from abroad were hit in particular: While domestic demand dropped by 28 percent, orders from abroad slumped by 43 percent. The sales crisis in the automotive sector naturally impacts the revenues generated by suppliers. In November suppliers generated business worth EUR 5.2 billion, which amounts to a decline of 25 percent year-on-year. Between the beginning of 2008 and the end of November, German suppliers generated sales of EUR 68.4 billion, down 3 percent on the previous year. VDA expects the true severity of the automotive crisis on the supply chain to become apparent in the first quarter of 2009.

Strategy and Control

CORPORATE STRATEGY

PWO is a company with international reach. In the early nineties, we concentrated fully on the automotive industry and rapidly built up and expanded our present customer base and product range. Today, we are one of the world's leading suppliers in our field.

PWO has a sophisticated business model which is designed to compensate the cyclical nature of the automotive business thanks to made to order production and R&D for customers, as well as broadly diversified base of applications, customers and supplied vehicle models. We adapt to the industry's downward cycles, as is the case presently, by consistently cutting costs, adjusting capacities and limiting investments.

As is the case in growth periods, we continue to work on broadening our product range and our order basis in downward phases. We are continuing to expand our R&D and sales capacities.

As a rule we are committed to fully exploiting the competitive edge PWO has carved out and gain market share on the back of creative product solutions, which can be produced at competitive prices thanks to innovative production processes.

In starting production for new vehicle models and platforms, we benefit from:

- the increasing breadth of our current product range,
- an increasing market share among our existing customers by offering an expanding range of components and sub-assembly groups
- expanding our product range with new areas of application,
- gaining new customers.

These factors are being reinforced by enhancing our international footprint.

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MANAGEMENT REPORT FOR THE GROUP AND PWO AG

This has enabled us to successfully position the group as our customers' global strategic partner and therefore tap into a new dimension of order volumes. This sets us apart from the competition.

Even if the current crisis on the automotive sector marks a considerable blow for PWO Group, and reaching our targets will therefore be delayed, we continue to believe in our statement that we are going to be leading PWO Group into a further growth phase in the coming years.

BUSINESS CONTROL SYSTEMS

PWO is dedicated to achieving a leading position in its market segment in every automotive market it serves. Establishing and enhancing regional locations is therefore based on each local market environment and depends on potential orders being awarded.

Generally, the quality requirements our customers have are equally high around the world. The necessary level of automation in production and the required process speeds vary however with the maturity and wage levels of the respective market. These two factors determine the complexity and the capital intensity of production as well as the qualifications and experience necessary for its management. Our international locations, especially in Mexico and China, have lower complexity and capital intensity than our home base in Oberkirch in particular.

This site produces mainly for Western Europe, while the Czech Republic serves Central and Eastern Europe, Canada and Mexico supply the northern and southern NAFTA zones and our China facility its own regional market.

The group mainly produces its tools in-house at its bases Oberkirch in Germany and Valašské Meziříčí in the Czech Republic. Our base in Kitchener, Canada also has expertise in tool engineering and will enhance this know-how in the future. Other international bases are to establish these skills incrementally in the future. The core competencies are complemented by cooperation with a diverse group of engineering specialists which cover about a quarter of the group's demand. This largely avoids internal fluctuations in capacity utilisation. All tool components of an especially sensitive or relevant nature when it comes to know-how are of course produced in-house.

As the headquarters of PWO's executive management and the site of our Competence and Technology Centre, Oberkirch plays a leadership role within the Group. Furthermore, it serves many of our customers' global development and purchasing centres based in Europe. Our international locations are directly and independently responsible for supplies to their local customers.

PWO's internal operations are structured in the form of a seamless value chain. Made to order and customer-specific development, tool engineering and batch-production cooperate in integrated teams from product enquiries to launching serial production. Even during ongoing production, teams regularly monitor processes and keep developing improvements to boost productivity and quality.

All internal processes are recorded in our PWO Production System and systematically enhanced according to lean management principles. The focus is on continually increasing productivity and flexibility. In 2008 we launched extensive investments into our Oberkirch facility, which result in the reorganisation of all internal material flows throughout the value chain. This marks the implementation of another lean management element, again tapping further productivity potential. This will continue to bolster the competitive edge of the location.

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MANAGEMENT REPORT FOR THE GROUP AND PWO AG

Financial position and financial performance PWO Group: KEY FIGURES OVERVIEW

	2004	2005	2006	2007	2008
Income statement (in EUR thousand)					
Group sales	201,092	219,706	225,339	259,566	260,356
Total output (consolidated)	197,544	221,121	227,048	262,600	264,810
Material expenses	99,982	114,293	117,750	141,332	149,306
Staff expenses	57,658	60,241	62,760	68,765	70,652
Other operating expenses	16,006	20,251	17,397	23,038	25,115
EBITDA	25,654	29,052	31,938	32,908	24,184
EBIT	14,366	15,522	15,792	16,719	7,715
Net profit for the period	7,114	7,915	8,840	7,673	1,351
Structure of the income statement					
Group sales	101.8 %	99.4 %	99.2 %	98.8 %	98.3 %
Total output (consolidated)	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
Material expenses	50.6 %	51.7 %	51.9 %	53.8 %	56.4 %
Staff expenses	29.2 %	27.2 %	27.6 %	26.2 %	26.7 %
Other operating expenses	8.1 %	9.2 %	7.7 %	8.8 %	9.5 %
EBITDA	13.0 %	13.1 %	14.1 %	12.5 %	9.1 %
EBIT	7.3 %	7.0 %	7.0 %	6.4 %	2.9 %
Net profit for the period	3.6 %	3.6 %	3.9 %	2.9 %	0.5 %
Figures per share					
Average weighted number of shares (in millions)	2.00	2.08	2.50	2.50	2.50
Earnings per share (EUR)	3.56	3.80	3.54	3.10	0.58
Dividend per share (paid out in EUR)	1.10	1.10	1.20	1.30	0.55*
Year-end closing price (EUR)	32.06	34.99	36.00	35.00	17.00
Employees by location as of December 31					
PWO AG, Germany	989	943	958	993	1,054
PWO Canada Inc., Canada	140	158	147	118	106
PWO UNITOOLS CZ a.s., Czech Republic	0	201	211	237	319
PWO & BMC High-Tech Metal Components, China (JV)	0	0	8	10	2
PWO High-Tech Metal Components, China	0	0	0	0	36
PWO de México S.A. de C.V., Mexico	0	0	0	352	368
Apprentices within the Group	77	78	82	91	125
Total	1,206	1,380	1,406	1,801	2,010

* Proposal to 86th Annual General Meeting

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MANAGEMENT REPORT FOR THE GROUP AND PWO AG

	2004	2005	2006	2007	2008
Balance sheet (in EUR thousand)					
Non-current assets	68,446	85,115	82,156	97,220	112,346
Inventories	32,344	38,326	41,023	43,887	46,713
Trade receivables	26,803	30,606	32,427	44,767	38,234
Cash	215	1,468	6,779	1,953	2,265
Other current assets	718	932	2,130	3,963	5,565*
Subscribed capital	5,113	6,391	6,391	6,391	6,391
Total equity	42,416	63,595	68,788	76,789	67,980
Interest-bearing borrowings	39,387	42,004	39,843	51,815	69,451
Pension provisions	22,003	22,486	23,203	24,100	24,914
Trade payables	11,634	13,963	16,035	20,693	23,238
Other liabilities	13,086	14,399	16,646	18,393	19,540
Balance sheet total	128,526	156,447	164,515	191,790	205,123
Structure of the balance sheet					
Non-current assets	53.3 %	54.4 %	49.9 %	50.7 %	54.8 %
Inventories	25.2 %	24.5 %	24.9 %	22.9 %	22.8 %
Trade receivables	20.8 %	19.6 %	19.7 %	23.3 %	18.6 %
Cash	0.2 %	0.9 %	4.1 %	1.0 %	1.1 %
Other current assets	0.5 %	0.6 %	1.3 %	2.1 %	2.7 %
Subscribed capital	4.0 %	4.1 %	3.9 %	3.3 %	3.1 %
Total equity	33.0 %	40.7 %	41.8 %	40.0 %	33.1 %
Interest-bearing borrowings	30.6 %	26.8 %	24.2 %	27.0 %	33.9 %
Pension provisions	17.1 %	14.4 %	14.1 %	12.6 %	12.2 %
Trade payables	9.1 %	8.9 %	9.7 %	10.8 %	11.3 %
Other liabilities	10.2 %	9.2 %	10.1 %	9.6 %	9.5 %
Balance sheet total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
Cash flow (in EUR thousand)					
Cash flow from operating activities	22,254	16,267	25,296	17,902	25,031
Cash flow from investing activities	-16,411	-16,517	-13,179	-26,007	-33,937
Cash flow from financing activities	-3,094	700	-7,828	-958	13,497
Cash flow for the period	2,749	450	4,289	-9,063	4,591
Principal financial indicators					
Return on Equity in % (Based on EBT)	26.9	19.8	18.5	16.8	3.8
Return on Equity in % (Based on net profit)	16.8	12.4	12.9	10.0	2.0
Net debt as % of equity	92.4	63.7	48.1	64.9	98.8

* of which EUR 1,262 thousand went towards selling held non-current assets

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MANAGEMENT REPORT FOR THE GROUP AND PWO AG

REVIEW OF REVENUE AND EARNINGS

In the financial year 2008, PWO Group generated revenue of EUR 260.4 million and total output of EUR 264.8 million. Revenue from tooling operations increased significantly from EUR 20.5 million to EUR 27.1 million. This means that previous year revenues and total output were exceeded slightly, even if the original plans of revenue of EUR 280 million from the beginning of the year were missed by a considerable margin.

The development comes on the back of slumping standby orders in ongoing serial production in the second half of 2008, which saw our customers significantly reduce their standby orders as a result of the international financial market crisis and the ensuing declines in demand. In the first half of 2008, we were able to generate considerable growth in revenue and total output.

Our structures are flexible in a number of points, enabling us to react quickly to market changes. Our material stocks are managed in line with the development of output. We have no obligation to purchase stock which is not covered by customer standby orders. As a result, expenses for raw materials, auxiliary and operating materials as well as goods procured in the year under review were at financial year 2007 levels. The pressure on customers to compromise in prices was very high until mid-year but relaxed considerably in the second half of the year due to stronger demand.

Mounting staff expenses were reduced considerably by making use of holiday entitlement and flexitime in late 2008. This was complemented by a reduction of temporary staff and – when necessary – by adjustment measures at our international locations.

Significant increases in expenses were however recorded in purchased services as well as in other operating expenses. The former were negatively impacted by higher than planned orders awarded to third parties at our bases in the Czech Republic and in Mexico at the beginning of the year as a result of starting highly complex series production. In the second half of the year, these expenses were reduced in part.

We also contracted considerable external services at our Oberkirch base as part of development cooperation, which could only be reduced step by step over the course of the year. In the meantime projects have been allocated to PWO AG again. This will contribute to limiting contracted services and to capacity utilisation for internal tool engineering in 2009.

In the period under review, the international expansion of PWO Group resulted in a significant increase in other operating expenses by 9.0 percent, which can be exclusively attributed to international subsidiaries. This also highlights the start-up input required by our three new sites in the Czech Republic, Mexico and China. Of course measures were introduced to adjust costs which in some cases have already been implemented.

In total, a decline in EBIT in the period under review to EUR 7.7 million was inevitable after EUR 16.7 million in the previous year.

In 2008, the net financial result deteriorated to EUR -5.1 million after EUR -3.8 million in the previous year. It is worth noting that the disposal of our 50 percent stake in our Chinese joint venture to our joint venture partner resulted in a book loss of EUR 0.5 million after writing down a loan to the joint venture. This one-off charge is included in the net financial result. Interest expenses for pension provisions are accounted for in the net financial result, which rise in line with their increased allocation. In the period under review this amount increased by EUR 0.1 million. Adjusted for these two factors, 2008 recorded an increase in financial expenses by EUR 0.7 million, which came on the back of higher bank liabilities.

In the period under review the tax rate increased considerably. One on the main reasons was that the start-up expenses for our Chinese location were not eligible for the recognition of deferred taxes. PWO generated a net profit of EUR 1.4 million (prev. year: EUR 7.7 million). Earnings per shares were EUR 0.58, compared to EUR 3.10.

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MANAGEMENT REPORT FOR THE GROUP AND PWO AG

SEGMENT REPORTING

In accordance with the Group's business control system, it is our individual production sites which form the basis of our primary segment reporting by region.

The segment entitled 'Germany' relates to Oberkirch. The 'Rest of Europe' corresponds to the Czech Republic, while 'NAFTA' covers our sites in Canada and Mexico and 'Asia' refers to our activities in China. Supplies and services provided between individual sites primarily relate to the tools made by our subsidiary in the Czech Republic for other companies in the Group. These are eliminated at Group level during consolidation.

As in previous years, our secondary reporting segments are made up of the three strategic product areas 'mechanical components for electrical and electronic systems', 'safety components for airbags, seats and steering' and 'structural components and subsystems for vehicle body and chassis'.

The headquarters of the PWO Group in Oberkirch and therefore of the Germany segment is our biggest production site by a large margin. It is here that the parent company Progress-Werk Oberkirch AG is based, which is responsible for operations at the Oberkirch site as well as providing the structures for management of the Group.

In the financial year 2008, the segment Germany saw revenue and total output remain at previous year levels. Revenue amounted to EUR 210.0 million after EUR 208.2 million in 2007. Total output reached EUR 210.1 million after EUR 210.0 in the previous year. EBIT fell to EUR 11.4 million compared to EUR 15.8 million in the previous year. This was mainly driven by a massive decline in revenue for the fourth quarter of 2008 in the series production business and subsequently lacking contributions to earnings. After the nine month period segment, earnings reached EUR 11.6 million and were therefore at the previous year's level. The development of segment Germany is covered in detail in the management report for the AG, which is an integral part of this combined management report.

The site in the Czech Republic is reported on in the "Rest of Europe" segment. In 2008, it generated considerable growth reaching EUR 16.8 million (prev. year: EUR 10.1 million) after a number of production start-ups. Total output by far exceeded revenue generated given extensive tooling operations at this site. It increased to EUR 20.5 million from EUR 12.5 million. This highlights the positive impacts starting new series productions can have in the current economic phase, if – as this is still a relatively new site –they are not counteracted by cancelled orders. EBIT posted by the segment was however disappointing at EUR -1.5 million after EUR 0.7 million in the previous year. A number of negative factors came together: The exceptionally complex start of series production incurred higher expenses than anticipated, which meant that the planned productivity of the site fell short of expectations. Contrary to plans, tools were not invoiced at the end of 2008, which means that they could not contribute to earnings. And finally, the Czech Koruna devalued significantly in the fourth quarter as a result of the financial market crisis, leading to significant translation losses.

Our production sites in Canada and Mexico together make up the NAFTA segment. Revenue in this segment amounted to EUR 39.7 million, while total output reached EUR 40.2 million after EUR 46.2 million and EUR 45.7 million respectively in the previous year. EBIT fell to EUR -1.3 million compared to EUR 1.1 million in the financial year 2007.

In 2008, the Canadian location continued to be negatively impacted by the weak North American automotive industry. Subsequently revenue and earnings declined. Larger-scale series production, which may compensate this shortfall, is not expected until 2010 and 2011. As a result of swift and stringent cost adjustments the site however remained profitable in the year under review.

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Ramping up new complex series production at our Mexican site delivered slight growth despite the decline in the automotive sector in the course of the year. Ramping up production did however involve considerable internal expenses. In the first half of the year, structural improvement measures required more external services to be contracted than planned. This negatively impacted earnings. We also made investments into improving processes as a location audit was scheduled by our largest customer. PWO passed the customer audit successfully and the location will now be included in new customer tenders for future projects. In total, these expenses did however result in negative EBIT in Mexico.

Revenue and total output in the Asia segment remained very low in 2008 as both amounted to EUR 0.4 million after totalling EUR 0.5 million in the previous year. This was mainly driven by the slow development of our joint venture. In a bid to leverage further opportunities in the market we have decided to set up an own subsidiary in China, which will enable us to tap into the significant market potential this region has to offer. We received the necessary business licence in April 2008.

In December 2008, we decided to withdraw from the joint venture and to sell our stake to our joint venture partner. The corresponding contracts were signed after the reporting period. As anticipated, setting up our subsidiary resulted in start-up losses. In total, EBIT in the segment Asia reached EUR -1.0 million in 2008 and was therefore in line with plans. In the previous year EBIT amounted to EUR -0.6 million. Earnings exclude the EUR 0.5 million one-off book loss from the sale of our joint venture stake, which is included in the Group's net financial result.

Revenue distribution according to product areas in line with secondary segment reporting remained largely unchanged in the financial year 2008 and was not affected by ramping up or discontinuing series production. This is consistent with typical business fluctuations. In the long-term we aim to generate about a third of our revenue in each of the three product areas to spread risk. The composition of our existing orders and order intake highlight that this is also going to be the case in the future.

In the financial year 2008, revenue generated from mechanical components for electrical and electronic systems increased slightly to EUR 79.3 million. This means that 30.4 percent of the Group's revenue is generated in this area. We recorded a significant increase of 7.9 percent to EUR 92.9 million with safety components for airbags, seats and steering. This area accounted for 35.7 percent of Group revenue.

The area structural components and subsystems for vehicle body and chassis recorded a decline of 7.6 percent in revenue to EUR 88.2 million. The share this area contributes to total revenue therefore fell to 33.9 percent. The decline in revenue is mainly attributable to the production of a larger-scale cross member order being discontinued. The follow-up order is however going to be ramped up in the first half of 2009, which means that the shift in revenue between production areas is only temporary.

ORDERS

PWO started the financial year 2008 with the highest order backlog in the history of the company. In 2007 orders were gained for the locations in Oberkirch and in the Czech Republic which will generate lifetime revenue in excess of EUR 350 million, including the largest order gained in the history of the company with a lifetime revenue of about EUR 170 million. The contract is for developing and manufacturing the cockpit module carrier series for a new European platform designed for several vehicle models.

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Orders are generally scheduled to last between five and seven years, the large-scale order is scheduled to last even longer. Series production will mainly be ramped up between 2009 and 2011. In how far lifetime volumes from these orders will be impacted by the current crisis in the automotive sector is hard to say from today's point of view. Given the long term of the contracts we are however assuming that the majority of these orders will be fulfilled in a more favourable economic environment.

In the financial year 2008, no large-scale projects were awarded for new models and platforms at previous year levels. We were again highly successful in tenders. In total we were able to secure series volumes generating lifetime revenue of around EUR 80 million as well as tooling orders worth EUR 20 million.

This figure includes an order for the Czech site with lifetime revenue in the lower double-digit million area to supply a vehicle platform with seat components. In addition to that, we have made good progress in negotiations for a number of larger scale series production orders and we believe that our chances of getting the orders are quite good. This also includes an order by a German premium manufacturer with a lifetime volume of more than EUR 100 million, which we received after the end of the financial year.

Whereas the previous year's new orders related primarily to components for the vehicle body and chassis, we were particularly successful in 2008 in attracting new orders for the production of components and sub-assembly groups in the product areas mechanical components for electrical and electronic systems and safety components for airbags, seats and steering. This will allow us to pursue an even level of growth across all three product areas.

FINANCIAL POSITION CASH FLOWS AND INVESTMENTS

In the period under review total assets of PWO AG increased to EUR 205.1 million after EUR 191.8 million in the previous year. This resulted in a significant increase in non-current assets by EUR 15.1 million as a result of investment projects being launched. In addition to that, inventory at the Group increased by EUR 2.8 million. Measures to reduce inventory levels were implemented in the second half of 2008, which have had a positive effect on PWO AG, without however being visible at the Group level.

As a result of the massive drop in standby orders in the last few months of the financial year 2008, trade receivables have declined considerably as of the reporting date compared to the previous year. Assets in our joint venture, which we sold after the reporting period, are disclosed in the item "Assets classified as for disposal" as of December 31, 2008. The respective item is also included in the liabilities section of the balance sheet.

On the reporting date of the financial year 2008, PWO Group's equity declined to EUR 68.0 million (prev. year: EUR 76.8 million). This came on the back of lower revenue reserves, as the dividend payment for the financial year 2007 exceeded the reserves from net profit or loss 2008 by EUR 1.9 million. There was also a negative impact from currency translation as well as cash flow hedges amounting to EUR 4.4 million. The complete takeover of our Mexican subsidiary resulted in a negative impact on equity of EUR 2.2 million from minority interests.

The increase in total assets is reflected in liabilities mainly in higher trade payables as well as higher interest-bearing borrowings. The latter increased to EUR 69.5 million after EUR 51.8 million. Gearing (net debt as a percentage of equity) increased to 99 percent after 65 percent in the previous year and the equity ratio reached to 33 percent after 40 percent. This means that on the reporting date 2008 both key figures are outside of our internal long-term target corridor. But compared to the industry, our balance sheet ratios continue to be of above average quality.

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In the year under review, the cash flow from current business activities in PWO Group increased significantly to EUR 25.0 million after EUR 17.9 million in the previous year despite declining earnings. This came about as funds committed in current assets were reduced slightly, while they increased considerably in the previous year.

Funds were used for investment projects (excluding acquisitions) totalling EUR 34.0 million. This figure considerably exceeded last year's figure of EUR 21.5 million. Given the level of completion of different investment projects it was generally not feasible to introduce significant cuts or freezes on investments in the last months of 2008. The revaluation of projects against the background of drastically lower production figures in the automotive industry will impact 2009 figures.

The German location Oberkirch accounted for EUR 14.8 million (prev. year: EUR 12.6 million) of investments conducted in the financial year 2008. We have implemented extensive measures to change workflows throughout the value chain. We are continuing to install further elements of the lean management concept, boosting the productivity of the location and therefore reinforcing its competitive edge. Necessary operational investments in Canada remained limited at EUR 0.5 million (prev. year: EUR 0.4 million).

Investments totalling EUR 18.6 million (prev. year: EUR 8.5 million) were made into locations currently being set-up. The Czech Republic accounted for EUR 7.9 million (prev. year: EUR 6.8 million) where a large 1,250 ton press was commissioned in the year under review. In Mexico, EUR 2.6 million (prev. year: EUR 1.6 million) were invested in improving the location's operating processes. Investments in China amounted to EUR 9.3 million and were exclusively dedicated to our own subsidiary. This figure included EUR 1.2 million for a forming press, which we are moving from Canada to China to aid capacity utilisation throughout the Group and can therefore not be included in consolidated cash flow. In the previous year, we invested EUR 0.1 million in China as part of our joint venture.

In addition to cash flow from operating activities, additional loans worth EUR 32.3 million (prev. year: EUR 15.1 million) were taken out to finance investments, interest and amortisation payments, and to fund the dividend distribution for 2007.

Management Report for Progress-Werk Oberkirch AG

Progress-Werk Oberkirch AG prepares its financial statements, as it always does, in accordance with the accounting standards set out in the German Commercial Code (HGB), whereas the Group's financial statements were drawn up under IAS/IFRS. The accounting standards applied to the 2008 financial statements are unchanged from the previous year.

Progress-Werk Oberkirch AG (AG) acts as the headquarters of the Group. It is also the largest production site and a Technology and Manufacturing Competence Centre. The AG also coordinates a range of central functions on behalf of the Group, such as Marketing and Sales, Contract and Customer Related Development, the PWO Production System, Finances, Controlling and Personnel.

PWO Group has been enhancing its international activities for a number of years and has taken over or setup three additional production facilities abroad to do so. In line with this development, Group functions and structures are being established in Oberkirch step by step.

By way of example, a tight rein is kept on the finances and controlling of our international subsidiaries as a means of limiting our exposure to risk. In an effort to limit the overheads of Group management international sites are retaining extensive authority especially at operating level.

The comments made in this combined management report for the PWO Group and PWO AG apply equally to PWO AG, especially where they relate to market trends, strategy and business control and operating risks.

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The company comprises the production location in Oberkirch, and therefore forms the segment Germany in the Group's segment reporting. The following observations therefore relate equally to the management report for PWO AG and the Group's segment report. Changes in staffing are laid out in a separate section on page 44.

As was the case at the Group level, revenue and total output of PWO AG at EUR 210.0 million and EUR 209.3 million respectively remained well below our plans because of the soft second half of 2008. The figures generally remained at previous year levels. These figures were achieved with material input of EUR 87.8 million, which is even slightly below the EUR 89.8 million figure from the previous year.

Staff expenses were swiftly adjusted to considerably lower volumes in the second half of the year, which limited the increase of this item to 1.8 percent in the financial year. Our measures to reign in other operating expenses also took hold quickly, and in the financial year 2008 were reduced to EUR 18.8 million in absolute terms after EUR 20.2 million in the previous year.

There was however a significant impact on earnings as a result of the considerable increase in purchased services to EUR 28.0 million after EUR 21.3 million in the previous year. This can be mainly attributed to contracted services in tool engineering as part of R&D cooperation efforts, which were planned and implemented at the beginning of the financial year in a market environment driven by growth. Possibilities for swift adjustments in this area were limited during the year and as a result there was no way of preventing the increase in expenses in 2008 outlined above. In the meantime projects have been allocated to PWO AG again. This will contribute to limiting purchased services and to capacity utilisation for internal tool engineering in 2009.

Depreciation and amortisation increased to EUR 10.0 million after EUR 9.4 million in the previous year on the back of significant investments made during the financial year 2007 as well as investments in the year under review into strengthening the site. According to German Commercial Code (HGB), PWO AG's EBIT reached EUR 10.1 million after EUR 15.4 million in the previous year.

In financial income, interest expenses impacted anticipated higher pension provisions in addition to higher liabilities toward financial institutions – this also applies at Group level – in turn resulting in this item increasing to EUR 2.5 million after EUR 2.1 million in the previous year. Including taxes of EUR 2.0 million compared to EUR 4.1 million in the previous year, PWO AG reported a net profit for the financial year 2008 of EUR 5.6 million after EUR 9.2 million in the previous year.

The PWO AG balance sheet is showing positive development: Inventories were reduced slightly to EUR 35.9 million (prev. year: EUR 36.5 million) and trade receivables fell to EUR 26.5 million (prev. year: EUR 34.7 million).

This contributed to limiting the increase in total assets to EUR 149.5 million (prev. year: EUR 140.8 million), even if property, plant and equipment increased as a result of efforts to strengthen the site and financial assets increased by EUR 9.7 million to EUR 31.7 million. This reflects the increase of our stake in the Mexican subsidiary to 100 percent and the fact that we significantly expanded our loans to affiliated companies, especially our subsidiary in Asia.

As planned, we funded investments in our foreign production locations by increasing liabilities to financial institutions by EUR 8.5 million as well as from the increased equity from the allocation of revenue reserves.

The equity ratio reached 49.1 percent (prev. year: 50.5 percent) and therefore remained at a comparatively high level. PWO AG's gearing (net debt as a percentage of equity) increased to 39 percent after being at a low level of 28 percent in the previous year, but still remained at a comfortable level.

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General statement on the economic situation of the Group

At the time this management report was being completed the global automotive industry was in the midst of a significant cyclical downturn. There are currently no indications of how steep the downturn is going to be and how long it is going to last. The Management Board has therefore taken a number of measures to adjust the Group's operating costs.

In addition to cost cutting, one of a number of additional measures was to agree short-time for the Oberkirch site, which is aimed at reducing working hours individually for each position and in line with respective capacity utilisation. The objective is to achieve high flexibility and to be able to quickly adjust costs to respective capacity utilisation levels. Staff expenses are to be kept in line with the development of the company and are therefore to contribute to stabilising the earnings situation.

The Management Board is confident to have implemented the right measures from today's point of view. In addition to that the development of the market is monitored carefully to ensure that if necessary further cost cutting measures can be implemented at short notice.

In addition to adjusting capacities and costs, the Management Board subjected the Group's investment projects to a stringent review and reduced or postponed planned investment volumes in an effort to avoid further demand for funding in the financial year 2009. The current investment volume for 2009 comprises fully covering operating requirements as well as continuing growth investments, which serve to secure the future of the Group.

Refinancing activities for non-current liabilities are not necessary for 2009. There are also sufficient lines of credit to cover ongoing business activities. This means that finance risks for the Group were limited – as far as possible – for the financial year 2009. Additional risks could however arise should the international financial market crisis or the recession in the real economy get worse and therefore impact the automotive sector more severely than currently forecasted by market researchers.

Employees

The average number of employees in the Group increased in the financial year 2008 compared to the previous year, up from 1,766 to 1,939. An increase was recorded at all sites with the exception of Canada.

There was an average of 1,130 employees working at the Oberkirch site (prev. year: 1,049). Given the negative development of standby orders in the industry, this development only partially results from the increase in industrial and full time employee numbers, which were up by 31 people from January to December. In addition, in the interests of flexibility, we increased the number of temporary employment contracts on the cost side by 34, but we are making no cutbacks in training and promoting the development of junior staff. Young people we don't succeed in gaining for PWO today will be sorely missed when the market rebounds. To that end, we significantly increased the number of apprentices in Oberkirch by 16 from January to December 2008. We are also likely to increase the number of apprenticeship places again in 2009. All apprentices who successfully passed their exams in 2008 were offered a job at PWO.

In an effort to adjust capacities to the negative standby order development, we substantially reduced the number of average employees for 2008 to 114 at the Canadian site (prev. year: 139). In contrast, at the Czech site the number of employees grew significantly to 282 (prev. year: 218) as part of our strong growth in the country. It was a similar picture in Mexico where, with 389 staff, substantially more people were employed than in the previous year (2007: 350). In China, the average number of employees in 2008 was 24 (prev. year: 10). 18 of these employees were from our own subsidiary while 6 were from the joint venture.

The increased internationalisation of PWO Group is opening new prospects for our employees' development. At the same time, internationalisation also requires a considerable amount of flexibility from our employees as well as increased responsibility and commitment.

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Our employees at both established sites in Oberkirch and Canada have to open themselves to thinking on group level above and beyond individual sites. This means giving time and personal effort to passing on expertise to colleagues at new foreign sites. By the same token, the employees at the new sites have to open themselves to the PWO culture and align themselves with the highest technological and qualitative requirements of a leading international automotive supplier.

The current crisis in the automotive industry heightens the challenges for our employees even further. In a time of growing uncertainty, additional flexibility is again required, allowing us to adjust to rapidly changing standby orders from our customers or altered requirements in the sales process. Even ongoing negotiations on the adjustment of long term framework agreements, typical for our industry, are becoming more demanding.

We are also facing new challenges as we constantly work to develop our corporate culture. That's why we documented our company principles and values as well as our management culture a fresh in a newly worked overall concept in the financial year 2008.

The focus of our management culture is valuing our employees. We let them know that they are the key to our success. It is the task of management to give employees attention and recognition as well as provide conditions in the workplace conducive to verve and fun. This is documented in the principles of a cooperative management approach, one with the greatest possible delegation of tasks and responsibility and one of comprehensive information policies. On top of that, it goes without saying that the principles of our management culture also include aligning individuals with corporate goals.

Diverse measures serve to implement these abstract principles in daily operations. This allows us to systematically build up the expertise of our employees as part of long-term development plans. This also includes establishing individual measures like training, assignment abroad or taking on tasks in temporary project teams. In addition, we have introduced structured employee information before and after phases of temporary absence and taken personal and family needs into account as much as possible.

In line with the long-term expansion of our employees' expertise, we provided further and continued education to the tune of EUR 2.1 million (prev. year: EUR 1.7 million) in the last financial year.

Other information

MARKETING AND SALES

Our focus on mass producing highly complex metal components and subsystems requires the maximum in efficiency and reliability. Success as a supplier in our business depends on achieving extremely high levels of quality and reliability throughout the entire period of a production agreement. We prove these qualities day in, day out. These qualities secure us early access to our customers' future projects as their development partner. In turn, this allows us to gradually build up our share of customers' purchasing volumes.

In tendering for new orders, we position ourselves as a leading innovator, one that not only develops solutions exactly meeting our customers' needs in terms of function, weight and price. We regularly exceed the expectations of our customers with additional added value.

Thanks to our capacity to innovate, we are able to coordinate our products and production processes so efficiently that we can offer highly competitive prices. This is also made easier by the current size and geographical diversification of the Group and by our highly flexible stock of machinery. In general, these factors allow us to deploy the best possible manufacturing equipment for the product in question, while keeping down unit costs.

Given the unrelenting pressure on prices in the automotive industry, even during ongoing series production, one of the most important roles of Marketing and Sales is to maintain permanent contact with customers

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and to adopt a position that stresses the added value of our products. Our long established customers also notice this nowadays and take it into account when allocating orders. On top of that, our internationalisation strategy has carved out another tangible competitive advantage for us.

We are single-minded in using this reputation when it comes to acquiring new customers. The automotive industry is sufficiently transparent for us to know when and where new requirements arise with potential new customers. It is here that we particularly target our sales efforts. However, in order to protect our earnings capacity, we do not accept orders where the pricing structure does not allow for an adequate margin. PWO can of course be found at the industry's most important trade fairs.

PRODUCT AND PROCESS INNOVATION

PWO's contribution to the future shape of the industry lies in its constant focus on innovation in terms of both products and processes. We act both as an outsourcing partner, with the capacity to produce sub-assembly groups and components, and as a provider of development capacity and expertise as well. We therefore make a major contribution to the development of new products and generate a competitive advantage for our customers by helping them to find better solutions.

Through PWO's fully integrated development of components and sub-assembly groups and the associated production processes, we ensure that the teams responsible for each product devise solutions with the customers' needs firmly in mind while adhering strictly to their cost specifications. This approach creates a firm sense of corporate responsibility and an awareness of cost issues throughout the entire value chain.

Another important factor that allows us to create efficient, high-precision production processes is the fact that we make our own tools. The quality of the tool has a significant impact on the precision of a product and on the potential speed of the production process. To make components that demand a maximum tolerance of just a few hundredths of a millimetre, we need tools which have to be constructed to even more precise specifications.

The ability to integrate downstream processing stages, many of which are still carried out separately within the automotive supplies industry, into the fully-automated forming process depends on our capacity to reproduce these stages in our tools. Last but not least, higher forming speeds require extreme levels of precision in all the other process stages.

RESEARCH AND DEVELOPMENT

PWO produces exclusively in response to customer orders. Accordingly, most of our development expenses are incurred as part of customer projects. We do not engage in research and development activities for products that are developed, manufactured and marketed in our own name and at our own risk.

QUALITY MANAGEMENT

Zero-defect quality is the benchmark for all products and processes in the automotive industry. However, this objective is far from being achieved on average across the industry. As a manufacturer of safety components such as parts for airbags or air suspension systems, seat locking mechanisms, steering column brackets and vehicle body and chassis structures, PWO sets itself the strictest possible quality targets regardless of customer specifications.

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The objective is to come as close as possible to zero-error quality with comprehensive quality control concepts in development, tool construction and production. In addition, we have a strong focus on an accordingly integrated, automated quality control in production. A series of measuring and testing robots, sensors and/or cameras form an integral part of the production process. This allows us to ensure that we do everything possible to deliver zero-error quality to our customers. As a further means of distinguishing ourselves from the competition in this area, our own concepts are then implemented by our partners in the plant and test engineering field through the deployment and ongoing development of their own technology. This allows us to set ourselves apart from the competition in this area too.

A zero-defect philosophy has been introduced throughout the Group and applies to all business processes from development, process planning and tool construction through to production and commercial administration. This philosophy is anchored in the PWO Production System.

This allows us to consolidate both our position as leading provider to the customers and our earnings capacity. By providing all employees with the quality assurance documentation covering each individual process stage, we have also created a positive atmosphere of competition within the Group as a means of encouraging top performance.

LOGISTICS AND PROCUREMENT

We work with steel, stainless steel and aluminium and obtain our raw materials on world markets. In general, the procurement of materials does not present a major problem, and even during the temporary spikes in demand of recent years we have always been able to secure adequate supplies. Short-term materials scheduling is based on forecasts of the volume of goods which our customers notify us that they require. Delivery is made from the immediate vicinity of production as a rule, reaching the customers within a window of between one and five days.

As a way of diversifying our procurement activities we have entered into tiered supply agreements with various suppliers. These contracts also help us to a large extent to control prices, although if it becomes necessary to cover our requirements on the spot market, prices can be quite volatile in the short-term.

In addition, for many of our products we require special steel alloys. The pricing and market development of these alloys is less volatile than that of standard grade materials. In this area, close collaboration with our longstanding partners in the European steel industry often begins right at the product development stage. As the alloys we require are not available throughout the world, our partners supply the necessary quantities to our international sites as well.

Purchase pricing was tense during long periods of the financial year 2008. Although the pressure on the purchaser to make price concessions on raw metals was still very high up to the middle of the year, particularly due to the extreme increase in energy prices, the situation eased significantly in the second half of the year thanks to increased demand.

We are often been able to reach agreements with our customers that allow us to pass on price increases. Of course, we do the same when prices fall. Given the highly transparent nature of our procurement market, it is not possible for us to delay such reductions, as this would have a negative impact on the relationship of trust we have established with customers.

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With regard to energy and water, which are used in large quantities in the forming process, we can rely on well-established relationships with suppliers that largely rule out any procurement risk, although there is no scope for diversifying our supplier base and our ability to influence the price of these raw materials is limited.

In 2008, we made a number of major improvements to the PWO production system to control the level of materials we use and thus protect our capacity to generate earnings. We also made it a permanent task to make further adjustments to our inventory management system to avoid constantly tying up resources in stock. Since 2007 we have also been increasingly involving our suppliers in the PWO Production System. This allows us to implement increases in efficiency along the value added and quality chain, which is substantially extended by doing this.

Occupational safety and environmental protection

Occupational safety and environmental protection are permanent components of the PWO culture and our business processes. We view it as our natural obligation to make sure that our employees enjoy the best possible safety at our plants and that we undertake to protect the environment.

In the financial year 2008, the Oberkirch site formed the focus of our occupational safety efforts, with the reviewing and reorganisation of different workflows with the aim of improving safety and emergency plans for accidents.

In close cooperation with managers, the management approach to hazardous materials was completely reworked. A simple, efficient system of risk classification for working with hazardous substances was established as were the resulting required protection measures and standardised instructions.

On top of that, a new personal emergency alarm system was installed. This provides safety for employees who are temporarily alone in the hall area. In case of an accident or serious health problems, either employees can raise the alarm manually or the alarm will sound automatically. The scope of application of the new system is substantially larger, making it easier for first aiders or fire brigade personnel to locate the person in need.

In addition, a noise register has been developed from the various reports in recent years. The measured data are now presented in the hall layout, allowing the effectiveness of noise reduction measures and other need for action to be recognised at a glance. This allows preventative measures to be introduced and noise reduction measures to be implemented effectively and systematically in the medium term.

Last but not least, the launch of our new logistics centre at the Oberkirch site has made a decisive contribution to reducing lorry traffic in the town of Stadelhofen located near the site. In the future, only incoming goods and visitors will pass through town – not outgoing goods.

When it comes to company environmental protection, the first priority is providing intensive support to subsidiaries. The integrated management system from the Oberkirch site was transferred to the main smaller site at PWO UNITOOLS, making certification according to DIN EN ISO 14001 easily achievable.

Specific environmental protection requirements were taken into account when constructing the new plant in China. The site has a comprehensive energy concept, process water circuitry as well as a process water treatment system up to European technology standards.

On top of that, purchasing and all departments with customer contact have made a great contribution to implementing the European chemicals regulations "REACH". Thanks to information gathered from supplier questionnaires, all customers received information tailored to their needs.

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Risk report

DESCRIPTION OF RISK MANAGEMENT STRATEGY

The aim of our risk management strategy is to avoid or limit operating risks as far as that is possible and economically viable. We do not expose ourselves to additional risks of a financial nature, e.g. by taking out open positions in derivatives. Our financial unit does not operate as a profit centre.

Thanks to our business model, we are able to avoid or limit major risks. As a leading innovator, it is we who drive forward developments in our in product fields and set standards rather than following them. As a quality leader, we deliver practically zero-defect goods, and our exposure to risks associated with product failure is therefore very low.

Our broadly diversified product range insulates us from fluctuating demand in some areas; it also helps to create a balanced structure in terms of orders and a more even use of production capacity. We were unable to escape the effects of the simultaneous global downturn through the industry and the subsequent drop in standby orders, which have come reached an unprecedented extent.

The PWO production system is also set up to minimise risk. The standardisation of processes across all our sites and their uniform documentation allows us to identify under-performance at an early stage so that we can take appropriate measures quickly and comprehensively. Last but not least, we focus on our long-term relationships with customers and only follow them abroad if the regions in question have sustainable outsourcing volumes in our field.

Overall, the success of the Group over many years is a testimony to our expertise in dealing with the specific risks of our industry.

CHANGES TO THE RISK SITUATION IN 2008

PWO Group's risk situation changes in line with the increasing internationalisation of our business activities. After the takeover and subsequent expansion of our site in the Czech Republic since 2005, we entered the Chinese market in 2006 as part of a 50/50 joint venture, finally setting up our own production base in Suzhou in 2008. Since completely taking over our Mexican subsidiary in May 2008, we now have a second foothold in the North American market.

We are aware of the changes to our risk situation from our internationalisation strategy and are continuously building up the necessary Group functions and structures necessary for international management which will allow us to avoid additional risks, identify them early on and limit their impact. The primary risks from internationalisation are particularly currency risks and management risks for the new sites. These will be described in the following risk report.

MAIN FEATURES OF RISK MANAGEMENT AT PWO

A number of organic adjustments were made to PWO's proven risk management system during the year under review; although no fundamental changes were necessary. The principles formulated by the Management Board were adjusted and documented according to our risk management handbook, where required. This handbook systematically records, describes and evaluates risks and how they are dealt with.

Risk owners report to the Management Board on a regular basis each month or immediately in the event that major new risks are identified. The performance of our risk management system is reviewed internally at frequent intervals. It was again tested by our auditors during their preparation of the annual report and its effectiveness confirmed.

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The risk management system is applied in all cases across the entire Group and in an uniform manner. It is at various stages of implementation depending on the length of time the individual production companies have belonged to the Group. The system has now been introduced in full in Germany, Canada and the Czech Republic. We began to introduce the main elements of our risk management system to our Mexican subsidiary in 2007, the first year after the takeover. In 2008 this risk management system continued to be implemented further. At our location in China, business activities were still very much in the start-up phase at the end of 2008. Production started in time for the new year as planned. In line with this development, only selected elements of the system were applied so far.

RISKS RELATED TO PERFORMANCE AND QUALITY

Among the principal risks to which the Group is exposed are those relating to performance and quality. Nowadays, series production for the international automotive industry requires us to meet extremely tough demands on reliability in terms of our processes and performance at high volumes and to do so consistently over many years.

Above all, lapses in performance can cause significant damage to a supplier's reputation as well as financial damage. This can seriously weaken the supplier's position when conducting regular price negotiations during the term of an existing order and when bidding for new orders. Consequently, it is vital to maintain a reputation for reliable processes and performance in order to safeguard and increase the capacity of the Group to generate earnings. Risk management is therefore an integral part of all our business processes and corporate decisions.

We are limiting our risks relating to performance and quality by driving continuous improvement in line with our PWO Production System. It maps and documents the course and stability of our processes. As a result, they can be uniformly monitored and constantly refined and improved. This particularly involves the preventive servicing of metal forming presses, welding and assembly systems and tools to minimise any disruption and downtime.

A vital element of this system is the ability of our staff to identify potential risks to performance before they arise on the basis of the data they receive during the production process and to quickly take the correct action. For this reason we invest in ongoing training and professional development to ensure that our staff members are able to upgrade their skills on a regular basis.

We aim to ensure that a product can be made on at least two suitable machines so that production can continue in the event of a malfunction. In many areas of our product range, we are now setting market standards for the efficient series production of complex components.

Manufacturers of safety components such as PWO are exposed to specific quality risks. We have established a zero-defect philosophy throughout the Group which in some respects greatly exceeds the specifications of our customers. As another important element of our market positioning, we are gradually building up the necessary processes so that we can not only deliver zero-defect quality but trace it throughout the production process and provide customers with appropriate documentary evidence. This again sets us apart from our competitors and highlights our market-leading position.

We are constantly seeking to fine-tune the levels of consistency and product quality at our established sites in Germany, Czech Republic and Canada, and gradually implement these changes into our young international sites as well.

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In 2007, we began to establish preventive servicing schedules for presses and tools and for welding, assembly and processing equipment in Mexico and to train our staff accordingly. This was continued in the year under review. One of the first important successes of our efforts is that existing and potential customers conducted an audit of our Mexican site and approved it for looming larger-scale tenders in our segment.

Production had not been completely ramped up at our own site in China at the end of 2008. Overall, the markets in both these countries do not as yet require the highly complex, fully automated production processes we have in Oberkirch, where wage levels are much higher. By contrast, the production process in these countries is much less timesensitive, a situation that helps to limit our exposure to risk.

MANAGEMENT RISKS AT OUR INTERNATIONAL LOCATIONS

As part of our internationalization strategy, we have expanded our location portfolio with production sites in the Czech Republic, Mexico and China in the last few years. As mentioned, the PWO Production System makes a considerable contribution to limiting performance and quality risks at these locations.

There are however risks to the earnings potential of the Group, if capacity utilisation at the new locations is not sufficient in the long-term, or if sites fail to reach the necessary productivity and subsequent profitability to generate sufficient return on capital for the investments undertaken.

We limit investment risks as we only open additional production plants if their capacity utilisation is safeguarded by orders already received. In the Czech Republic this model has worked exceptionally well as the location has continued to grow and continues to have good growth prospects. In Mexico, we have not made any material investments since taking over the company in an effort to limit risk. In China, risks consist of start-up investments which not only include production plants, bit also infrastructure as we are establishing this facility from scratch. We are therefore monitoring the development here very closely.

As far as the development of productivity and profitability are concerned, the management of ramping up new series production in the Czech Republic and in Mexico was not satisfactory in the period under review. This was mainly due to the high complexity of ramping up production for these products.

Series production which has been ramped up in the meantime is considerably more stable. Given the experience gained, ramping up new production at the Czech base should be less expensive in the future than was the case in the period under review. All in all we are confident, that both sites will reach appropriate productivity levels in the medium-term the longer they are in operation. In the meantime, we have worked to further develop technical and management skills at the plants.

Before entering these respective markets, we carefully analysed the available capacity utilisation potential for all three locations. Despite the current soft phase in the international automotive sector, we don't see any reason to doubt the longer-term capacity utilisation potential of all three locations. As a result of our initial strategy to address the local production of our European customers, we continue to be confident that we will be able to generate sufficient orders in an acceptable timeframe.

MARKET RISKS

Dealing with the market risks associated with the automotive industry is, of course, one of the main challenges we face in our business. Such risks particularly include sales fluctuations on the customer side in anticipated batch sizes and start up delays for new projects. For a capital-intensive business like ours, this can in turn create substantial pressure on margins.

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In response to this risk, we constantly strive to enhance the flexibility of all our business processes. In the last few years, for example, we have been able to considerably reduce the length of time taken to perform certain essential tasks such as machine set-up. This has enabled us to profitably produce smaller batches. We are also reacting to fluctuations in demand by enhancing transparency and introducing more efficient management. Similarly, we have made excellent progress in all of our other business areas.

Constant increases in competitive pressure – caused for example by the auctioning of orders on the Internet or pricing pressure from our competitors – are typical of the automotive supply industry. As an innovation leader we can offer our customers a quantifiable added value. We are not currently dependent on individual key accounts.

Revenue generated from transactions with major groups in the automotive industry is always distributed across a wide range of individual projects subject to independent contracts, each covering a specific set of products with different durations and volumes. The probability of a simultaneous failure of all our projects is extremely low.

We cannot rule out declining stand-by orders in ongoing series production as a consequence of slumping demand from the automotive sector, as demonstrated by the most recent development since the end of 2008. It is however worth emphasising that this does not refer to declines in projects or series production, but relates to a general slowdown in the industry as a whole.

If customers cancel orders containing provisions for amortisation, they are still required to meet certain contractual obligations. Whenever a particular project involves investment at an early stage or up-front financing for the work to be undertaken, we also ensure that the related market risks are appropriately covered, as far as is reasonable in such cases, under the terms of the contract.

RISK TO TRADE RECEIVABLES

In the current downturn in the automotive sector, the risk to trade receivables is tending to increase. Declining market volumes put additional pressure on the limited profitability of manufacturers and their suppliers given the highly competitive nature of the industry. In 2008 this already resulted in the insolvency of a number of suppliers, which also included a number of high-profile larger-scale companies.

We supply established international vehicle manufacturers and their direct suppliers. We have also taken out trade credit insurance to provide additional cover. In addition, our international expansion is premised in all cases, especially in the initial stage, on orders from those of the Group's existing customers with whom we have established a long-standing relationship based on trust.

Overall, it is our belief that the Group is not currently exposed to any substantial risk in relation to trade receivables. Whether we supply them directly or indirectly, our products are always vitally necessary to the manufacturer's production process. Moreover, we are increasingly being engaged as the sole supplier. Where individual problems do arise, the industry has to, and indeed does, find constructive solutions.

In relation to the investment of cash and cash equivalents and our stock of derivative financial assets, the Group may be exposed to losses if the banks were to default on their obligations. We aim to control this risk through diversification and the careful selection of counterparties. At present, no items of cash/cash equivalents or derivative financial assets are past due or impaired as a result of default.

FINANCIAL RISKS

Potential financial risks primarily include those associated with financing, interest rates and currency movements. In the wake of the financial market crisis and its spill-over into the real economy – especially the automotive industry – there has been an unspecific increase in financial risk which should not be underestimated. This does not specifically relate to the Group itself, but more to the general limited availability of external funding provided by banks.

The Group has a sound equity base, which means that we continue to have access to refinancing funds. Still PWO will not be able to extricate itself completely from generally higher financial risks as a result of the financial market crisis.

In November 2008, the Management Board implemented measures to significantly reduce the company's demand for funding this year. These measures include a considerable reduction in stock levels, the stringent and immediate adjustment of production to lower standby orders, using available working time accounts and holiday entitlement, reducing temporary and limited employment contracts, postponing, reducing or cancel-ling investment projects as well as a general review of all costs with the objective of tapping into as many cost-saving potentials as possible. At the end of the period under review short-time was agreed for the Oberkirch site.

In addition to that, the company further enhanced its already close communications with its banks. In 2008, a significant part of short-term bank liabilities were financed with long-term funds, which means that in 2009 there is no need for respective follow-up finance.

Interest rate risks are limited through an appropriate combination of short and long-term borrowing. Investments and pre-financing associated with long-term customer contracts are always financed on a long-term, project-specific basis. The Group has hedged approximately half of its financing instruments on a long-term basis and at fixed interest rates. Where funds are borrowed on the basis of a floating interest rate, we also make use of interest rate swaps.

We use hedging transactions to mitigate currency risks. All raw, auxiliary and operating materials required for the Oberkirch and Czech Republic sites (and for our overseas production sites in the event that particular steel grades and alloys are not available in North America or Asia) are purchased in Europe. Our long-term supply agreements are also framed in euro as to limit our exposure to currency risk on the procurement side.

In general currency risks have increased as a result of considerably higher volatilities on currency markets in the course of 2008. We apply comparable principles throughout the Group to limit currency risks in our operating business.

In Canada, the exchange rate differences between the euro and the Canadian dollar, as well as between the Canadian dollar and the US dollar are of significance for the Group, as this location serves the entire North American region.

At our sites in the Czech Republic and in China there are currency risks against local currencies. These have increased with the growth of the locations and will continue to increase in the future. After the complete take-over of the Mexican location in May of the period under review, the assessment was made that the US dollar is the functional currency of the location. As a result accounting was retroactively adjusted from the financial year 2007 on. There are no currency risks against the Mexican peso.

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PROCUREMENT RISKS

The raw, auxiliary and operating materials we need for production primarily include steel and, albeit to a much lesser extent, aluminium. We buy these materials on the world market and have no influence over the factors that determine prices. Recent years have seen a number of sharp price rises, increasing volatility in terms of price movements and occasional supply shortages.

This is a consequence of strongly increased demand from developing countries such as China and India, higher ore and energy prices, which make steel production more expensive, and a greater level of speculation on the commodity markets on the part of financial investors.

To reduce our exposure to procurement risks, we have established long-standing relationships and framework agreements with our suppliers covering all essential raw, auxiliary and operating materials. So far we have been able to find acceptable solutions with our customers in the form of allowances for increased raw materials prices. Equally, we are then expected to pass on any falls in input costs. In 2008 these effects were balanced.

RISK OF DAMAGES

We safeguard against the risk of damages by taking out suitable insurance policies. The level of cover they provide is under continuous review throughout the Group and is adjusted where necessary to ensure that we are protected at all times. In 2008, we introduced a Business Continuity Management system at the Oberkirch site and have already made considerable progress. Business Continuity Management is a tailored emergency and crisis management system to prepare for dealing with mission critical crisis situations.

IT RISKS

Today an increasing number of business processes rely on increasingly comprehensive range of IT support. This drives higher efficiency, but also enhances the significance of IT risks. These relate to the functionality of the IT infrastructure within the Group and especially the exchange of data with our customers, suppliers and production partners. PWO's IT processes are rigorously monitored. To counteract potential IT risks, we make use of this information, in conjunction with the standardised packages available on the market, to make constant improvements to the safety and stability of our systems, with a particular emphasis on our external interfaces. A further contribution to this aim is made by the gradual expansion of SAP software solutions within the Group.

GENERAL STATEMENT ON THE RISK SITUATION OF THE GROUP

As we have already mentioned, our business model is structured in such a way as to avoid or limit major risks. It is our belief that we are well prepared for the future. The financial market crisis has increased the refinancing risks of the Group, even if these risks are unspecific. To summarise, the overall risk situation currently presents no economic or legal risks that might jeopardise the continued existence of the companies making up the PWO Group.

Compensation Report

COMPENSATION RECEIVED BY THE MANAGEMENT BOARD

The compensation received by members of the Management Board is made up of fixed and performance-based components. They also receive non-cash compensation and compensation in the form of post-employment benefits. Variable income includes annually recurring components based on profit after tax. There are no components with a long-term incentive such as share options or comparable instruments.

In the financial year 2008, total Management Board compensation amounted to EUR 746 thousand (prev. year: EUR 1,241 thousand), of which EUR 117 thousand (prev. year: EUR 633 thousand) was performance-based compensation and EUR 64 thousand (prev. year: EUR 64 thousand) took the form of other benefits for insurance and company cars. In addition, from their second term of office, members of the Management Board are covered by a provision for retirement, invalidity and widow's pensions. Details of pension commitments are given in the table "Management Board compensation".

Pensions are paid to members of the Management Board who have reached the current pensionable age of 65 or, in the event that they leave the company having reached the age of 60, as long as they have also been granted a full retirement pension under statutory retirement pension rules.

To qualify for a retirement pension, members of the Management Board must have completed an unbroken period of service of at least three years (waiting period until the benefits vest) on commencement of the period of pension provision unless a non-cancel-

Management Board compensation	**Karl M. Schmidhuber (Chairman)** 2008 EUR '000	2007 EUR '000	**Bernd Bartmann** 2008 EUR '000	2007 EUR '000	**Dr. Winfried Blümel** 2008 EUR '000	2007 EUR '000	**Total** 2008 EUR '000	2007 EUR '000
Basic annual salary	223	223	162	150	180	171	**565**	544
Other benefits	21	21	21	20	22	23	**64**	64
Performance-based bonus	47	253	35	190	35	190	**117**	633
Total compensation	**291**	**497**	**218**	**360**	**237**	**384**	**746**	**1,241**
Pension expenses								
Annual payment on commencement of pension (age 65) as of Dec. 31	96	84	72	72	72	72	**240**	228
Allocation to pension provisions HGB in financial year	193	73	44	0	33	56	**270**	129

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lable pension entitlement was already established prior to commencement of the period of pension provision.

The monthly retirement pension payable to a member of the Management Board is specified in the pension agreement. The amount of any early retirement pension is calculated on the basis of the retirement pension sum, which is reduced for the entire period during which the pension is drawn by 0.25 percent for each month remaining before the member reaches the age of 65. Pension payments will be adjusted to reflect future increases in the cost of living for 4-person households of salaried and non-salaried employees on average incomes as reported by the Federal Statistics Office in Wiesbaden.

The company has made suitable pension provisions on the basis of IFRS to meet these future entitlements. During the reporting year, EUR 175 thousand (prev. year: EUR 129 thousand) was allocated to pension provisions for active members of the Management Board. This amount includes the service cost without interest cost.

Members of the Management Board have not been promised any further benefits in the event of termination of their activities. Equally, during the year under review, no members of the Management Board received benefits or corresponding undertakings from third parties in relation to their work on the Board.

SUPERVISORY BOARD COMPENSATION

Supervisory Board compensation is set out in the Articles of Association of Progress-Werk Oberkirch AG. They receive a fixed annual sum of EUR 3,000 and EUR 500 by way of variable compensation for each percent of dividend in excess of four percent. Expenses are also reimbursed.

The chairman of the Supervisory Board receives double and his deputy one a half times this amount. No further compensation is given for the committee work carried out by members. For the financial year 2008, members of the Supervisory Board received compensation of EUR 86 thousand (prev. year: EUR 199), calculated according to the profit appropriation proposal to the Annual General Meeting of EUR 0.55 per share.

	Fixed compensation		**Variable compensation**		**Total**	
Supervisory Board compensation	2008 EUR '000	2007 EUR '000	2008 EUR '000	2007 EUR '000	2008 EUR '000	2007 EUR '000
Dieter Maier, Chairman	6	6	17	47	**23**	53
Dr. jur. Klaus-Georg Hengstberger, Deputy Chairman	5	5	12	35	**17**	40
Katja Hertwig	3	3	9	24	**12**	27
Herbert König	3	3	9	24	**12**	27
Ulrich Ruetz	3	3	9	24	**12**	27
Dr. Gerhard Wirth	3	3	9	24	**12**	27
Total	**23**	**23**	**63**	**176**	**86**	**199**

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Corporate Governance

The Declaration of conformity with the German corporate governance code as amended on June 6, 2008, was issued by the Management Board and Supervisory Board in due time. It was published on the website of Progress-Werk Oberkirch AG at www.progress-werk.de. It is included in this annual report as part of the Corporate Governance chapter on page 15. This section also provides a detailed insight into the Corporate Governance philosophy of Progress-Werk Oberkirch AG.

Changes to the Management and Supervisory Boards

There were no changes to the structure of the Management Board or Supervisory Board during the financial year 2008.

Disclosures required under Section 289 (4) and Section 315 (4) of the German Commercial Code (HGB)

The required details according to Section 289 para. 4 and Section 315 para. 4 German Commercial Code (HGB) are presented and explained below: The Management Board believes that there is no need for additional information according to Section 120 para. 3, sentence 2, German Stock Corporation Act. (AktG).

The Progress-Werk Oberkirch AG are authorised for trading on the Frankfurt Stock exchange in the Prime Standard section of the regulated market, which imposes additional disclosure requirements. They are also traded on the regulated market in Stuttgart and on the optic markets in Berlin, Düsseldorf, Hamburg-Hannover and Munich.

The nominal, i.e. share, capital of the company is EUR 6,391 thousand and is divided into 2,500,000 ordinary bearer shares each with a nominal par value of EUR 2.56. All shares confer the same rights and come with a voting right at the Annual General Meeting. There are no restrictions on voting rights or the transfer of shares. Equally there are no preferences or special rights with powers of control. Shareholders are referred to the provisions contained in the Stock corporation act (AktG) on the rights and obligations of those holding shares. The Management Board is not aware of any limitations agreed between shareholders which affect the voting rights or the transfer of shares.

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Consult Invest Beteiligungsberatungs-GmbH, Böblingen, announced that it held a shareholding of 55.282 percent. The Management Board is not aware of other holdings greater than 10 percent of voting rights. Employees do not hold shares in the company as defined in Section 289 para. 4, no. 5 and Section 315, para. 4, no. 5 German Commercial Code (HGB).

According to the Articles of Association, the Management Board consists of two or more members. Members are appointed for a maximum of five years. There is a provision for members to be reappointed or their term of office extended, in each case for no more than five years.

The Supervisory Board decides on the number of members of the Management Board, appointments and the revocation of appointments, and the signing, modification and cancellation of the employment contracts to be concluded with members of the Management Board. The Supervisory Board may designate a Chairperson or Spokesperson for the Management Board. If there is good cause to do so, the Supervisory Board may revoke an appointment to the Management Board before expiry of the term of office.

Section 179 (1) and Section 119 (1), no. 5 of the Stock Corporation Act requires that all changes to the Articles of Association to be approved by a resolution of the Annual General Meeting. In contrast with Section 179 (2) sentence 1 of the Stock Corporation Act, Section 15 of the Articles of Association stipulates that resolutions on changes to the Articles of Association can be taken by the AGM on the basis of a simple majority of the voting rights held by those with a voting share in the nominal capital, unless a greater majority is required under statutory legislation. The Supervisory Board is also authorised to decide on changes to the Articles of Association where such changes merely affect the wording but not the sense.

Following a resolution of the AGM on May 18, 2004, the Management Board is authorised, subject to the consent of the Supervisory Board, to increase the share capital of the company in the period up to May 18, 2009, through the issue of new individual bearer shares for cash contributions on one or more occasions by up to EUR 2,556,459.40. Under such circumstances, shareholders will be offered subscription rights. However, the Management Board is authorised, subject to the consent of the Supervisory Board, to remove the fractional part of any subscription right and to exclude the subscription right of shareholders up to a par value of EUR 255,645.94 in order to offer the new shares to employees of the company and its Group companies. Authorised capital was used to an amount of EUR 1,278,229.70 in October 2005 by issuing 500,000 new shares.

No material agreements were made for the event of a change of control after a takeover offer, with the exception of the usual standard provisions relating to loan contracts with banks and customer contracts. There are no compensation agreements with the Management Board or employees for the event of a change of control after a takeover.

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Significant events after the balance sheet date

Considerably lower production figures in the automotive industry also resulted in a noticeable decline in standby orders from ongoing series production at the beginning of 2009. As announced on February 2, 2009, the Management Board and the workers' council agreed on short-time for the Oberkirch site. Working hours are reduced individually for each position and in line with production levels. The objective is to achieve high flexibility and to be able to quickly adjust expenses to respective capacity utilisation.

On December 18, 2008, we announced that we intended to sell our 50-percent share in our Chinese joint venture to our joint venture partner TAE HWA Enterprise Co., Ltd. The corresponding contracts were signed after the end of the period under review.

We were able to announce a further large-scale contract for our European sites on February 24, 2009. A premium German manufacturer chose PWO as the supplier for the cross member of its high volume production platform. The total volume of this order amounts to more than EUR 100 million and will ensure high capacity utilization for both European PWO sites. Series production is to be ramped up in 2011.

Report on related parties

As required by Section 312 of the Stock Corporation Act (AktG), the Management Board has prepared a report on relations with Consult Invest Beteiligungs-beratungs-GmbH, Böblingen. As in previous years, the report concludes with the following declaration: "No transactions subject to reporting requirements took place during the period."

Anticipated developments

ECONOMIC TRENDS

Global economy

Governments, international organisations and economic researchers are forecasting the steepest decline in the global economy since the Second World War. At the end of January, the International Monetary Fund (IMF) reduced its forecast for global GDP to 0.5 percent after previously 2.2 percent. According to the IMF, a global growth rate of less than three percent constitutes a recession.

The European Commission is expecting real GDP to decline by 1.8 percent in the EU in 2009 and to recover slightly by 0.5 percent in 2010. For Germany it is forecasting a drop of 2.3 percent in 2009 and an increase of 0.7 percent in 2010. The Commission believes that there are more risks than there are opportunities and states that there are exceptional uncertainties in its forecasts. According to its Annual Economic Report issued in January 2009, the German federal government is expecting the real economic output in Germany to slump by 2.25 percent.

Automotive sector

Thanks to the state funded 'scrapping premium' and agreement on the motor vehicle tax reform, the VDA reported that German automotive manufacturers recorded the first increase in orders in the last week of January 2009 since September 2008. On the whole domestic order intake in January was still down 13 percent year-on-year.

Domestic production was adjusted correspondingly. In January 314,000 cars were produced, 34 percent less than in the same month one year earlier. German automotive manufacturers reacted very flexibly to the slump in global demand.

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In Europe, car sales in January reached 958,500 units, missing previous year levels by 27 percent. In Western Europe, sales were down by almost 27 percent, coming in at 891,500 cars. While Germany (-14 percent), France (-8 percent) as well as Benelux states (-16 percent) suffered comparatively moderate declines, Spain (-42 percent), Italy (-33 percent) and Great Britain (-31 percent) faced above average losses. In EU accession countries, demand slipped by a third compared to the same month of the previous year.

Almost all European governments have taken state measures to soften the blow of the sales crisis. The UK government is granting loan guarantees to the automotive sector as well as a temporary VAT reduction. In Spain, car buyers are getting favourable statefunded loans while conditions for the 'scrapping premium' have been relaxed. In Italy, the premium ran out last year and is to be reintroduced. France also intends to offer its automotive sector extensive support.

Sales in the US were down by almost 37 percent in January, while Japan saw sales fall by almost 20 percent below last year's January levels. Cars with 2 litre engines and higher lost ground significantly, returning a minus of 36 percent. Emerging markets are also recording declining demand, even if these are less dramatic. In India, January saw car sales drop by 7 percent, while car sales in China were down 8 percent against the same month one year earlier. In an effort to bolster sales, value added tax was halved until the year-end for cars up to 1.6 litres.

According to the VDA, global car sales are unlikely to have recovered by spring 2009. If, however, the economic stimulus packages rolled out in a number of countries and the many state measures to support the automotive industry start taking hold, there is a good chance that we might see global sales recover gradually in the second half of the year.

OPPORTUNITIES AND RISKS

Against the backdrop of uncertain forecasts for the global economy and the international automotive industry, risks for the development of profitability outweigh opportunities. This is especially the case given the synchronicity of the development across all markets. At the present there are no signs of positive economic development in individual niche markets, which could at least partly compensate the weak development in other markets.

The focus of managing the Group in 2009 is on ensuring strict cost management and closely monitoring market developments. This naturally also includes carefully monitoring our investment activities and approving different phases while considering the necessity of investments as well as market developments.

We have implemented cost saving measures at all sites and are adjusting there continually where necessary. The objective is to stabilise profitability, protect the jobs of the workforce while at the same time pushing forward-looking projects without any limitation, which will safeguard the Group's market positioning in the next upturn.

In addition to that, there are risks at foreign sites. The site established in Canada produces for the North American market which has been particularly affected by the current crisis.

As yet our newer sites in the Czech Republic, Mexico and China have not got established structures like those in Oberkirch and Canada to deal with changes to the market with the required flexibility. Of those three, our Czech site is the most developed. Larger-scale production ramp-ups are planned for 2009, which also means that the outlook is clearer for this site than it is for the two other sites.

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Development potential comes on the back of massive economic stimulus packages passed by governments around the world taking hold more effectively and quickly than currently anticipated by experts. Another factor would be consumption in Germany holding up better than expected and consumers again investing into durable goods like cars. The success of the 'scrapping premium' in Germany is a first optimistic sign.

We are however not yet including this positive scenario in our current management approach and plans. We are aligning our business according to our customers' standby orders for the coming months. If there is a surprising positive development in business we can react immediately by expanding capacities by taking back short-time.

OUTLOOK FOR PWO GROUP

The current uncertainties relating to future developments means that it is impossible to offer a reliable forecast of revenue and earnings in the current financial year. New series production and ramp-ups will support the development in 2009. At the present it is hard to say how standby orders from current series production will develop and consequently how revenue throughout the Group will develop in the course of the year.

Unless there are surprising positive developments in the industry, our main objective for 2009 remains stabilising the Group's earnings situation and managing investment in a way which ensures that no additional funding is required.

Experts are forecasting slight growth in the global economy in 2010. This will likely also support the development of the automotive sector. Standby orders from ongoing series production will probably have stabilised again and new series production, already in our order book, will have a positive effect. It is however currently impossible to say how this will impact revenue and earnings figures. We are however expecting an increase in revenue and earnings compared to 2009.

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CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE PWO GROUP

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GROUP INCOME STATEMENT

	(Note no.)	2008	2007*
		EUR '000	EUR '000
Revenue	(7)	260,356	259,566
Change in inventories of finished and unfinished goods		1,641	2,398
Work performed by the enterprise and capitalised	(8)	2,813	636
Total output		**264,810**	**262,600**
Other operating income	(9)	4,447	3,443
Expenses from raw materials, consumables and supplies as well as merchandise purchased		-122,196	-121,345
Expenses from services purchased		-27,110	-19,987
Material expenses		**149,306**	**-141,332**
Wages and salaries		-58,653	-57,054
Social security and post-employment expenses		-11,999	-11,711
Staff expenses	(10)	**-70,652**	**-68,765**
Amortisation of intangible non-current assets and depreciation of property, plant and equipment		-16,469	-16,189
Other operating expenses	(11)	-25,115	-23,038
Earnings before interest and taxes (EBIT)		**7,715**	**16,719**
Financial income		80	70
Financial expenses	(12)	-5,179	-3,875
Net financial result		**-5,099**	**-3,805**
Earnings before taxes (EBT)		**2,616**	**12,914**
Income tax expenses	(13)	-1,265	-5,241
Net profit		**1,351**	**7,673**
Of which attributable to: owners of PWO AG		1,440	7,755
Of which attributable to: minority interests		-89	-82
		1,351	**7,673**
Earnings per share in EUR (diluted = basic) related to the earnings allocated to the shareholders of PWO AG	(14)	0.58	3.10

* Some entries differ from the entries in last year's report due to corrections (For information for each individual correction, please see note no. 6).

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GROUP BALANCE SHEET

ASSETS	(Note no.)	2008	2007*
		EUR '000	EUR '000
Land and buildings		34,737	28,471
Technical equipment and machinery		47,569	47,883
Other equipment, operating and office equipment		6,506	6,189
Prepayments and assets under construction		10,095	3,112
Property, plant and equipment	(15)	**98,907**	**85,655**
Contract and customer-related development services		842	0
Industrial property rights and similar rights		4,834	1,488
Goodwill		5,908	6,040
Assets identifiable as part of PPA		383	602
Prepayments		76	2,204
Intangible assets	(15)	**12,043**	**10,334**
Financial assets	(16)	**0**	**615**
Deferred tax assets		1,396	616
Non-current assets		**112,346**	**97,220**
Raw material and consumables used		13,391	11,871
Work in progress		16,189	19,019
Finished goods and merchandise		17,073	12,930
Prepayments		60	67
Inventories	(17)	**46,713**	**43,887**
Trade and other receivables		38,234	44,767
Other assets		2,904	1,641
Other financial assets		2	1,326
Income tax receivables		1,397	996
Receivables and other assets	(18)	**42,537**	**48,730**
Cash	(19)	2,265	1,953
Assets classified as for disposal	(20)	1,262	0
Current assets		**92,777**	**94,570**
Total assets		**205,123**	**191,790**

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GROUP BALANCE SHEET

EQUITY AND LIABILITIES	(Note no.)	2008	2007*
		EUR '000	EUR '000
Subscribed capital		6,391	6,391
Capital reserves		17,155	17,312
Revenue reserves		45,601	49,920
Translation reserve		-1,167	755
Equity attributable to shareholders of PWO AG		**67,980**	**74,378**
Minority interests		0	2,411
Total equity	(21)	**67,980**	**76,789**
Interest-bearing borrowings		32,527	26,457
Provisions for pensions		23,594	22,850
Other provisions		3,631	3,252
Deferred tax liabilities		766	1,718
Non-current liabilities		**60,518**	**54,277**
Trade payables		23,238	20,693
Payments received on account of orders		763	984
Interest-bearing borrowings		36,924	25,358
Other liabilities		10,000	11,424
Other financial liabilities		3,452	71
Income tax liabilities		30	944
Current portion of provisions for pensions		1,320	1,250
Liabilities which are classified as for disposal	(20)	898	0
Current liabilities		**76,625**	**60,724**
Total liabilities	(22)	**137,143**	**115,001**
Total equity and liabilities		**205,123**	**191,790**

* Some entries differ from the entries in last year's report due to corrections (For information for each individual correction, please see note no. 6).

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GROUP STATEMENT OF CHANGES IN EQUITY

	Equity attributable to owners of PWO AG						Minority interest	Total equity
	Sub-scribed capital	Capital reserve	Revenue reserve	Currency translation	Cash flow Hedge	Total		
(Note no.)	(21)	(21)	(21)	(21)	(21)			
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
As of Jan. 1, 2008	**6,391**	**17,312**	**49,537**	**755**	**383**	**74,378**	2,411	**76,789**
Reserve cash flow hedge					-2,509	-2,509		-2,509
Currency translation				-1,922		-1,922	-118	-2,040
Offset goodwill		-157				-157		-157
Net profit			1,440			1,440	-89	1,351
Total net profit	6,391	17,155	50,977	-1,167	-2,126	71,230	2,204	73,434
Dividend payment			-3,250			-3,250		-3,250
Minority interests						0	-2,204	-2,204
As of Dec. 31, 2008	**6,391**	**17,155**	**47,727**	**-1,167**	**-2,126**	**67,980**	**0**	**67,980**
As of Jan. 1, 2007	**6,391**	**17,312**	**44,782**	**273**	**30**	**68,788**	**0**	**68,788**
Reserve cash flow hedge					353	353		353
Currency translation				482		482	-303	179
Net profit			7,755			7,755	-82	7,673
Total net profit	6,391	17,312	52,537	755	383	77,378	-385	76,993
Dividend payment			-3,000			-3,000		-3,000
Minority interests						0	2,796	2,796
As of Dec. 31, 2007	**6,391**	**17,312**	**49,537**	**755**	**383**	**74,378**	**2,411**	**76,789**

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GROUP CASH FLOW STATEMENT

	(Note no.)	2008	2007*
		EUR '000	EUR '000
Net profit		1,351	7,673
Depreciation/reversal of write-downs for property, plant and equipment		16,469	16,189
Income tax expense/refund	(13)	1,265	5,241
Interest income and expense	(12)	5,099	3,805
Change in current assets	(18)	2,509	-13,087
Increase in non-current liabilities (excluding financial credits)	(22)	-841	-389
Change in current liabilities (excluding financial credits)	(22)	5,657	3,048
Income taxes paid	(13)	-3,405	-4,465
Other non-cash expenses/income		-3,204	-41
Gain/loss on disposal of property, plant and equipment		131	-72
Cash flows from operating activities		**25,031**	**17,902**
Payments for acquisition (minus cash acquired)		0	-4,546
Payments for investments in financial assets	(16)	0	-78
Proceeds from disposal of property, plant and equipment	(15)	26	103
Payments for investments in property, plant and equipment	(15)	-30,725	-18,697
Payments for investments in intangible assets	(15)	-3,238	-2,789
Cash flows from investing activities		**-33,937**	**-26,007**
Acquisition of minority shares	(5)	-2,600	0
Dividends paid	(21)	-3,250	-3,000
Interest paid		-3,092	-2,366
Proceeds from borrowings		32,283	15,119
Repayment of loans		-9,844	-10,711
Cash flow from financing activities		**13,497**	**-958**
Net change in cash and cash equivalents		4,591	-9,063
Effect of exchange rate changes on cash and cash equivalents		-7	76
Cash and cash equivalents as of Jan. 1		-5,205	3,782
Cash and cash equivalents as of Dec. 31	(19)	**-621**	**-5,205**
of which cash and cash equivalents from continued activities	(19)	2,265	1,953
of which cash and cash equivalents not from continued activities		65	0
of which bank borrowings repayable on demand	(22)	-2,951	-7,158

* Some entries differ from the entries in last year's report due to corrections (For information for each individual correction, please see note no. 6).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Company information

The consolidated financial statements of Progress-Werk Oberkirch AG (PWO AG) for the financial year ended December 31, 2008, were authorised by the Management Board on the basis of a resolution passed on March 11, 2009, and were subsequently submitted to the Supervisory Board for examination. PWO AG 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, Düsseldorf, Hamburg-Hannover and Munich.

PWO is one of the leading automotive suppliers of high-end metal components and subsystems designed to contribute to the safety and comfort of motor vehicles. These areas are showing sustained above average growth irrespective of market cycles. This is due to the fact that safety requirements are continuing to increase in all vehicle classes and sales regions. And the need for increased comfort also leads to increasingly better equipped new vehicles.

Accounting Policies

(1) BASIS OF PREPARATION

The consolidated financial statements are prepared using the historical cost principle. Excluded from this are derivative financial instruments, which are carried at fair value. The income statement has been presented on the basis of the nature of expense method. The consolidated financial statements are presented in thousands of euros. Provided that nothing else is indicated, all values are rounded up or down to the nearest thousand (EUR thousand) according to the common method.

Statement of compliance with IFRS

The consolidated financial statements of Progress-Werk Oberkirch AG and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS), as published by the International Accounting Standards Board (IASB), as well as the additional requirements set out in Section 315 a (1) of the German Commercial Code (Handelsgesetzbuch – HGB).

Principles of consolidation

The consolidated financial statements comprise the accounts of Progress-Werk Oberkirch AG and its subsidiaries for each financial year ended December 31. Subsidiaries are fully consolidated effective from the acquisition date. Consolidation ends as soon as the parent ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared using uniform accounting policies for the same reporting year 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 acquiree'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. Revenue, expenses and income as well as receivables and liabilities between consolidated entities are set off against each other (IAS 27). Deferred taxes are recognised where consolidation procedures are associated with income tax effects.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Ownership interest	Relevant portion of net profit/loss	Relevant portion of equity
	%	EUR '000	EUR '000
PWO Canada Inc., Kitchener, Ontario, Canada	100	360	9,287
PWO UNITOOLS CZ a.s., Valašské Meziříčí, Czech Republic	100	-2,220	271
PWO Holding Co., Ltd., Hong Kong, China	100	-407	-478
PWO High-Tech Metal Components (Suzhou) Co., Ltd., Suzhou, China [1]	100	-936	3,811
PWO High-Tech Tool Trading (Suzhou) Co., Ltd., Suzhou, China [1]	100	-2	26
PWO & BMC Holding Co., Ltd., Hong Kong, China [1]	50	-4	-28
PWO & BMC High-Tech Metal Components (Suzhou) Co., Ltd., China [1]	50	-270	274
PWO de México S.A. de C.V., Puebla, Mexico [2]	100	-1,577	4,686

1) Indirect holding
2) Indirect holding through PWO Canada Inc. amounting to 1%

(2) CHANGES IN ACCOUNTING POLICIES

The accounting policies are consistent with those applied in the previous year, with the exception of the following policies:

Due to errors in the balance sheet, adjustments were made in the consolidated financial statements for the financial year 2007 in accordance with IAS 8 (see Note no. 6).

In the period under review, customer-specific development costs totalling EUR 842 thousand were capitalised for the first time without a concrete development contract in accordance with IAS 38, after they have assumed a considerable amount. The first-time capitalisation of costs is based on the Group estimate, which mainly accounts for the technical and financial feasibility.

The Group applied the following new and revised IFRS standards and interpretations in the financial year under review. The application of these new or amended IFRS standards and interpretations had no effect on the consolidated financial statements.

Changes to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures": The changes to IAS 39 and IFRS 7 were published in October 2008. They are retroactive to 1 July 2008. These changes are in response to the financial market crisis and, in certain cases, allow an entity to reclassify non-derivative financial instruments in the valuation category "Financial assets at fair value through profit or loss" and the valuation category "Available-for-sale financial assets" to other valuation categories. The changes to IFRS 7 specify additional note disclosures in case of reclassifications between valuation categories.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

IFRIC 11 IFRS 2 | Group and Treasury Share Transactions

IFRIC 11 was first issued in November 2006 and must be applied by entities for annual periods beginning on or after March 1, 2007. In accordance with this interpretation, all agreements as part of which employees are granted rights to equity instruments of an entity shall be accounted for as equity-settled share-based payment transactions regardless of whether the entity's shareholders furnish the required equity instruments or the instruments are purchased from a third party.

IFRIC 12 | Service Concession Arrangements

IFRIC 12 was issued in November 2006 and must be applied by entities for annual periods beginning on or after January 1, 2008. This interpretation sets out general principles on recognising and measuring the obligations and related rights in service concession arrangements.

IFRIC 14 IAS 19 | The Limit on a Defined Benefit Asset, Minimum Financing Regulations and their Interaction

IFRIC 14 was issued in July 2007 and must be applied by entities for annual periods beginning on or after January 1, 2008. This interpretation provides guidelines with regard to determining the maximum amount of a surplus from a defined benefit plan to be recognised as an asset in accordance with IAS 19 Employee Benefits.

Standards and Interpretations that have been published but for which application has not become mandatory

IFRS 1 | First-Time Adoption of International Financial Reporting Standards

The revised standard IFRS 1 was issued in November 2008 and must be applied by entities for reporting periods beginning on or after July 1, 2009. Revisions to the standard are limited to editorial changes and restructuring of the standard. The revisions did not include any changes to the accounting regulations for the first-time adoption of IFRS.

IFRS 2 | Share-Based Payment

In January 2008 the IASB published an amendment to IFRS 2 which states the definition of vesting conditions more precisely and regulates the accounting treatment of cancellations. These changes are to be applied for the first time to financial years beginning on or after 1 January 2009. Since no events have occurred that fall under the area of application of this new regulation, there are no effects on the net assets, financial position and results of operations of the group.

IFRS 3R | Business Combinations and
IAS 27R | Consolidated and Separate Financial Statements According to IFRS

The revised standards were published in January 2008 and are to be applied for the first time to financial years beginning on or after 1 July 2009. The standards introduce changes in the accounting treatment of business combinations taking place after said date and affecting the recognised amount of goodwill, results in the reporting period in which a company was acquired and future results. IAS 27R prescribes that a change in the proportional investment in a subsidiary (without loss of control) is recorded as an equity transaction. This is why such a transaction does not result in goodwill or a gain or loss. The regulations for the allocation of losses between parent companies and minority interests as well as the accounting rules for transactions that lead to a loss of control have also been changed. Subsequent changes were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures. The changes according to IFRS 3R and IAS 27R will affect future acquisition, losses of control and transactions with minority interests. Early application is allowable. However, the group is not planning to exercise this option.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

IFRS 8 | Operating Segments

IFRS 8 was issued in November 2006 and must be applied by entities for annual periods beginning on or after January 1, 2009. This standard requires the disclosure of information relating to a Group's operating segments and replaces the provision that specified the presentation of primary (business segments) and secondary (geographical segments) segment reporting for the Group. The corresponding implementation will take place in the financial year 2009.

IAS 1 | Presentation of Financial Statements

The revised standard IAS 1 was issued in September 2007 and must be applied by entities for annual periods beginning on or after January 1, 2009. This standard requires separate presentations for changes to equity, which result from transactions with shareholders in their capacity as equity investors, and other changes to equity. The standard requires separate disclosure of equity changes resulting from transactions with shareholders in their role as investors and other changes in equity. The statement of changes in equity includes all details for transactions with shareholders while all remaining changes in equity are presented as a single item. In addition, the standard introduces disclosure of total results for the period showing all components of results in a single itemisation or two related itemisations.

IAS 23 | Borrowing Costs

The revised standard IAS 23 was issued in March 2007 and must be applied by entities for annual periods beginning on or after January 1, 2009. The standard requires that an entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is understood to be an asset that will take a considerable amount of time to get ready for its intended use or sale. In accordance with the transitional provisions, the Group will apply this standard prospectively. On this basis, borrowing costs directly attributable to a qualifying asset will be capitalised as from January 1, 2009. This has no impact on borrowing costs incurred to date and recognised immediately as an expense. The changes to the standard will impact the Group's net assets, financial position and results of operations to a certain extent, as borrowing costs are a component of development costs to be capitalised in accordance with IAS 38.

IAS 27 | Consolidated and Separate Financial Statements according to IFRS

The revised standard IAS 27 was issued in January 2008 and must be applied for reporting periods beginning on or after July 1, 2009. The amendments relate, primarily, to accounting for non-controlling interests (minority interests), which in future will participate fully in the losses of the Group, and to accounting for transactions that result in the loss of control in a subsidiary, with any gains/losses being accounted for in profit or loss. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. The transitional provisions allow for a prospective application for this purpose. There were no changes made to assets and liabilities resulting from such transactions before the date of the first-time application of the new standard.

IAS 32 | Financial Instruments: Presentation and IAS 1 | Presentation of Financial Statements - Optional Instruments and Obligations Arising on Liquidation

The changes to IAS 32 and IAS 1 were published in February 2008 and are to be applied for the first time to financial years beginning on or after 1 January 2009. To a limited degree, the changes allow optional financial instruments to be classified as equity if they meet certain criteria. The changes to the standards will have no effect on the net assets, financial position and results of operations of the group since the group has not issued any financial instruments in this class.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

IAS 39 | Financial Instruments: Recognition and Measurement – qualifying hedged items

The changes to IAS 39 were published in August 2008 and are to be applied for the first time to financial years beginning on or after 1 July 2009. This amendment clarifies how the existing principles in IAS 39 underlying hedge accounting should be applied in the designation of a one-sided risk in a hedged item and in the designation of inflation risks in a hedged item. It clarifies that it is allowable to designate only a part of the change in fair value or the cash flow fluctuations of a financial instrument as a hedged item. The group does not believe that there will be any impact on the net assets, financial position and results of operations of the group since the group has not entered into any such transactions.

IFRIC 13 | Customer Loyalty Programmes

IFRIC 13 was issued in June 2007 and must be applied by entities for annual periods beginning on or after July 1, 2008. In accordance with this interpretation, an entity shall account for customer award credits as a separately identifiable component of the sales transaction(s) in which they are granted. Therefore, part of the fair value of the consideration received is allocated to the award credits and deferred. Revenue is recognised in the period in which the award credits are exercised or become void. The Group assumes that this interpretation will not impact the Group's net assets, financial position and results of operations, as the Group has not entered any such transactions.

IFRIC 15 | Agreements for the Construction of Real Estate

IFRIC 15 was issued in July 2008 and must be applied by entities for annual periods beginning on or after January 1, 2009. This interpretation must be applied retroactively. It clarifies when and how the proceeds from the sale of a real estate unit and the related expenditures should be recognised if a project developer or buyer enters into an agreement of sale before construction is complete. This interpretation also offers guidelines to determine whether an agreement falls under the area of application of IAS 11 or IAS 18. IFRIC 15 will have no effects on the consolidated financial statements since the group does not enter into these types of business transactions.

IFRIC 16 | Hedges of a Net Investment in a Foreign Operation

IFRIC 16 was issued in July 2008 and must be applied by entities for annual periods beginning on or after October 1, 2008. The interpretation is to be applied prospectively. IFRIC 16 offers guidelines for the recognition of hedges of a net investment. The interpretation offers guidelines for the identification of foreign currency risks that can be hedged as part of the hedge for a net investment, for the determination of which Group companies can hold the hedging instruments to hedge the net investments, and how an entity calculates the foreign currency gain or loss from the net investment and the hedging instrument, upon the disposition of the net investment.

IFRIC 17 | Distribution of Non-Cash Assets to Owners

IFRIC 17 was issued in November 2008 and must be applied by entities for reporting periods beginning on or after July 1, 2009. This interpretation provides guidelines for the recognition and measurement of obligations for the distribution of non-cash assets to owners. In particular, the interpretation clarifies the recognition, measurement and reporting of such obligations. Accordingly such an obligation must be recognised and measured at fair value when it is no longer at the discretion of the entity. Recognition of the obligation and possible changes in the fair value of the affected asset must be reported under equity. An effect on profit or loss in the amount of the difference between the fair value and book value of the asset only occurs when the asset is transferred to the owners. This interpretation is to be applied prospectively.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

IFRIC 18 | Transfers of Assets from Customers

IFRIC 18 was issued in January 2009 and must be applied by entities for reporting periods beginning on or after July 1, 2009. This interpretation provides guidelines to account for agreements in which an entity receives an item of property, plant and equipment or cash from a customer that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. In particular, the interpretation clarifies the recognition criteria for assets transferred from customers as well as the timing and scope of income recognition for such business transactions. This interpretation is to be applied prospectively.

No material effects on the net assets, financial position and results of operations and / or cash flows of the group are expected as a result of the preceding standards and interpretations for which application is not yet mandatory as well as changes to standards made as part of the 2008 IFRS improvement project. This is currently being verified by the group.

Improvements to IFRS 2008

The changes resulting from the 2008 improvement project were published in May 2008 and are to be applied for the first time in the reporting period beginning on or after 1 January 2009 with the exception of IFRS 5, which is to be applied from 1 July 2009. As part of the 2008 improvement project, numerous significant changes that affect recognition and measurement as well as purely editorial changes were passed. Examples of the latter are revisions to specific definitions and phrasing in order to assure consistency with other IFRS. The Group has not yet applied the following changes:

IFRS 5 | Non-Current Assets Held for Sale and Discontinued Operations: It was clarified that all assets and liabilities of a subsidiary where a planned disposition results in the loss of control over this subsidiary must be classified as "held for sale" even when the entity will retain a non-controlling interest in the former subsidiary after the disposition.

IAS 1 | Presentation of Financial Statements: It was clarified that financial instruments classified as held for trading must not necessarily be recognised as current assets or liabilities. Classification as "current" is solely based on the classification criteria in IAS 1.

IAS 10 | Events after the Reporting Date: It was clarified that dividends approved after the reporting date but before approval for the publication of the financial statements do not represent an obligation on the reporting date and are therefore not included in the financial statements as a liability.

IAS 16 | Property, Plant and Equipment Proceeds from property, plant and equipment held for leasing purposes and sold in the course of ordinary business operations after leasing are to be reported under revenue.

IAS 19 | Employee Benefits: In addition to revising several definitions, it was clarified that plan changes which result in a reduction of benefits for services performed in future periods must be recognised as plan reductions. On the other hand, plan changes where the reduction of benefits relates to services already performed must be recognised as past official service expense.

IAS 20 | Accounting for Government Grants and Disclosure of Government Assistance: In the future, an obligation to calculate the interest advantage applies to interest-free and low-interest loans. The difference between the amount received and the discounted amount must be recognised as government assistance.

IAS 23 | Borrowing Costs: The definition of borrowing costs was revised to the extent that the guidelines in IAS 39 for the effective interest rate were adopted.

IAS 27 | Consolidated and Separate Financial Statements According to IFRS: It was clarified that the reorganizing a subsidiary at fair value in accordance with IAS 39 is maintained in the separate, individual financial statements of a parent company even if the subsidiary is classified as held for sale.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

IAS 28 | Investments in Affiliated Companies: Since goodwill included in the book value of an investment in an affiliated company is not reported separately, it is also not subject to a separate impairment test. Instead, the entire book value of the investment is subject to the impairment test as a single asset and is written down if required. It is now clarified that a write-up of the investment in an affiliated company written down in previous reporting periods is also recorded as an increase in the value of this single asset and not allocated to the goodwill included in the asset value. Another change relates to the disclosure requirements for such investments in affiliated companies which are recognised at fair value in accordance with IAS 39. In the future, only the requirements of IAS 28 apply to these investments so that the type and scope of significant restrictions on the ability of the affiliated company to transfer financial assets in the form of cash or loan repayments to the entity must be disclosed.

IAS 29 | Financial Reporting in Hyperinflationary Economies: It was clarified that in financial statements based on historical acquisition and manufacturing costs, assets and liabilities that are to be or can be measured at fair value do not need to be limited to property, plant and equipment as well as financial investments.

IAS 31 | Interests in Joint Ventures: The change relates to the disclosure requirement for such interests in joint ventures which are recognised at fair value in accordance with IAS 39. In the future, only the requirements of IAS 31 apply to such interests, which means that the obligations of the partner company and the joint venture as well as a summary of financial information including assets, liabilities, income and expenses must be disclosed.

IAS 34 | Interim Financial Reporting: It was clarified that the undiluted and diluted earnings per share only need to be reported in interim financial reports if the entity is subject to the provisions of IAS 33 Earnings Per Share.

IAS 36 | Impairment of Assets: The disclosure requirements for the calculation of value in use and the calculation of fair value less costs to sell based on the discounted cash flow model were standardised.

IAS 38 | Intangible Assets: Expenditures for goods and services used for advertising campaigns and sales promotion measures (including mail order catalogues) must be charged to expenses going forward when the entity receives the related goods or services. Furthermore, the application of the amortisation method based on the pattern of benefits is permitted for intangible assets without restrictions.

IAS 39 | Financial Instruments: Recognition and Measurement: Going forward, derivatives can be designated as being measured at fair value through profit or loss after initial recognition if circumstances change and can be removed from this category as long as this does not constitute reclassification in terms of IAS 39. Furthermore, the reference to a "segment" was eliminated in regards to the determination whether an instrument fulfils the criteria for a hedging instrument. It was also clarified that the recalculated effective interest rate is to be used for the measurement of a debt instrument after the end of reporting as a fair value hedge.

IAS 40 | Investment Property: Property that is being constructed or developed for future use as investment property will no longer be classified under property, plant and equipment but under investment property, and is either measured at the cost of acquisition or construction or at fair value. If the entity uses the fair value model but the fair value cannot be reliably determined, the property being constructed or developed is measured at the cost of acquisition or construction until the fair value can be determined or construction is complete.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(3) MATERIAL JUDGEMENTS AS WELL AS ESTIMATES AND ASSUMPTIONS

In preparing the consolidated financial statements, the Management Board must perform a number of assessments, apply estimates and make assumptions that affect the application of accounting policies within the Group and influence the recognition of assets and liabilities as well as income and expenses. The actual figures may not coincide with the estimated amounts.

Note no. 31 outlines the most significant areas of judgement, forward-looking assumptions as well as other material sources of uncertainty regarding the use of estimates, applicable at the balance sheet date, as a result of which there is a significant risk that the carrying amounts of assets and liabilities may require material adjustments.

(4) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Non-current assets held for sale

Non-current assets and selling groups are reported separately in the balance sheet as "intended for sale", if they can be sold in their current state and if the sale is highly probable. When being classified as "held for sale", the relevant assets are measured at their fair value less costs to sell, if this amount is lower than their carrying amount. In line with their classification, liabilities directly related to these assets are reported separately under equity and liabilities as "held for sale". For further details, please refer to Note no. 20.

Currency translation

The consolidated financial statements have been prepared in euros, the functional currency of the parent company. The financial statements prepared in the foreign currencies of the entities included in the consolidated group are translated on the basis of the functional currency method (IAS 21). Every company within the Group specifies its own functional currency. The items included in the financial statements of the respective company 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 on the balance sheet date. Expenses and revenue in the Group income statement were translated using the year-average exchange rate. The net profit for the year from the translated income statement was taken into the balance sheet. Exchange 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 day of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated at the closing rate. All exchange differences are recorded in the periodic net profit or loss. Non-monetary items that are measured at historical cost of purchase or conversion in a foreign currency are translated at the foreign exchange rate prevailing on the day of the transaction. Non-monetary items that are measured at fair value in the 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 on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

		Year-end exchange rate		Average exchange rate	
		Dec. 31, 2008	Dec. 31, 2007	**2008**	2007
China	CNY	9.61	10.74	10.22	10.42
Hong Kong	HKD	10.83	11.48	11.45	10.69
Canada	CAD	1.72	1.44	1.56	1.47
Mexico	USD	1.40	1.47	1.47	1.37
Czech Republic	CZK	26.59	26.58	24.96	27.76

Property, plant and equipment

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

Government grants are recognised when there is reasonable assurance that the grant will be received and that the entity will comply with the conditions attaching to it. Grants related to assets are presented in the balance sheet by deducting the grant in arriving at the carrying amount of the asset.

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

Intangible assets

Separately acquired intangible assets are carried at acquisition costs less accumulated amortisation and impairment losses. Intangible assets include goodwill, patents, customer-related development services, software, customer relations, prohibition of competition, 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-focused development services, which are amortised based on their volume. Goodwill is not amortised on a systematic basis. Instead, it is subject to an annual impairment test. With the exception of goodwill, the Group has not identified any intangible assets with indefinite useful lives.

Development costs are capitalised, if the recognition criteria of IAS 38 are met. After the initial capitalisation, the asset is carried at the cost of acquisition or conversion less accumulated amortisation and impairment losses. Capitalised development costs include all directly attributable individual costs as well as proportionate overheads and are amortised over the planned product life span (5 to 7 years). Amortisation of capitalised

development costs is a component of conversion costs and is allocated to the components by which they were incurred.

Impairment tests relating to other intangible assets with a finite useful life as well as property, plant and equipment are performed if there is an indication that an asset may be impaired. An impairment loss is recognised as an expense in the income statement if the recoverable amount of the asset is less than the carrying amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. The recoverable amount is the higher of an asset's net selling price and its value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. The value in use is the present value 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, calculated on the basis of the discounted cash flow method. The cash flows are derived from long-term corporate planning; current developments are taken into account. The long-term corporate planning anticipates an increase in EBIT by the end of the detailed planning period in 2011 as a result of boosting productivity and efficiency. An increase in EBIT is expected by 2011 in correlation with rises in total output to 9.0 percent at PWO UNITOOLS CZ a.s., to 7.2 percent at PWO Canada Inc. and to 8.0 percent at PWO de México S.A. de C.V.. They are dis-counted using risk-profile-equivalent pre-tax capitalisation rates. 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 11.32 percent and 10.10 percent was applied respectively with regard to the first phase (planning for 2009 to 2011). The second phase (perpetual annuity) was calculated with a growth rate of 1.0 percent in each case. The WACC for PWO de México S.A. de C.V. amounts to 16.66 percent for the first phase. The second phase (perpetual annuity) was calculated with a growth rate of 2.0 percent. As of December 31, 2008, goodwill amounted to EUR 4,331 thousand for PWO UNITOOLS CZ a.s., EUR 882 thousand for PWO Canada Inc. and EUR 695 thousand for PWO de México S.A. de C.V. Changes to goodwill only resulted from amendments to exchange rates.

Assumptions that have been made are subject to a certain level of sensitivity. While a change to one of the underlying assumptions made to determine the use value for PWO UNITOOLS CZ a.s. and PWO Canada Inc. is fundamentally possible based on reasonable judgement, we believe it unlikely this would lead to the book value of goodwill for these company segments to exceed their realisable value by a material amount since the actual realisable value of the company segments PWO UNITOOLS CZ a.s. and PWO Canada Inc. exceeds their book values by EUR 6,425 thousand and EUR 7,164 thousand, respectively. On the other hand, changes to the underlying assumptions made for PWO de México S.A. de C.V. which are fundamentally possible based on reasonable judgement could result in the book value exceeding the realisable value. If the attainable EBIT of PWO de México S.A. de C.V. is 6.5% lower on average or the growth rate is 1.2 percentage points lower, the use value would fall to the book value. This also applies if the capitalisation interest increases to 17.5%.

Where there is an indication that a write-down carried out in previous years is no longer applicable, the write-down is reversed up to a maximum of the adjusted carrying amount, with the exception of goodwill.

Low-value assets with an individual net value of up to EUR 150.00 (up to December 31, 2007: EUR 410.00) have been fully amortised and recognised as an expense in the year they are purchased, and their immediate disposal was anticipated. For the sake of simplicity, an annual tax compound item was assumed in the balance sheet for assets with an individual net value of more than EUR 150.00 and up to EUR 1,000.00, and which have been acquired after December 31, 2007. Annual compound items, whose amount is of secondary importance, are amortised at a lump-sum of 20 percent each year. Corresponding to tax provisions, the item is amortised in the year it is recognised and the four years following that.

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Inventories

Inventories of raw, auxiliary and operating materials are recorded at average historical cost or the lower realisable value. Unsellable or obsolete materials have been written down accordingly. Work in progress and finished goods have been measured at the lower of conversion cost or net realisable value on the basis of item by item calculations based, in turn, on current operational accounting. In addition to direct costs, the costs of conversion include appropriate portions of material and production overheads as well as production-related depreciation and write-downs, and production-related administration costs. Costs arising from general administration and borrowing costs have not been capitalised.

Tooling and development contracts are measured at cost of purchase or cost of conversion. Within this context, the maximum cost of purchase or cost of conversion is measured as the selling price plus revenue generated via series production.

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

Cash

Cash includes cash on hand and short-term bank deposits with an original maturity of under 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 part of this process, besides pensions and benefits known at the reporting date, expected future increases in salaries and pensions are taken into account. Pension obligations are calculated on the basis of actuarial methods. Actuarial gains and losses are recognised as income or expense if the actuarial gains and losses not recognised at the beginning of the financial year exceed ten percent of the present value of the obligation on that date (corridor method).

Past service cost is recognised as an expense 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 recognised immediately.

Other provisions are recognised when the Group has a present obligation, either legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, provisions are discounted.

Leases

On initial recognition, finance lease relationships, i.e. leases that transfer to the Group substantially all the risks and rewards incident to ownership of an asset, 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 the finance charge and the reduction of the outstanding liability; the finance charge is allocated to periods during the lease term so as to produce a

constant periodic rate of interest on the remaining balance of the liability for each period. Leased property is amortised 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 term, the leased property will be completely amortised over the shorter of both periods from the anticipated useful life and the lease term.

Lease payments under an operating lease are recognised as an expense in the income statement on a straight-line basis over the lease term.

Taxes

Deferred taxes are recognised, on the basis of the liability method, for all temporary differences existing on the reporting date between the carrying amount of the item in the IFRS balance sheet and its tax base, with the exception of non-tax deductible goodwill and temporary differences resulting from the initial recognition of an asset or liability in a transaction which does not constitute a business combination and which, at the time of the transaction, affects neither IFRS accounting profit nor taxable profit or tax loss. Deferred tax assets are recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. Deferred taxes are measured at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on current or expected tax legislation in individual countries.

Deferred taxes attributable to items accounted for directly in equity are recognised in equity rather than being included in the income statement.

Deferred tax assets and deferred tax liabilities are set off if the Group has an enforceable right to set off current tax assets and current tax liabilities and if they relate to the income taxes of the same taxable entity, imposed by the same taxation authority.

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). Insofar as, in the case of financial assets, trade and settlement date occur on different dates, the settlement date is applied for the purpose of initial recognition. When the financial instrument is recognised initially, it is measured at its cost; transaction costs are included in the initial measurement as a matter of course. Subsequent measurement of financial instruments is dependent on how these instruments are allocated to the categories intended in IAS 39: they are measured either at fair values or at amortised cost. IAS 39 differentiates between primary and derivative financial instruments.

Primary financial instruments concern, in particular, trade receivables and payables, other financial assets, cash and cash equivalents, bank borrowings and other financial liabilities. These items are measured on the basis of amortised cost. In the case of trade receivables and payables, other liabilities as well as cash, the carrying amount corresponds materially to the fair value.

PWO uses 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. As regards changes in the fair values of derivative financial instruments designed to hedge future cash flows (cash flow hedges), the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity; the ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss. When the transaction underlying the hedge comes into effect, the associated gains and losses are removed from

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

equity and included in profit or loss. The fair value of exchange-listed derivatives corresponds to the positive or negative market value. In the absence of market values, these are calculated on the basis of recognised valuation techniques, e.g. by applying discounted cash flow analysis or option pricing models.

In the case of current financial assets and financial liabilities, the carrying amount constitutes a reasonable approximation of the fair value. The Group determines on every reporting date whether there are indications that a financial asset or a group of financial assets may be impaired.

To date, the Group has not elected to designate financial assets at fair value through profit or loss upon initial recognition.

In the case of financial liabilities, to date the Group has not elected to designate financial liabilities at fair value through profit or loss upon initial recognition.

(5) ACQUISITION OF MINORITY INTERESTS

Effective from May 15, 2008, PWO AG acquired the remaining 40 percent interest in the Mexican company Cartec S.A. de C.V. (company name changed to PWO de México de C.V. in December 2008) for a purchase consideration of EUR 2,600 thousand. As a result, the shareholding was increased from 60 percent previously to 100 percent. PWO Canada Inc. bought 1 percent of the voting rights.

(6) CORRECTING ERRORS IN THE BALANCE SHEET ACCORDING TO IAS 8

After the complete takeover of Mexican company Cartec S.A de C.V. (company name changed to PWO de México de C.V. in December 2008) on May 15, 2008, all business process and previously applicable estimates once again underwent an extensive review. This analysis established that the majority of revenue and costs as well as financing in the foreign currency, the US dollar, were already accrued in the financial year 2007. As a result, the Mexican peso was only attributed secondary importance, meaning that a subsequent change of the functional currency to the US dollar was necessary from the financial year 2007 onwards.

There was no need for other companies included in the consolidated financial statements to change currency in the financial years 2007 and 2008, as local currencies had the greatest impact on labour, material and other costs in this period.

The corrections made in the consolidated financial statements 2007 in accordance with IAS 8 are outlined on the following pages.

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GROUP INCOME STATEMENT (ADJUSTED)

in EUR thousand	2007 Before adjustment	Adjustment according to IAS 8	2007 After adjustment
Revenue	259,566	0	259,566
Changes in inventories of finished and unfinished goods	2,398	0	2,398
Work performed by the enterprise and capitalised	636	0	636
Total output	**262,600**	**0**	**262,600**
Other operating income	4,037	-594	3,443
Expenses from raw materials, consumables and supplies as well as merchandise purchased	-121,216	-129	-121,345
Expenses from services purchased	-19,987	0	-19,987
Material expenses	**-141,203**	**-129**	**-141,332**
Wages and salaries	-57,054	0	-57,054
Social security and post-employment expenses	-11,711	0	-11,711
Staff expenses	**-68,765**	**0**	**-68,765**
Amortisation of intangible non-current assets and depreciation of property, plant and equipment	-16,116	-73	-16,189
Other operating expenses	-23,750	712	-23,038
Earnings before interest and taxes (EBIT)	**16,803**	**-84**	**16,719**
Financial income	70	0	70
Financial expenses	-3,875	0	-3,875
Net financial result	**-3,805**	**0**	**-3,805**
Earnings before taxes (EBT)	**12,998**	**-84**	**12,914**
Income tax expenses	-5,170	-71	-5,241
Net profit	**7,828**	**-155**	**7,673**
Of which attributable to: owners of PWO AG	7,848	-93	7,755
Of which attributable to: minority interests	-20	-62	-82
	7,828	**-155**	**7,673**
Earnings per share in EUR (diluted = basic) related to the earnings allocated to the shareholders of PWO AG	3.14	-0.04	3.10

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GROUP BALANCE SHEET (ADJUSTED)

ASSETS	2007		2007
in EUR thousand	Before adjustment	Adjustment according to IAS 8	After adjustment
Land and buildings	28,550	-79	28,471
Technical equipment and machinery	47,830	53	47,883
Other equipment, operating and office equipment	5,978	211	6,189
Prepayments and assets under construction	3,112	0	3,112
Property, plant and equipment	**85,470**	**185**	**85,655**
Industrial property rights and similar rights	1,488	0	1,488
Goodwill	6,040	0	6,040
Assets identifiable as part of PPA	602	0	602
Prepayments	2,204	0	2,204
Intangible assets	**10,334**	**0**	**10,334**
Financial assets	**615**	**0**	**615**
Deferred tax assets	682	-66	616
Non-current assets	**97,101**	**119**	**97,220**
Raw materials and consumables used	11,871	0	11,871
Work in progress	19,019	0	19,019
Finished goods and merchandise	12,930	0	12,930
Prepayments	186	-119	67
Inventories	**44,006**	**-119**	**43,887**
Trade and other receivables	44,785	-18	44,767
Other assets	1,764	-123	1,641
Other financial assets	1,326	0	1,326
Income tax receivables	996	0	996
Receivables and other assets	**48,871**	**-141**	**48,730**
Cash	1,953	0	1,953
Current assets	**94,830**	**-260**	**94,570**
Total assets	**191,931**	**-141**	**191,790**

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GROUP BALANCE SHEET (ADJUSTED)

EQUITY AND LIABILITIES	2007		2007
in EUR thousand	Before adjustment	Adjustment according to IAS 8	After adjustment
Subscribed capital	6,391	0	6,391
Capital reserves	17,312	0	17,312
Revenue reserves	49,630	-93	49,537
Translation reserve	742	13	755
Cash flow hedge reserve	383	0	383
Equity attributable to shareholders of PWO AG	**74,458**	**-80**	**74,378**
Minority interests	2,465	-54	2,411
Total equity	**76,923**	**-134**	**76,789**
Interest-bearing borrowings	26,457	0	26,457
Provisions for pensions	22,850	0	22,850
Other provisions	3,252	0	3,252
Deferred tax liabilities	1,718	0	1,718
Non-current liabilities	**54,277**	**0**	**54,277**
Trade payables	20,690	3	20,693
Payments received on account of orders	984	0	984
Interest-bearing borrowings	25,355	3	25,358
Other liabilities	11,437	-13	11,424
Other financial liabilities	71	0	71
Income tax liabilities	944	0	944
Current portion of provisions for pensions	1,250	0	1,250
Current liabilities	**60,731**	**-7**	**60,724**
Total liabilities	**115,008**	**-7**	**115,001**
Total equity and liabilities	**191,931**	**-141**	**191,790**

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GROUP CASH FLOW STATEMENT (ADJUSTED)

in EUR thousand	2007 Before adjustment	2007 Adjustment according to IAS 8	2007 After adjustment
Net profit	7,828	-155	7,673
Depreciation/reversal of write-downs for property, plant and equipment	16,116	73	16,189
Income tax expense/refund	5,170	71	5,241
Interest income and expense	3,805	0	3,805
Change in current assets	-13,347	260	-13,087
Increase in non-current liabilities (excluding financial credits)	-389	0	-389
Change in current liabilities (excluding financial credits)	3,058	-10	3,048
Income taxes paid	-4,465	0	-4,465
Other non-cash expenses/income	5	-46	-41
Gain/loss on disposal of property, plant and equipment	-72	0	-72
Cash flow from operating activities	**17,709**	**193**	**17,902**
Payments for acquisition (minus cash acquired)	-4,546	0	-4,546
Payments for investments in financial assets	-78	0	-78
Proceeds from disposal of property, plant and equipment	103	0	103
Payments for investments in property, plant and equipment	-18,331	-366	-18,697
Payments for investments in intangible assets	-2,783	-6	-2,789
Cash flow from investment activities	**-25,635**	**-372**	**-26,007**
Dividends paid	-3,000	0	-3,000
Interest paid	-2,394	28	-2,366
Proceeds from borrowings	14,968	151	15,119
Repayment of loans	-10,711	0	-10,711
Cash flow from financing activities	**-1,137**	**179**	**-958**
Net change in cash and cash equivalents	-9,063	0	-9,063
Effect of exchange rate changes on cash and cash equivalents	76	0	76
Cash and cash equivalents as of Jan. 1	3,782	0	3,782
Cash and cash equivalents as of Dec. 31	**-5,205**	**0**	**-5,205**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Income Statement

(7) REVENUE

A breakdown of Group revenue by region and product area is presented as part of segment reporting (cf. Note no. 30)

(8) WORK PERFORMED BY THE ENTERPRISE

Work performed by the enterprise includes development costs of EUR 842 thousand requiring capitalisation according to IAS 38. This is due to the company undertaking developments without development contracts to a large extent. The development costs mainly consists of investments in the development of a module carrier. For this project the series order is available since 2008.

(9) OTHER OPERATING INCOME

Other operating income primarily includes the cancellation of accruals, canteen sales as well as licence income. This item includes aperiodic income amounting to EUR 947 thousand (prev. year: EUR 1,322 thousand).

(10) STAFF EXPENSES AND EMPLOYEES

	2008	2007
Staff expenses	EUR '000	EUR '000
Salaries and wages	58,653	57,054
Social security and post-employment expenses	11,999	11,711
	70,652	**68,765**
Employees / Yearly averages		
Manual workers	1,100	1,066
Salaried employees	673	584
Core workforce	**1,773**	**1,650**
Temporary employment contracts	72	40
Apprentices	94	76
	1,939	**1,766**

(11) OTHER OPERATING EXPENSES

Other operating expenses mainly include outward freight charges, expenses attributable to temporary staff, rent and leasing costs, maintenance expenses as well as expenses for legal, auditing and consultancy services, expenses associated with staff training and travel costs. As of December 31, 2008, other operating expenses included expense attributable to rental agreements amounting to EUR 756 thousand (prev. year: EUR 777 thousand) as well as expense in connection with operating leases amounting to EUR 394 thousand (prev. year: EUR 326 thousand). Aperiodic expenses amounted to EUR 30 thousand (prev. year: EUR 74 thousand).

(12) FINANCE EXPENSES

In addition to interest expenses payable to financial institutions, this item includes interest expenses attributable to pension provisions in an amount of EUR 1,373 thousand (prev. year: EUR 1,257 thousand), interest expenses in connection with finance leases in the amount of EUR 84 thousand (prev. year: EUR 214 thousand) as well as interest expenses attributable to part-time employment of staff approaching retirement, which amounted to EUR 102 thousand (prev. year: EUR 75). The item includes total interest expenses for financial liabilities not designated financial liabilities at fair value through profit or loss, amounting to EUR 3,167 thousand (prev. year: EUR 2,223 thousand).

(13) INCOME TAX EXPENSE

Reported income tax expense includes the following items:

	2008	2007
	EUR '000	EUR '000
Current taxes	1,965	4,242
Deferred taxes	-700	999
	1,265	**5,241**

Income tax for the period under review included no aperiodic expenses (prev. year: EUR 0 thousand), while aperiodic income amounted to EUR 54 thousand (prev. year: EUR 89 thousand).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

On December 31, 2008, the deferred tax component of the cash flow hedge amounted to EUR 838 thousand (prev. year: EUR 159 thousand); it is recognised directly in equity.

No deferred taxes were recognised for temporary differences related to retained profits from subsidiaries totalling EUR 3,666 thousand (prev. year: EUR 5,541 thousand), as these profits are to be used to fund the further expansion of business at the individual locations.

Because of changes resulting from the 2008 corporate tax reforms, the theoretical tax rate fell from 36.80 percent in 2007 to 27.38 percent in 2008.

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

	2008	**2007**
	EUR '000	EUR '000
Earnings before income taxes	2,616	12,914
Theoretical tax expense at 27.38% (prev. year: 36.80%)	716	4,752
Change in the theoretical tax expense due to different tax rates applicable to foreign entities	169	18
Increase in tax due to non-deductible expenses	110	99
Tax increase (+) / decrease (-) previous years	-84	-89
Tax effect of tax rate changes	-99	59
Unusable losses abroad	454	345
Other effects	0	57
Taxes on income	**1,265**	**5,241**

The deferred tax assets and deferred tax liabilities associated with the relevant balance sheet items are outlined below:

	Deferred tax assets		**Deferred tax liabilities**	
	2008	**2007**	**2008**	**2007**
	EUR '000	EUR '000	EUR '000	EUR '000
Intangible assets, property, plant, equipment, and financial assets	364	106	3,084	3,694
Other assets	867	99	176	241
Tax loss carryforwards and tax credits	843	241	0	0
Provisions	1,561	1,519	0	10
Liabilities	265	888	10	10
Subtotal	**3,900**	**2,853**	**3,270**	**3,955**
Offset	-2,504	-2,237	-2,504	-2,237
Consolidated balance sheet amount	**1,396**	**616**	**766**	**1,718**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(14) EARNINGS PER SHARE

EPS (earnings per share) is calculated by dividing the profit or loss attributable to ordinary equity holders of PWO AG by the average number of total shares outstanding in the financial year. No measures with dilutive effects were implemented in the period under review.

	2008	2007
Profits after taxes in EUR thousand	1,440	7,755
Average number of shares outstanding	2,500,000	2,500,000
Earnings per share in EUR	0.58	3.10

Notes to the Balance Sheet

(15) INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

The development of purchase and conversion costs as well as depreciation/amortisation is presented in the statement of changes in non-current assets (appendix to the notes to the consolidated financial statements).

The following expected useful lives were assumed:

	Years
Software	3 to 5
Buildings	25 to 50
Technical equipment and machinery	2 to 10
Operating and office equipment	3 to 14
IT hardware	3 to 5

Development costs of EUR 842 thousand (prev. year: EUR 0 thousand) that require capitalisation according to IAS 38 are depreciated using the units of production method as soon as development is complete and production of series parts commences.

Government grants in the amount of EUR 0 thousand (prev. year: EUR 168 thousand) were received for the acquisition of certain property, plant and equipment. The conditions attaching to the aforementioned government grants have been complied with in full, and there are no other related uncertainties.

(16) FINANCIAL ASSETS

Based on the pending disposal of the joint venture PWO & BMC High-Tech Metal Components (Suzhou) Co., Ltd., China, the loan in the amount of EUR 393 thousand (prev. year: EUR 615 thousand) was reported under "Long term assets held for disposal" on the balance sheet.

(17) INVENTORIES

The carrying amount of inventories totalling EUR 46,731 thousand (prev. year: 43,887 thousand) on the balance sheet date included tool replacement components of EUR 3,580 thousand (prev. year: EUR 3,907 thousand), recognised at their net realisable value. In the period under review, a valuation allowance of EUR 110 thousand (prev. year: EUR 259 thousand) was recognised as expense.

(18) RECEIVABLES AND OTHER ASSETS

As of December 31, 2008, the allowance for trade receivables and other receivables amounted to EUR 1,261 thousand (prev. year: EUR 1,252 thousand). Prior to the valuation allowance the carrying amount of trade receivables and other receivables was EUR 39,495 thousand (prev. year: EUR 46,019 thousand). The changes to the allowance account were as follows:

	2008	2007
	EUR '000	EUR '000
Balance of allowance account as of Jan. 1	1,252	1,471
Allocated	34	16
Utilised	12	0
Reversed	-31	-239
Effects of currency translation	-6	4
Balance of allowance account as of Dec. 31	**1,261**	**1,252**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The impairments, which are accounted for individually on a case-by-case basis, suitably reflect the risk of default. In the case of default, the receivable in question is written off accordingly.

(19) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand as well as short-term bank deposits. Demand deposits with banks bear interest at a variable rate. As of December 31, 2008 the Group had access to approved and unutilised lines of credit where all conditions required for availment had already been met. For the purpose of the consolidated cash flow statement, cash and cash equivalents in the amount of EUR 2,265 thousand (prev. year: EUR 1,953 thousand) as of December 31, 2008 consist of cash on hand and bank deposits.

(20) LONG-TERM ASSETS HELD FOR DISPOSAL

PWO AG holds 50% of a joint venture with TAE HWA Enterprise Co., Ltd., Pusan, Korea. The joint venture PWO & BMC Holding Co., Ltd., Hong Kong, China, operates the production company PWO & BMC High-Tech Metal Components (Suzhou) Co., Ltd., Suzhou, China, which focuses on the fabrication of electric motor housings and sub-assemblies for the local automotive market. In December 2008, PWO AG and TAE HWA Enterprise reached an agreement whereby TAE HWA Enterprise will take over the 50% holding from PWO. As a result, PWO is fully withdrawing from the joint venture which was founded in 2006 for market entry in China. PWO is now able to offer customers in Asia its entire product range via a wholly-owned subsidiary (PWO High-Tech Metal Components (Suzhou) Co., Ltd., Suzhou, China) which was established in 2008. The start of production based on existing orders will take place at the beginning of 2009 as planned.

The disposal of the joint venture was concluded on March 3, 2009 with payment of the purchase price. Negotiations for the sale of this company had not reached their conclusion as of December 31, 2008. As a result, the joint venture was classified as a group of assets held for disposal and as a discontinued operation as of December 31, 2008.

The results of the joint venture are as follows:

	2008	2007
	EUR '000	EUR '000
Revenue	405	504
Other income	131	6
Expenses	-811	-1,067
Net financial result	1	6
Impairing loss resulting from revaluation to current market value	-489	0
Result before taxes	**-763**	**-551**
Income tax expense	0	0
Result after taxes	**-763**	**-551**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, the main classifications of assets and liabilities of the joint venture classified as held for disposal are as follows:

	2008
Assets	EUR '000
Property, plant and equipment	614
Financial assets	393
Inventories	82
Receivables and other assets	108
Cash	65
Assets classified as for disposal	**1,262**
Liabilities	TEUR
Trade payables	206
Other liabilities	692
Liabilities which are classified as for disposal	**898**

In segment reporting, the assets and liabilities classified as held for disposal shown here are included in the "Asia" segment. They are not included in the notes to other balance sheet items.

(21) SUBSCRIBED CAPITAL AND RESERVES

Subscribed and authorised capital

At the Annual General Meeting on May 18, 2004 the Management Board was authorised to increase share capital with the approval of the Supervisory Board until May 18, 2009 by issuing new, no-par bearer shares in exchange for cash contributions, once or several times, up to a total of EUR 2,556 thousand. Authorised capital in the amount of EUR 1,278 thousand was utilised in October 2005 with the issue of 500,000 new shares. The fully paid subscribed capital on the reporting date was EUR 6,391 thousand (prev. year: EUR 6,391 thousand), divided into 2,500,000 shares with a notional par value of EUR 2.56 per share.

On February 15, 2008, Consult Invest Beteiligungsberatungs-GmbH, Böblingen, announced that it held a shareholding of 55.282 percent.

On July 21, 2008, Delta Lloyd Europees Deelnemingen Fonds NV, Amsterdam, Netherlands, announced that it held a shareholding of 3.05 percent.

On October 15, 2008, Delta Lloyd Europees Deelnemingen Fonds NV, Amsterdam, Netherlands, announced that it held a shareholding of 5.12 percent.

Capital reserve

The capital reserve includes amounts attributable to the share premium. A difference in the amount of EUR 157 thousand resulted from the acquisition of minority interests in the Mexican company Cartec S.A. de C.V. (renamed PWO de México S.A. de C.V. in December 2008) effective May 15, 2008. This difference was offset directly against the capital reserve.

Revenue reserves and other equity

Revenue reserves include current and previous years' earnings generated, but not yet distributed, by PWO AG and consolidated subsidiaries.

The differences of EUR -1,167 thousand (prev. year: EUR 755 thousand) arising from the foreign currency translation of foreign subsidiary financial statements are reported separately.

In addition, this item includes the components of the profit or loss resulting from a cash flow hedging instrument, determined to be an effective hedge.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Dividends proposed and distributed

On December 31, 2008, PWO AG reported net retained profits ("Bilanzgewinn", also referred to as unappropriated surplus) of EUR 2,854 thousand. The amounts to be distributed are based on the net retained profits of PWO AG under commercial law.

The proposal for the appropriation of the net retained profits of PWO AG as put forward to the Annual General Meeting is as follows:

	EUR
Distribution of a dividend of EUR 0.55 per dividend-entitled share	1,375,000.00
Carried forward to new account	1,479,182.20

In the 2008 financial year, a total dividend of EUR 3,250,000.00 was paid for the 2007 financial year (EUR 1.30 per dividend-entitled share).

(22) LIABILITIES

Provisions for pensions

PWO AG has made post-retirement arrangements for a number of employees. All pension obligations relate to the salary and the length of service of employees. The direct and indirect obligations include those arising from current pensions as well as benefits for pensions and retirement allowances payable in the future.

PWO de México S.A. de C.V. has also recognised provisions for pensions for post-employment periods, amounting to EUR 79 thousand (prev. year: EUR 62 thousand).

PWO Canada Inc. also has defined contribution plans. These plans resulted in an amount of EUR 42 thousand (prev. year: EUR 37 thousand) included in expenses.

Employee contributions to the statutory state pension scheme accounted for EUR 5,620 thousand (prev. year: EUR 4,947 thousand).

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

	2008	2007
Discount rate	5.75 %	5.5 %
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 10% corridor rule is applied when measuring pension provisions and determining pension costs. Actuarial gains and losses are not recognised to the extent that they are not in excess of ten percent of the total amount of the obligation.

The following net obligations apply:

	2008	2007
	EUR '000	EUR '000
Present value of benefits	26,300	25,654
Actuarial gains (-) and losses (+)	-976	-1,249
Unrecognised past service expenses	-410	-305
Balance sheet book value as of Dec. 31	**24,914**	**24,100**

The present value of benefits in 2006 was EUR 27,948 thousand and experience adjustments totalled EUR -177 thousand.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Changes to the present values of defined benefit obligations appear as follows:

	2008	2007
	EUR '000	EUR '000
Present value of benefits at PWO AG as of Jan 1	25,592	27,948
Present value of benefits at PWO de México as of Jan 1	62	70
Interest expenses	1,373	1,257
Services expenses	600	635
Pension payments rendered	-1,243	-1,231
Actuarial gains (-) and losses (+)	-273	-3,201
· of which for experience adjustments	(638)	(104)
Past service expenses	199	184
Foreign currency differences	-10	-8
Present value of benefits as of Dec. 31	**26,300**	**25,654**

Provisions for pensions and similar obligations reported on the balance sheet developed as follows compared to the previous year:

	2008	2007
	EUR '000	EUR '000
Balance sheet book value at PWO AG as of Jan. 1	24,038	23,203
Balance sheet book value at PWO de México as of Jan. 1	62	62
Expenses for pension obligations	2,067	2,066
Pension payments rendered	-1,243	-1,231
Foreign currency differences	-10	0
Balance sheet book value as of Dec. 31	**24,914**	**24,100**

Of the pension provisions reported on the balance sheet, EUR 23,594 thousand (prev. year: EUR 22,850 thousand) is non-current while EUR 1,320 thousand (prev. year: EUR 1,250 thousand) is current.

The amounts included in the income statement break down as follows:

	2008	2007
	EUR '000	EUR '000
Service expenses	600	634
Interest expenses	1,373	1,257
Actuarial gains (-) and losses (+)	0	145
Past service expenses	94	30
Expenses for pension obligations	**2,067**	**2,066**

The service costs and realised actuarial losses are reported under staff costs while interest expense is reported under finance costs.

Other provisions

This item includes provisions for personnel-related obligations. The changes were as follows:

	2008	2007
	EUR '000	EUR '000
as of Jan. 1	3,252	2,893
Utilised	-733	-798
Reversed	0	0
Allocated	1,112	1,157
As of Dec. 31	**3,631**	**3,252**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Interest-bearing borrowings

Of the interest-bearing borrowings, EUR 36,924 thousand (prev. year: EUR 25,358 thousand) has a maturity of less than one year and EUR 9,488 thousand (prev. year: EUR 2,989 thousand) has a maturity of more than five years. Borrowings from banks amount to EUR 68,786 thousand (prev. year: EUR 48,979 thousand).

The interest rates associated with the aforementioned borrowings are between 1.75 percent and 8.25 percent. Bank borrowings repayable on demand amounted to EUR 2,951 thousand (prev. year: EUR 7,158 thousand).

Of the borrowings from banks, a total of EUR 17,198 thousand (prev. year: EUR 10,937 thousand) was secured by way of land charges and mortgages and EUR 8,035 thousand (prev. year: EUR 6,115 thousand) through an assignment of property, plant and equipment. In addition, the usual reservations of title exist from the supply of raw, auxiliary and operating materials and goods.

Finance lease agreements and hire purchase contracts

Finance lease agreements have been concluded for various technical equipment. Some of these agreements include purchase options or provisions concerning the residual value accruing to the lessor. On December 31, 2008, the carrying amount of technical equipment and machinery deployed on the basis of finance leases was EUR 1,601 thousand (prev. year: EUR 3,416 thousand).

The reconciliation of future minimum lease payments arising from finance lease agreements and hire purchase contracts to their present value is as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2008	2007	2008	2007
	EUR '000	EUR '000	EUR '000	EUR '000
Within one year	677	2,267	665	2,183
Between one and five years	0	665	0	653
Total minimum leasing payments	**677**	**2,932**	**665**	**2,836**
Minus interest expenses	-12	-96	0	0
Present value of minimum lease payments	**665**	**2,836**	**665**	**2,836**

Contingent liabilities and other financial obligations

At the balance sheet date, an aval guarantee (Avalbürgschaft) in the amount of EUR 1,407 thousand (prev. year: EUR 949 thousand) was in place for the purpose of securing credit balances associated with part-time employment for staff approaching retirement.

On December 31, 2008, other financial obligations, including purchase commitments, amounted to EUR 10,242 thousand (prev. year: EUR 9,720 thousand). According to maturity, these amounts apply to subsequent financial years as follows:

	2009 ff.	2008 ff.
Obligations relating to non-cancellable lease and rental agreements	EUR '000	EUR '000
up to one year	496	531
one to five years	200	336
> five years	0	0
	696	**867**

The lease and rental contracts have terms up to and including 2013.

Order commitments from investing orders (property, plant, equipment and intangible assets)		
up to one year	8,384	8,853
one to five years	1,162	0
> five years	0	0
	9,546	**8,853**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(23) FINANCIAL RISK MANAGEMENT

The Group's financial risk management system is geared towards the uncertainties arising from the future development of financial markets and aims to minimise adverse consequences in respect of the overall financial strength of the Group. The risk management system falls within the remit of the Management Board, which defines the general principles and procedures of risk management.

Significant risks are explained below:

Credit risk

To reduce default risk in the case of primary financial instruments, various hedging measures are implemented, e.g. far-reaching receivables management and checks on creditworthiness based on credit information and historical data. The credit risk (default risk) of financial assets is addressed using appropriate valuation allowances.

The level of risk associated with accounts receivable is limited. PWO only supplies well-established international automobile manufacturers and their suppliers. Today's leading automotive suppliers are integrated into the overall supply chain to such an extent that isolated cases of risk have to be and indeed are addressed with constructive solutions developed by the industry as a whole. As an additional instrument of risk mitigation, the Group entered into an agreement for trade credit insurance, which covers a significant proportion of receivables.

The loans relate to the non-Group interest in the joint venture in China. There was no discernible evidence of credit risk on the balance sheet date.

As regards investments of cash and cash equivalents as well as the portfolio of derivative financial assets held, the Group is exposed to potential losses associated with credit risks to the extent that the financial institutions in question fail to meet their obligations. PWO counteracts this exposure to risk by diversifying and by applying particular prudence when selecting its counterparties. At present, no items of cash and cash equivalents or derivative financial assets are past due or impaired as a result of default.

On December 31, 2008, the maximum credit risk of financial assets in the event of counterparty default was equivalent to the carrying amounts of these instruments.

	Book value 2008	Book value 2007
	EUR '000	EUR '000
Financial assets	0	615
Trade and other receivables	38,234	44,767
Derivative financial assets with hedging relationships	0	542
Derivative financial assets without hedging relationships	2	146
Monies invested > 3 months	0	638
Cash	2,265	1,953

The analysis of trade and other receivables past due but not impaired as of December 31, 2008 is as follows:

	2008	2007
	EUR '000	EUR '000
Trade and other receivables	38,234	44,767
of which neither past due nor impaired	26,196	29,738
of which < 30 days past due (but not impaired)	4,540	8,519
of which > 30-90 days past due (but not impaired)	3,898	3,195
of which > 90-180 days past due (but not impaired)	821	1,285
of which > 180-360 days past due (but not impaired)	1,903	1,182
of which > 360 days past due (but not impaired)	876	848

No new terms were negotiated as of the balance sheet date (or the balance sheet date of the previous year) for trade and other receivables since they would otherwise be past due or impaired.

Liquidity risk

PWO has access to sufficient lines of credit furnished by several banks for the purpose of covering its ongoing business activities. Financing risks are mitigated by selecting an appropriate combination of short and long-term loans. Investments and pre-financing associated with long-term customer contracts are always financed on a long-term, project-specific basis. The Group has hedged approximately half of its financing instruments on a long-term basis and at fixed interest rates. Additional derivative interest rate hedges will be entered into insofar as such transactions are necessary.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following table shows the maturities of undiscounted cash flows relating to the Group's financial liabilities on the balance sheet date:

	< 1 year	1 to 5 years	> 5 years	Total
Financial year 2008	EUR '000	EUR '000	EUR '000	EUR '000
Borrowings from banks	37,268	25,962	10,440	**73,670**
· of which repayment of principal	(36,262)	(23,036)	(9,488)	(68,786)
· of which payment on interest	(1,006)	(2,926)	(952)	(4,884)
Borowings from leasing entities	674	3	0	**677**
· of which repayment of principal	(662)	(3)	(0)	(665)
· of which payment on interest	(12)	(0)	(0)	(12)
Trade payables	23,238	0	0	**23,238**
Derivative financial instruments with hedging relationship	1,596	1,354	0	2,950
Derivative financial instruments without hedging relationship	128	416	2	546
Financial year 2007				
Borrowings from banks	23,808	24,160	3,120	**51,088**
· of which repayment of principal	(23,187)	(22,803)	(2,989)	(48,979)
· of which payment on interest	(621)	(1,357)	(131)	(2,109)
Borowings from leasing entities	2,255	677	0	**2,932**
· of which repayment of principal	(2,171)	(665)	(0)	(2,836)
· of which payment on interest	(84)	(12)	(0)	(96)
Trade payables	20,693	0	0	**20,693**
Derivative financial instruments with hedging relationship	0	0	0	0
Derivative financial instruments without hedging relationship	9	87	0	96

Interest rate risk

In order to assess risks arising from changes in interest rates, the financial instruments have been categorised, as a matter of principle, into those with fixed and those with variable interest obligations, in accordance with IAS 32. Risks arising from changes in interest rates exist in the case of variable interest rate loans. These risks are hedged using interest-rate swaps. Interest rate risks are addressed in the form of sensitivity analyses (IFRS 7). These present the effects of changes in market interest rates on interest payments, interest income and expense, other elements of income/expense and, where applicable, equity.

The interest rate sensitivity analyses are based on the following assumptions:

Changes in the market interest rates of primary financial instruments with fixed interest rates shall only have an influence on the net result if the instruments are measured at fair value. Thus, financial instruments measured at amortised cost and featuring fixed interest rates are not subject to interest rate risk as defined by IFRS 7. In consideration of the principle of materiality, currency derivatives are not accounted for in the interest rate sensitivity analyses.

PWO is exposed to interest rate risk mainly within the Eurozone, in the Czech Republic and in Canada. If market interest rates had been 100 basis points higher on December 31, 2008, profit before taxes would have been EUR 177 thousand (December 31, 2007: EUR 5 thousand) lower. If market interest rates had been 100 basis points lower, profit before taxes would have been EUR 201 thousand higher on December 31, 2008 and EUR 13 thousand lower on December 31, 2007.

Currency risk

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

At the balance sheet date, the EUR/USD and EUR/CZK exchange rates represent a significant currency risk to the Group.

As regards 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, an FX-related difference arising from the translation of financial statements into the currency used by the Group (translation risk) is not taken into account.

According to IFRS, currency 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 currency derivatives are included in the sensitivity analysis, as 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 can be determined by comparing the carrying amount (calculated on the basis of the closing rate) with the translation amount, which in turn can be determined by applying a hypothetical exchange rate.

If the EUR had gained 10 percent against the CZK on December 31, 2008, profit before taxes would have been EUR 1,601 thousand (prev. year: EUR 671 thousand) higher and equity would have been EUR 1,778 thousand (prev. year: EUR 382 thousand) lower. If the EUR had lost 10 percent against the CZK on December 31, 2008, profit before taxes would have been EUR 1,957 thousand (prev. year: EUR 820 thousand) lower and equity would have been EUR 1,778 thousand (prev. year: EUR 382 thousand) higher.

If the EUR had gained 10 percent against the USD on December 31, 2008, profit before taxes would have been EUR 70 thousand (prev. year: EUR 100 thousand) lower and equity would have been EUR 1,160 thousand (prev. year: EUR 249 thousand) lower. If the EUR had lost 10 percent against the USD on December 31, 2008, profit before taxes would have been EUR 86 thousand (prev. year: EUR 130 thousand) higher and equity would have been EUR 1,160 thousand (prev. year: EUR 249 thousand) higher.

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Capital management

The primary objective of capital management within the Group is to maintain a high credit rating and a good equity ratio. In order to maintain the Group's capital structure, adjustments can be made to shareholder dividend payments, or new shares can be issued. As on December 31, 2008, and December 31, 2007, no changes were implemented with regard to PWO's goals and guidelines. The monitoring of capital is performed via the gearing ratio, which corresponds to net financial liabilities in relation to equity. According to internal Group guidelines, the target gearing is in the range of 60% to 80%. Net financial liabilities encompass interest-bearing loans less cash.

	2008	2007
	EUR '000	EUR '000
Interest-bearing borrowings	69,451	51,815
minus cash	-2,265	-1,953
Net financial liabilities	**67,186**	**49,862**
Total equity	**67,980**	**76,789**
Gearing Ratio	99 %	65 %

(24) FINANCIAL INSTRUMENTS

Primary financial instruments concern, in particular, trade receivables and payables, other financial assets, cash and cash equivalents, bank borrowings and other financial liabilities. These items are measured on the basis of amortised cost. In the case of trade receivables and payables, other liabilities as well as cash, the carrying amount corresponds materially to the fair value.

PWO uses 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. Changes in market values affecting interest rate and foreign-exchange swaps were recorded in net profit or loss, insofar as the preconditions were not met for special hedge accounting. Insofar as foreign exchange forward transactions and currency options are utilised as hedging transactions to hedge highly probable future transactions (cash flow hedges), changes in market values of these transactions are recorded directly in equity.

On December 31, 2008, the following derivative financial instruments were open:

	Nominal amount	Amortisation 2008	Residual amount	Fixed rate	Variable interest rate	Term	Fair value
	EUR '000	EUR '000	EUR '000	% p.a.			EUR '000
Interest-rate swap	2,679	382	766	3.70	6-month-EURIBOR	2003 to 2010	1
Interest-rate swap	3,094	413	825	3.68	3-month-EURIBOR	2003 to 2010	-7
Interest-rate swap	1,000	0	1,000	4.55	3-month-EURIBOR	2004 to 2009	-10
Interest-rate swap	1,800	180	990	3.98	6-month-EURIBOR	2004 to 2014	-22
Interest-rate swap	1,500	300	1,050	4.92	6-month-EURIBOR	2007 to 2012	1
Interest-rate swap	900	180	450	3.86	6-month-EURIBOR	2006 to 2011	-3
Interest-rate swap	1,693	0	1,693	3.85	6-month-PRIBOR	2007 to 2014	-36
Interest-rate swap	3,500	0	3,500	4.19	6-month-EURIBOR	2007 to 2014	-105
Interest-rate swap	1,731	0	1,731	5.11	6-month-CAD-LIBOR	2007 to 2010	-94
Interest-rate swap	2,078	0	2,078	4.85	6-month-CAD-LIBOR	2007 to 2012	-211
FX forward-transaction	30,177	0	30,177	–	–	2009 to 2011	-2,964*

* Application of hedge accounting

Changes in the fair value of derivative financial instruments designed to hedge future cash flows were recognised directly in equity in the amount of EUR -2,126 thousand (prev. year: EUR 383 thousand). Furthermore, EUR 383 thousand (prev. year: EUR 30 thousand) was removed from equity and included in revenue on the income statement through profit and loss. Of the amount removed, EUR 0 thousand (prev. year: EUR 0 thousand) was due to hedge ineffectiveness.

On the balance sheet date, the assumption was that all planned transactions will be realised. Furthermore, it is expected that the cash flows being hedged will occur within the next 30 months and will have an effect on gains and losses.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	Category of financial instruments (IAS 39)	Book value 2008	Book value 2007	Fair value 2008	Fair value 2007
ASSETS		EUR '000	EUR '000	EUR '000	EUR '000
Financial assets	LaR	**0**	**615**	**0**	**615**
Trade and other receivables	LaR	**38,234**	**44,767**	**38,234**	**44,767**
Other financial assets		**2**	**1,326**	**2**	**1,326**
· of which derivatives with hedging relationship	n.a.	(0)	(542)	(0)	(542)
· of which derivatives without hedging relationship	FAHfT	(2)	(146)	(2)	(146)
· of which monies invested > 3 months	LaR	(0)	(638)	(0)	(638)
Cash	LaR	**2,265**	**1,953**	**2,265**	**1,953**
LIABILITIES					
Interest-bearing borrowings		**69,451**	**51,815**	**71,383**	**52,093**
Borrowings from banks	FLAC	68,786	48,979	70,706	49,161
· of which floating interest rate		(46,226)	(36,008)	(46,226)	(36,008)
· of which fixed interest rate		(22,560)	(12,971)	(24,480)	(13,153)
Borrowings from leasing entities	n.a.	665	2,836	677	2,932
· of which floating interest rate		(0)	(0)	(0)	(0)
· of which fixed interest rate		(665)	(2,836)	(677)	(2,932)
Trade payables	FLAC	**23,238**	**20,693**	**23,238**	**20,693**
Other financial liabilities		**3,452**	**71**	**3,452**	**71**
· of which derivatives with hedging relationship	n.a.	(2,964)	(0)	(2,964)	(0)
· of which derivatives without hedging relationship	FLHfT	(488)	(71)	(488)	(71)
of which aggregated by category in accordance with IAS 39					
Loans and Receivables (LaR)		40,499	46,720	40,499	46,720
Financial Assets Held for Trading (FAHfT)		2	146	2	146
Financial Liabilities Measured at Amortised Cost (FLAC)		92,024	69,672	93,944	69,854
Financial Liabilities Held for Trading (FLHfT)		488	71	488	71

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following table illustrates the net gains and losses on financial instruments included in the income statement (without derivative financial instruments included in hedge accounting):

	2008	2007
	EUR '000	EUR '000
Loans and Receivables (LaR)	**459**	**31**
· of which due to disposal	106	152
· of which due to revaluation	0	0
· of which due to impairment/reversal of impairment	-26	187
· of which due to currency effects	378	-308
Financial Assets Held for Trading (FAHfT)	**-10**	**176**
· of which due to disposal	0	0
· of which due to revaluation	-10	176
· of which due to impairment/reversal of impairment	0	0
· of which due to currency effects	0	0
Financial Liabilities Measured at Amortised Cost (FLAC)	**294**	**507**
· of which due to disposal	333	507
· of which due to revaluation	0	0
· of which due to impairment/reversal of impairment	0	0
· of which due to currency effects	-39	0
Financial Liabilities Held for Trading (FLHfT)	**-513**	**-58**
· of which due to disposal	0	0
· of which due to revaluation	-513	-58
· of which due to impairment/reversal of impairment	0	0
· of which due to currency effects	0	0

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Other Information

(25) RESEARCH AND DEVELOPMENT COSTS

There were no research costs. Of the order-related development costs in the amount of EUR 7.0 million (prev. year: EUR 5.9 million), EUR 0.8 million (prev. year: EUR 0.0 million) was capitalised as intangible assets.

(26) MANAGEMENT BOARD AND SUPERVISORY BOARD COMPENSATION

Overall Management Board compensation is composed of a fixed basic salary component and a variable component. For the financial year 2008, Management Board compensation due in the short term amounted to EUR 746 thousand (prev. year: EUR 1,241 thousand). This includes performance-based components amounting to EUR 117 thousand (prev. year: EUR 633 thousand). Service cost for pension obligations towards members of the Management Board amounted to EUR 175 thousand in the financial year 2008 (prev. year: EUR 129 thousand).

Total Supervisory Board compensation for the financial year 2008 amounted to EUR 86 thousand (prev. year: EUR 199 thousand).

Further details relating to individual compensation of the Management Board and Supervisory Board, are presented in the Compensation Report.

Pension payments in the amount of EUR 214 thousand (prev. year: EUR 222 thousand) were made to former members of the Management Board of PWO AG and their surviving dependants. On the reporting date, the corresponding pension provision amounted to EUR 2,006 thousand (prev. year: EUR 2,025 thousand).

(27) AUDITOR'S FEE

The auditor's fee for the consolidated financial statements recognised as an expense, disclosed in accordance with Section 314 (1) no. 9 of the German Commercial Code (Handelsgesetzbuch – HGB), was as follows:

	2008	2007
	EUR '000	EUR '000
Annual audit	128	155
Other certification and valution services	0	0
Tax advisory services	39	60
Other services	3	66
Total	**170**	**281**

The auditor's fee recognised under expenses includes EUR 11 thousand not attributable to the reporting period (prev. year: EUR 46 thousand).

No further certification and valuation services were utilised.

(28) RELATED-PARTY DISCLOSURES

There is an amount of EUR 393 thousand (prev. year: EUR 615 thousand) receivable from the joint venture PWO & BMC Holding Co., Ltd., Hong Kong. In the financial year under review there were no other relationships with related parties as regards the supply of goods or the rendering of services. For further information, please refer to the dependent company report (related-party disclosure) included as part of the management report.

Key management personnel compensation, disclosure of which is governed by IAS 24, included that of the Management Board and the Supervisory Board. Further details relating to individual compensation of the Management Board and Supervisory Board, are presented in the Compensation Report.

(29) ADDITIONAL INFORMATION ON THE CASH FLOW STATEMENT

In the cash flow statement, cash flows are presented on the basis of IAS 7. Cash and cash equivalents presented in the cash flow statements include cash and bank borrowings repayable on demand. The bank borrowings repayable on demand, amounting to EUR 2,951 thousand (prev. year: EUR 7,158 thousand) have been included in the balance sheet as current interest bearing borrowings.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(30) SEGMENT REPORTING

The aim of segment reporting is to provide information about Key Group activities. In accordance with the provisions set out in IAS 14, geographical segments are used as the Group's primary format for reporting. The geographical segments are determined on the basis of the location of the Group's assets. Correspondingly, the revenue of these segments is also allocated according to the location of assets. The regions are categorised as "Germany", "Rest of Europe", "NAFTA Region" and "Asia".

Segment information by locations

	Germany	Rest of Europe	NAFTA Region	Asia	Consolidation / Not allocated	Group
Financial year 2008	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Total revenue	209,968	16,826	39,746	405	0	**266,945**
Internal revenue	-3,365	-3,085	-139	0	0	**-6,589**
External revenue	206,603	13,741	39,607	405	0	**260,356**
Total output	210,120	20,491	40,215	405	-6,421	**264,810**
Earnings before interest and taxes (EBIT)	11,429	-1,528	-1,271	-953	38	**7,715**
Assets	124,155	42,603	35,058	11,441	-8,134	**205,123**
Liabilities	22,679	11,929	9,813	8,555	84,167	**137,143**
Investments	14,825	7,872	3,098	9,340	-1,172	**33,963**
Depreciation/amortisation	11,351	1,824	3,081	208	5	**16,469**
Financial year 2007	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Total revenue	208,230	10,100	46,186	504	0	**265,020**
Internal revenue	-2,356	-3,084	-14	0	0	**-5,454**
External revenue	205,874	7,016	46,172	504	0	**259,566**
Total output	210,001	12,471	45,657	504	-6,033	**262,600**
Earnings before interest and taxes (EBIT)	15,751	715	1,104	-591	-260	**16,719**
Assets	126,569	29,679	37,904	2,031	-4,393	**191,790**
Liabilities	24,948	6,354	4,925	2,680	76,094	**115,001**
Investments	12,590	6,772	2,225	146	-247	**21,486**
Depreciation/amortisation	11,412	1,155	3,441	184	-3	**16,189**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Revenue, assets, liabilities and depreciation/amortisation between 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 agreement with the accounting policies applied in the consolidated financial statements.

The secondary reporting format is based on the Metal Components/Systems segment, which comprises three strategic product areas: Mechanical Components for electrical and electronic applications, Safety Components for airbags, seats and steering, Structural Components and Subsystems for vehicle bodies and chassis. The product segments are discussed in the management report under "Company Strategy". The secondary reporting format shows the breakdown of sales for the three product areas. However, a further division of assets and investments among the three product areas is not deemed appropriate, as the individual products are manufactured predominantly on the same machines and using the same production processes.

Segment information by product areas

	2008	2007
Revenue	EUR '000	EUR '000
Mechanical components for electrical and electronic applications	79,300	77,982
Safety components for airbags, seats and steering	92,900	86,126
Structural components and subsystems for vehicle bodies and chassis	88,156	95,458
Group	**260,356**	**259,566**

(31) JUDGEMENT, ESTIMATES AND ASSUMPTIONS

The Group performs impairment tests for goodwill at least once per year. This requires estimates to be made with regard to the value in use of cash generating units to which goodwill is allocated. For the purpose of estimating the value in use, the Group has to determine, on the basis of estimates, the projected future cash flows associated with the relevant cash-generating unit, as well as selecting an appropriate discount rate in order to determine the present value of the aforementioned cash flows. On December 31, 2008, the carrying amount of goodwill was EUR 5,908 thousand (prev. year: EUR 6,040 thousand).

Deferred tax assets are recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. The process of determining the level of deferred tax assets requires significant judgement with regard to the timing and amount of future taxable profit as well as the future tax planning strategies.

As of December 31, 2008, the carrying amount of unused tax loss carry-forwards accounted for at the exchange rate on the reporting date was EUR 4,009 thousand (prev. year: EUR 830 thousand) and the amount of tax credits to be utilised for a limited period of time and not accounted was EUR 2,169 thousand (prev. year: EUR 325 thousand). For further details, please refer to Note no. 13.

Expense relating to post-employment defined benefit 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. In view of the long-term orientation of such plans, these estimates are associated with significant uncertainty.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Development costs were capitalised according to the accounting and valuation method described in Note 4. The initial capitalisation of costs is based on the assessment of the Group that technical and economic feasibility has been established. For the purpose of determining the amounts to be capitalised, the Group makes assumptions regarding the amount of expected future cash flows from the project, the applicable discount rates and the period over which the expected future benefit will accrue. The carrying amount of capitalised development costs on December 31, 2008 was EUR 842 thousand (prev. year: EUR 0 thousand). This amount mainly consists of investments in the development of a module carrier. For this project the series order is available since 2008.

(32) CORPORATE GOVERNANCE

The Declaration of Conformity issued by the Management and Supervisory Boards in December 2008 in relation to the German Corporate Governance Code was made permanently available to shareholders at www.progress-werk.de.

(33) EVENTS AFTER THE BALANCE SHEET DATE

As a result of noticeably lower demand for ongoing series orders, reduced working hours were introduced at the German plant in Oberkirch effective February 2009.

At the end of February, we secured a further major order with an estimated total volume of EUR 100 million for our European plants. The start of series production is expected for 2011.

Oberkirch, March 11, 2009

The Management Board

Karl M. Schmidhuber (Chairman) | Bernd Bartmann | Dr. Winfried Blümel

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STATEMENT OF CHANGES IN NON-CURRENT ASSETS OF THE GROUP

Financial year 2008	Jan. 1, 2008	Additions	Reclassifications	Disposals	Currency change	Dec. 31, 2008
	Cost of purchase/conversion					
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Land and buildings	45,351	8,284	63	243	-879	52,576
Technical equipment and machinery	146,861	12,575	326	1,676	-2,826	155,260
Other equipment, operating and office equipment	20,176	2,382	103	793	-261	21,607
Prepayments and assets under construction	3,112	7,484	-492	5	-4	10,095
Property, plant and equipment	**215,500**	**30,725**	**0**	**2,717**	**-3,970**	**239,538**
Contract and customer-related development services	0	842	0	0	0	842
Industrial property rights and similar rights	5,526	2,380	2,144	0	-36	10,014
Goodwill	6,559	0	0	0	-132	6,427
Intangible assets identifiable as part of PPA	841	0	0	0	44	885
Prepayments	2,204	16	-2,144	0	0	76
Intangible assets	**15,130**	**3,238**	**0**	**0**	**-124**	**18,244**
	230,630	**33,963**	**0**	**2,717**	**-4,094**	**257,782**

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STATEMENT OF CHANGES IN NON-CURRENT ASSETS OF THE GROUP

Depreciation/amortisation						Book values	
Jan. 1, 2008	Additions	Reclassi-fications	Disposals	Currency change	**Dec. 31, 2008**	**Dec. 31, 2008**	**Dec. 31, 2007**
EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
16,880	1,470	0	243	-268	17,839	34,737	28,471
98,978	11,740	0	1,177	-1,850	107,691	47,569	47,883
13,987	1,843	0	526	-203	15,101	6,506	6,189
0	0	0	0	0	0	10,095	3,112
129,845	**15,053**	**0**	**1,946**	**-2,321**	**140,631**	**98,907**	**85,655**
0	0	0	0	0	0	842	0
4,038	1,177	0	0	-35	5,180	4,834	1,488
519	0	0	0	0	519	5,908	6,040
239	239	0	0	24	502	383	602
0	0	0	0	0	0	76	2,204
4,796	**1,416**	**0**	**0**	**-11**	**6,201**	**12,043**	**10,334**
134,641	**16,469**	**0**	**1,946**	**-2,332**	**146,832**	**110,950**	**95,989**

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STATEMENT OF CHANGES IN NON-CURRENT ASSETS OF THE GROUP

	Cost of purchase/conversion						
Financial year 2007	**Jan. 1, 2007**	Additions due to first-time consolidation	Additions	Reclassi-fications	Disposals	Currency change	**Dec. 31, 2007**
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Land and buildings	37,601	2,720	3,712	1,136	8	190	45,351
Technical equipment and machinery	129,340	5,675	11,211	2,000	2,073	708	146,861
Other equipment, operating and office equipment	18,509	234	2,305	319	1,269	78	20,176
Prepayments and assets under construction	5,018	0	1,469	-3,455	0	80	3,112
Property, plant and equipment	**190,468**	**8,629**	**18,697**	**0**	**3,350**	**1,056**	**215,500**
Industrial property rights and similar rights	4,891	0	595	0	0	40	5,526
Goodwill	5,650	742	0	0	0	167	6,559
Intangible assets identifiable as part of PPA	0	945	0	0	0	-104	841
Prepayments	10	0	2,194	0	0	0	2,204
Intangible assets	**10,551**	**1,687**	**2,789**	**0**	**0**	**103**	**15,130**
	201,019	**10,316**	**21,486**	**0**	**3,350**	**1,159**	**230,630**

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STATEMENT OF CHANGES IN NON-CURRENT ASSETS OF THE GROUP

Depreciation/amortisation						Book values	
Jan. 1, 2007	Additions	Reclassi-fications	Disposals	Currency change	**Dec. 31, 2007**	**Dec. 31, 2007**	**Dec. 31, 2006**
EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
15,490	1,304	0	5	91	16,880	28,471	22,111
88,310	12,081	0	2,070	657	98,978	47,883	41,030
13,344	1,842	0	1,258	59	13,987	6,189	5,165
0	0	0	0	0	0	3,112	5,018
117,144	**15,227**	**0**	**3,333**	**807**	**129,845**	**85,655**	**73,324**
3,300	705	0	0	33	4,038	1,488	1,591
519	0	0	0	0	519	6,040	5,131
0	257	0	0	-18	239	602	0
0	0	0	0	0	0	2,204	10
3,819	**962**	**0**	**0**	**15**	**4,796**	**10,334**	**6,732**
120,963	**16,189**	**0**	**3,333**	**822**	**134,641**	**95,989**	**80,056**

07
AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by Progress-Werk Oberkirch Aktiengesellschaft, Oberkirch, comprising the income statement, the balance sheet, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the management report for the business year from January 1 to December 31, 2008. The preparation of the consolidated financial statements and the combined management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a paragraph 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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AUDITOR'S REPORT

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a paragraph 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Stuttgart, March 12, 2009

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr. Eckart Wetzel	Stefan Guhl
Wirtschaftsprüfer	Wirtschaftsprüfer

08

ANNUAL FINANCIAL STATEMENTS FOR PWO AG

08

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BALANCE SHEET PWO AG

ASSETS	(Note no.)	2008	2007
		EUR '000	EUR '000
Industrial property rights and similar rights		4,539	1,189
Prepayments		54	2,198
Intangible assets		**4,593**	**3,387**
Land and buildings		14,740	11,948
Technical equipment and machinery		19,146	20,761
Other equipment, operating and office equipment		4,311	4,323
Prepayments and assets under construction		3,633	1,521
Property, plant and equipment		**41,830**	**38,553**
Investments in affiliated companies		25,149	20,614
Loans to affiliated companies		6,579	1,460
Long-term financial assets		**31,728**	**22,074**
Non-current assets	(3)	**78,151**	**64,014**
Raw materials and consumables used		9,985	9,053
Work in progress		13,770	17,352
Finished goods		12,132	10,055
Inventories	(4)	**35,887**	**36,460**
Trade receivables		26,506	34,711
Receivables from affiliated companies		4,974	2,971
Other assets		3,638	2,073
Receivables and other assets	(5)	**35,118**	**39,755**
Cash in hand, bank deposits		115	385
Current assets		**71,120**	**76,600**
Prepaid expenses	(6)	**234**	**157**
Total assets		**149,505**	**140,771**

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BALANCE SHEET PWO AG

EQUITY AND LIABILITIES	(Note no.)	2008	2007
		EUR '000	EUR '000
Subscribed capital		6,391	6,391
Capital reserves		17,753	17,753
Legal reserves		204	204
Other revenue reserves		46,250	42,100
Revenue reserves		**46,454**	**42,304**
Net retained profits		2,854	4,655
Equity	(7)	**73,452**	**71,103**
Provisions for pensions and other employee benefits		21,039	20,242
Tax provisions		0	926
Other provisions		10,378	12,451
Provisions	(8)	**31,417**	**33,619**
Bank borrowings		28,978	20,492
Payments received on account of orders		247	357
Trade payables		13,406	13,588
Liabilities to affiliated companies		1,143	900
Other liabilities		862	712
Liabilities	(9)	**44,636**	**36,049**
Total equity and liabilities		**149,505**	**140,771**

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INCOME STATEMENT PWO AG

	(Note no.)	2008	2007
		EUR '000	EUR '000
Revenue	(13)	209,968	208,230
Decrease (prev. year: increase) in inventories of finished goods and work in progress		-1,506	1,244
Work performed by the enterprise and capitalised	(14)	816	527
Total output		**209,278**	**210,001**
Other operating income	(15)	3,178	2,968
Expenses from raw materials, consumables and supplies as well as merchandise purchased		-87,825	-89,768
Expenses from services purchased		-27,954	-21,328
Material expenses		**-115,779**	**-111,096**
Wages and salaries		-48,072	-47,428
Social security and post-employment expenses		-9,763	-9,403
Staff expenses	(16)	**-57,835**	**-56,831**
Amortisation of intangible non-current assets and depreciation of property, plant and equipment	(17)	-9,959	-9,394
Other operating expenses	(18)	-18,776	-20,236
Income attributable to loans from financial assets, from affiliated companies: EUR 24 thousand (prev. year: EUR 30 thousand)		24	30
Other interest and similar income		43	23
Interest and similar expenses		-2,530	-2,111
Financial result		**-2,463**	**-2,058**
Result from ordinary activities		**7,644**	**13,354**
Taxes on income	(19)	-2,045	-4,111
Net profit for the year		**5,599**	**9,243**
Retained profits brought forward		5	12
Appropriations to other revenue reserves		-2,750	-4,600
Net retained profits		**2,854**	**4,655**

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NOTES TO THE PWO AG FINANCIAL STATEMENTS

Accounting Policies

(1) BASIS OF PREPARATION

These financial statements have been prepared in accordance with the provisions set out in the German Commercial Code (Handelsgesetzbuch – HGB) and the German Stock Corporation Act (Aktiengesetz – AktG). The income statement has been presented on the basis of the nature of expense method. The financial statements are presented in thousands of euros.

There have been no material changes to the accounting policies applied in the previous year.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Intangible assets and property, plant and equipment have been booked as purchase or conversion costs. Both the individual costs and the applicable production overheads have been accounted for when measuring the cost of conversion of work performed by the enterprise and capitalised.

Depreciation has been calculated using the straight-line method as well as the diminishing balance method. Certain items of machinery as well as order-related tools were depreciated according to the units of production method, based on the number of units produced in the reporting year, calculated in terms of the total number of items specified or planned in the order. Financial assets have been reported at purchasing costs or nominal value.

Low-value assets with an individual net value of up to EUR 150.00 (up to December 31, 2007: EUR 410.00) have been fully amortised and recognised as an expense in the year they were purchased. Their immediate disposal was anticipated. For the sake of simplicity, an annual tax compound item was assumed in the balance sheet for assets with an individual net value between EUR 150.00 and EUR 1,000.00 which have been acquired after December 31, 2007. Annual compound items, whose amount is of secondary importance, are amortised at a lump-sum of 20 percent each year. Corresponding to tax provisions, the item is amortised in the year it is recognised and the four years following that.

Inventories of raw materials, consumables and supplies are recorded at the lower of average historical cost or current cost. Unsellable or obsolete materials have been written down accordingly. Work in progress and finished goods have been measured at the lower of conversion cost or fair value on the basis of item-by-item calculations based, in turn, on current operational accounting. Costs arising from general administration and borrowing costs have not been capitalised.

Tooling and development contracts are measured at cost of purchase or cost of conversion. Within this context, the maximum cost of purchase or cost of conversion is measured as the selling price plus revenue generated via series production.

Receivables and other assets are carried at their nominal values. Non-interest bearing receivables with a maturity of more than one year were discounted. Foreign-currency items have been measured on a loss-free basis. Credit risk has been accounted for by means of a general allowance. The discount capitalised in the prepaid items entry was amortised on a systematic basis over the term of the loan.

Provisions for pensions and other employee benefits have been measured according to actuarial principles. Provisions for pensions and early retirement obligations have been reported at the level permissible under tax law. The partial values ("Teilwert", relating to allocation from date of entry into service) calculated on the basis of actuarial principles in accordance with Section 6a of the Income Tax Act (Einkommensteuergestz – EStG) are based on a rate of interest of 6 percent, applying the Richttafeln 2005 G (actuarial mortality assumptions). Tax provisions and other provisions take into account all identifiable risks and uncertain obligations. They are measured in the amount, which is required according to sound business judgement.

Liabilities are recognised on the basis of their repayment amount.

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NOTES TO THE PWO AG FINANCIAL STATEMENTS

Foreign-currency receivables are measured at cost, but never in excess of the higher exchange rate at the balance sheet date. Obligations denominated in a foreign currency are translated on the basis of the exchange rate applicable at the time of the transaction or the lower exchange rates at the balance sheet date. Financial assets are recognised on the basis of the exchange rate at the time of their addition.

Notes to Balance Sheet

(3) NON-CURRENT ASSETS

The development of purchase and conversion costs as well as depreciation/amortisation is presented in the statement of changes in non-current assets (appendix to the notes to the consolidated financial statements).

The following useful lives were applied:

	Years
Software	3 to 5
Buildings	25 to 50
Technical equipment and machinery	2 to 10
Operating and office equipment	3 to 14
IT hardware	3 to 5

(4) INVENTORIES

Inventories were determined predominantly using sampling methods as well as computer-aided workshop inventory methods. In addition to applying these methods, calculation was carried out manually, as in the past.

(5) RECEIVABLES AND OTHER ASSETS

Receivables from affiliated companies include trade receivables of EUR 4,974 thousand (prev. year: EUR 2,971 thousand).

	2008	of which with a remaining term > 1 year	2007	of which with a remaining term > 1 year
	EUR '000	EUR '000	EUR '000	EUR '000
Trade receivables	26,506	0	34,711	0
Receivables from affiliated companies	4,974	0	2,971	0
Other assets	3,638	789	2,073	876
	35,118	**789**	**39,755**	**876**

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NOTES TO THE PWO AG FINANCIAL STATEMENTS

(6) PRE-PAID EXPENSES

Pre-paid expenses of EUR 234 thousand (prev. year: EUR 157 thousand) are attributable to the discount associated with financial borrowings.

(7) EQUITY

	Subscribed capital	Capital reserves	Legal reserves	Other revenue reserves	Net retained profits	Equity PWO AG
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Balance at Jan. 1, 2008	**6,391**	**17,753**	**204**	**42,100**	**4,655**	**71,103**
Appropriations to other revenue reserves according to AGM resolution	–	–	–	1,400	-1,400	**0**
Dividend payment	–	–	–	–	-3,250	**-3,250**
Net profit for period	–	–	–	–	5,599	**5,599**
Appropriations to other revenue reserves	–	–	–	2,750	-2,750	**0**
Balance at Dec. 31, 2008	**6,391**	**17,753**	**204**	**46,250**	**2,854**	**73,452**

At the Annual General Meeting on May 18, 2004, the Management Board was authorised, subject to the consent of the Supervisory Board, to increase share capital in the period up to May 18, 2009, through the issue of new individual bearer shares for cash contributions on one or more occasions by up to EUR 2,556 thousand. A partial utilisation of authorised capital amounting to EUR 1,278 thousand took place in October 2005 by issuing 500,000 new shares. The fully paid subscribed capital at the reporting date was EUR 6,391 thousand (prev. year: EUR 6,391 thousand), divided into 2,500,000 shares with a nominal par value of EUR 2.56 per share.

On February 15, 2008, Consult Invest Beteiligungsberatungs-GmbH, Böblingen, announced that it held a shareholding of 55.282 %.

On July 21, 2008, Delta Lloyd Europees Deelnemingen Fonds NV, Amsterdam, Netherlands, announced that it held a shareholding of 3.05 %.

On October 15, 2008, Delta Lloyd Europees Deelnemingen Fonds NV, Amsterdam, Netherlands, announced that it held a shareholding of 5.12 %.

Of the net profit amounting to EUR 5,599 thousand, EUR 2,750 thousand was appropriated to other revenue reserves.

The "Bilanzgewinn" (net retained profits, also referred to as unappropriated surplus) of EUR 2,854 thousand includes retained profits brought forward from the year 2007 of EUR 5 thousand. Please also refer to the proposed appropriation of net retained profits.

(8) PROVISIONS

Other provisions include essential amounts associated with personnel-related expenses of EUR 7,977 thousand (prev. year: EUR 10,636 thousand) and other identifiable obligations and risks for which provisions may be recognised under German commercial law.

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NOTES TO THE PWO AG FINANCIAL STATEMENTS

In particular, these include provisions for profit-sharing schemes, ERA adjustment funds, part-time employment of staff approaching retirement, holiday and flexitime provisions, anniversary bonuses as well as work tool expenses.

(9) LIABILITIES

Of the borrowings from banks, a total of EUR 9,206 thousand (prev. year: EUR 7,078 thousand) was secured by way of land charges and mortgages and EUR 5,640 thousand (prev. year: EUR 3,802 thousand) through an assignment of property, plant and equipment. In addition, the usual reservations of title exist from the supply of raw materials, consumables, supplies and goods.

Liabilities from affiliated companies include liabilities from trade receivables of EUR 1,143 thousand (prev. year: EUR 900 thousand).

		of which with a remaining term < 1 year	of which with a remaining term > 5 years
2008	EUR '000	EUR '000	EUR '000
Bank borrowings	28,978	15,877	4,804
Payments received on account of orders	247	247	0
Trade payables	13,406	13,406	0
Liabilities to affiliated companies	1,143	1,143	0
Other liabilities	862	862	0
· of which from taxes	(721)	(721)	(0)
· of which attributable to social security	(0)	(0)	(0)
	44,636	**31,535**	**4,804**
2007			
Bank borrowings	20,492	11,732	1,833
Payments received on account of orders	357	357	0
Trade payables	13,588	13,588	0
Liabilities to affiliated companies	900	900	0
Other liabilities	712	712	0
· of which from taxes	(513)	(513)	(0)
· of which attributable to social security	(0)	(0)	(0)
	36,049	**27,289**	**1,833**

NOTES TO THE PWO AG FINANCIAL STATEMENTS

(10) CONTINGENT LIABILITIES

This item includes liabilities from guarantees in the amount of EUR 36,824 thousand (prev. year: EUR 28,403 thousand) for credit liabilities of PWO Canada Inc., PWO UNITOOLS CZ a.s., PWO High-Tech Metal Components (Suzhou) Co. Ltd. and PWO de México S.A. de C.V. At the balance sheet date, a guarantee (Avalbürgschaft) was in place in the amount of EUR 1,407 thousand (prev. year: EUR 949 thousand) for the purpose of securing credit balances associated with part-time employment for staff approaching retirement.

(11) OTHER FINANCIAL OBLIGATIONS

As of December 31, 2008, other financial obligations, including purchase commitments, amounted to EUR 6,484 thousand (prev. year: EUR 5,445 thousand).

The remaining maturities relating to these financial obligations are as follows:

		of which with a remaining term < 1 year	of which with a remaining term > 5 years
2009 ff.	EUR '000	EUR '000	EUR '000
Obligations arising from lease and rental contracts	1,284	1,122	0
Order commitments arising from investment orders	5,200	0	0
	6,484	**1,122**	**0**
2008 ff.			
Obligations arising from lease and rental contracts	3,167	2,237	0
Order commitments arising from investment orders	2,278	2,278	0
	5,445	**4,515**	**0**

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NOTES TO THE PWO AG FINANCIAL STATEMENTS

(12) FINANCIAL INSTRUMENTS

PWO uses financial instruments in the form of foreign exchange swaps as well as interest-related derivatives, which are measured at market value, for interest and currency hedging. Interest-rate swaps are recorded in other provisions. A measurement unit was not formed.

As of December 31, 2008, the following derivative financial instruments were open:

	Nominal amount	Amortisation 2008	Residual amount	Fixed rate	Variable interest rate	Term	Fair value
	EUR '000	EUR '000	EUR '000	% p.a.			EUR '000
Interest-rate swap	2,679	382	766	3.70	6-Month-EURIBOR	2003 to 2010	1
Interest-rate swap	3,094	413	825	3.68	3-Month-EURIBOR	2003 to 2010	-7
Interest-rate swap	1,000	0	1,000	4.55	3-Month-EURIBOR	2004 to 2009	-10
Interest-rate swap	1,800	180	990	3.98	6-Month-EURIBOR	2004 to 2014	-22
Interest-rate swap	1,500	300	1,050	4.92	6-Month-EURIBOR	2007 to 2012	1

The market values of financial instruments have been determined on the basis of the discounted cash flow method.

Financial assets include USD loans with a book value of EUR 2,085 thousand. The corresponding market value totalled EUR 2,010 thousand as of December 31, 2008. A write-down in accordance with Section 253 (2) sentence 3 of the German Commercial Code (Handelsgesetzbuch – HGB) was not applied, as the impairment only has a temporary impact.

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NOTES TO THE PWO AG FINANCIAL STATEMENTS

Notes to Income Statement

(13) SALES REVENUE

Sales revenue by region	2008 EUR '000	2007 EUR '000
Germany	150,632	154,329
Rest of Europe	44,363	38,478
North America	3,962	4,146
Other countries	11,011	11,277
	209,968	**208,230**

Sales revenue by product area	2008 EUR '000	2007 EUR '000
Mechanical components for electrical and electronic applications	74,069	72,062
Safety components for airbags, seats and steering	72,351	67,405
Structural components and subsystems for vehicle bodies and chassis	63,548	68,763
	209,968	**208,230**

(14) WORK PERFORMED BY THE ENTERPRISE AND CAPITALISED

Work performed by the enterprise and capitalised relates primarily to investments in machinery and services rendered in connection with the rollout of SAP software.

(15) OTHER OPERATING INCOME

This item includes EUR 923 thousand (prev. year: EUR 1,229 thousand) of aperiodic income. This relates to income from the reversal of provisions, prior-year refunds, etc.

(16) STAFF COSTS AND EMPLOYEES

The interest expense attributable to pension provisions in the amount of EUR 1,215 thousand (prev. year EUR 1,190 thousand) is reported under interest rates and similar expenses.

Staff costs	2008 EUR '000	2007 EUR '000
Salaries and wages	48,072	47,428
Social security and post-employment costs	9,763	9,403
· of which for pensions	(861)	(540)
	57,835	**56,831**

Year-average number of employees	2008	2007
Manual workers	609	613
Salaried employees	366	331
Core workforce	**975**	**944**
Temporary employment contracts	70	36
Apprentices	85	69
	1,130	**1,049**

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NOTES TO THE PWO AG FINANCIAL STATEMENTS

(17) DEPRECIATION AND AMORTISATION

This item includes non-scheduled write-downs amounting to EUR 0 thousand (prev. year: EUR 15 thousand).

(18) OTHER OPERATING EXPENSES

Other operating expenses primarily include outward freight charges, expenses attributable to temporary staff, rent and leasing costs, maintenance expenses as well as expenses for legal, auditing and consultancy services, expenses associated with staff training and travel costs. Expenses also include other taxes of EUR 63 thousand (prev. year: EUR 63 thousand). Aperiodic expenses amounted to EUR 16 thousand (prev. year: EUR 53 thousand).

(19) TAXES ON INCOME AND EARNINGS

Taxes on income and earnings include aperiodic income amounting to EUR 33 thousand. Taxes on income in the previous year included aperiodic income of EUR 851 thousand, primarily due to the fact that the provision for the ERA adjustment funds was recognised as being effective for tax purposes.

In connection with the changes to the Company Tax Reform Act 2008, the theoretical tax rate decreased from 36.80 % in 2007 to 27.38 % in 2008.

Other Information

(20) MANAGEMENT BOARD AND SUPERVISORY BOARD COMPENSATION

Overall Management Board compensation is composed of a fixed basic salary component and a variable component. For the 2008 financial year, Management Board compensation due in the short term amounted to EUR 746 thousand (prev. year: EUR 1,241 thousand). This includes performance-based components amounting to EUR 117 thousand (prev. year: EUR 633 thousand).

Total Supervisory Board compensation for the 2008 financial year amounted to EUR 86 thousand (prev. year: EUR 199 thousand).

Further details relating to individual compensation of the Management Board and Supervisory Board, are presented in the compensation report in the combined management report prepared for the Group and PWO AG.

Post-employment payments for former members of the Management Board of PWO AG and their surviving dependents amounted to EUR 214 thousand (prev. year: EUR 222 thousand). At the reporting date, the corresponding pension provision amounted to EUR 1,639 thousand (prev. year: EUR 1,665 thousand).

(21) AUDITOR'S FEE

The auditor's fee recognised as expense, disclosed in accordance with Section 314 (1) no. 9 of the German Commercial Code (Handelsgesetzbuch – HGB), was as follows:

	2008	2007
	EUR '000	EUR '000
Annual audit	128	155
Other certification and valuation services	0	0
Tax advisory services	39	60
Other services	3	66
Total	**170**	**281**

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NOTES TO THE PWO AG FINANCIAL STATEMENTS

In the financial year under review, the auditor's fee recognised as expense included an amount of EUR 11 thousand not attributable to the reporting period (prev. year: EUR 46 thousand).

No further certification and valuation services were utilised.

(22) RELATED-PARTY DISCLOSURES

In the financial year under review there were no other relationships with related parties as regards the supply of goods or the rendering of services. For further information, please refer to the dependent company report (related party disclosure) and the management report.

(23) INVESTMENTS IN AFFILIATED COMPANIES

As of December 31, 2008, PWO AG held interests in the following companies:

	Ownership interest	Net profit/loss	Equity
	%	EUR '000	EUR '000
PWO Canada Inc., Kitchener, Ontario, Canada	100	360	9,287
PWO UNITOOLS CZ a.s., Valašské Meziříčí, Czech Republic	100	-2,220	271
PWO Holding Co., Ltd., Hong Kong, China	100	-407	-478
PWO High-Tech Metal Components (Suzhou) Co., Ltd., Suzhou, China [1]	100	-936	3,811
PWO High-Tech Tool Trading (Suzhou) Co., Ltd., Suzhou, China [1]	100	-2	26
PWO & BMC Holding Co., Ltd., Hong Kong, China [1]	50	-8	-56
PWO & BMC High-Tech Metal Components (Suzhou) Co., Ltd., Suzhou, China [1]	50	-538	549
PWO de México S.A. de C.V., Puebla, Mexico [2]	100	-1,577	4,686

1) Indirect holding

2) Indirect holding through PWO Canada Inc. amounting to 1%

Effective from May 15, 2008, PWO AG acquired the remaining 40% interest in the Mexican company Cartec S.A. de C.V. (company name changed to PWO de México de C.V. in December 2008). As a result the shareholding was increased from the previous 60 % to 100 %. PWO Canada Inc. bought 1% of the voting rights..

(24) CORPORATE GOVERNANCE

The Declaration of Conformity issued by the Management and Supervisory Boards in December 2008 in relation to the German Corporate Governance Code was made permanently available to shareholders at www.progress-werk.de.

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STATEMENT OF CHANGES IN NON-CURRENT ASSETS OF PWO AG

	Cost of purchase/conversion				
	Jan. 1, 2008	Additions	Reclassifi-cations	Disposals	**Dec. 31, 2008**
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Industrial property rights and similar rights	4,776	2,239	2,144	0	9,159
Prepayments	2,198	0	-2,144	0	54
Intangible assets	**6,974**	**2,239**	**0**	**0**	**9,213**
Land and buildings	28,415	3,529	63	243	31,764
Technical equipment and machinery	104,183	4,825	321	807	108,522
Other equipment, operating and office equipment	17,208	1,272	85	342	18,223
Prepayments and assets under construction	1,521	2,581	-469	0	3,633
Property, plant and equipment	**151,327**	**12,207**	**0**	**1,392**	**162,142**
Investments in affiliated companies	20,614	4,535	0	0	25,149
Loans to affiliated companies	1,460	5,119	0	0	6,579
Financial assets	**22,074**	**9,654**	**0**	**0**	**31,728**
	180,375	**24,100**	**0**	**1,392**	**203,083**

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STATEMENT OF CHANGES IN NON-CURRENT ASSETS OF PWO AG

Depreciation/amortisation					Book values	
Jan. 1, 2008	Additions	Reversal of write-downs	Disposals	**Dec. 31, 2008**	**Dec. 31, 2008**	Dec. 31, 2007
EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
3,587	1,033	0	0	4,620	4,539	1,189
0	0	0	0	0	54	2,198
3,587	**1,033**	**0**	**0**	**4,620**	**4,593**	**3,387**
16,467	800	0	243	17,024	14,740	11,948
83,422	6,761	0	807	89,376	19,146	20,761
12,885	1,365	0	338	13,912	4,311	4,323
0	0	0	0	0	3,633	1,521
112,774	**8,926**	**0**	**1,388**	**120,312**	**41,830**	**38,553**
0	0	0	0	0	25,149	20,614
0	0	0	0	0	6,579	1,460
0	**0**	**0**	**0**	**0**	**31,728**	**22,074**
116,361	**9,959**	**0**	**1,388**	**124,932**	**78,151**	**64,014**

08

GOVERNING BODIES / SUPERVISORY BOARD

Dieter Maier, Stuttgart
Chairman of the Supervisory Board

Former member of the Management Board of
Baden-Württembergische Bank AG, Stuttgart

OTHER POSITIONS HELD
Eisenwerke Fried. Wilh. Düker GmbH & Co. KGaA, Karlstadt
Member of the Supervisory Board

metabo AG, Nürtingen
Chairman of the Supervisory Board

Dr. jur. Klaus-Georg Hengstberger, Böblingen
Deputy Chairman of the Supervisory Board

Managing Director of Consult Invest
Beteiligungsberatungs-GmbH, Böblingen

OTHER POSITIONS HELD
Eisenwerke Fried. Wilh. Düker GmbH & Co. KGaA, Karlstadt
Chairman of the Supervisory Board

Geriatrische Rehabilitationsklinik gGmbH, Böblingen
Member of the Supervisory Board

Klinikverbund Südwest GmbH (Holding), Böblingen
Member of the Supervisory Board

Klinikverbund Südwest,
Kreiskliniken Böblingen gGmbH
Member of the Supervisory Board

Klinikverbund Südwest,
Klinikum Sindelfingen-Böblingen gGmbH
Member of the Supervisory Board

Katja Hertwig, Durbach*
Production system team employee
Member of the Works Council of PWO AG

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

OTHER POSITIONS HELD
Eisenwerke Fried. Wilh. Düker GmbH & Co. KGaA, Karlstadt
Deputy Chairman of the Supervisory Board

Kreissparkasse Ludwigsburg
Member of the Administrative Board

Sumida Corporation, Tokio, Japan
Member of the Board

Weber-Hydraulik GmbH, Güglingen
Chairman of the Advisory Board

Wüstenrot Holding AG, Ludwigsburg
Member of the Supervisory Board

Wüstenrot & Württembergische AG, Stuttgart
Member of the Supervisory Board

Dr. Gerhard Wirth, Stuttgart
Partner at Gleiss Lutz law firm, Stuttgart

OTHER POSITIONS HELD
Karl Danzer GmbH & Co. KG, Reutlingen
Chairman of the Advisory Board

Eisenwerke Fried. Wilh. Düker GmbH & Co. KGaA, Karlstadt
Member of the Supervisory Board

Procter & Gamble Holding GmbH, Schwalbach
Member of the Supervisory Board

* Employee representatives

GOVERNING BODIES / SUPERVISORY BOARD

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

OTHER POSITIONS HELD
Beru-Eichenauer GmbH, Hatzenbühl
Chairman of the Advisory Board

PWO Canada Inc., Kitchener, Ontario, Canada
Director

PWO Holding Co., Ltd., Hong Kong, China
Director

PWO & BMC Holding Co., Ltd., Hong Kong, China
Director (until March 2, 2009)

PWO High-Tech Metal Components (Suzhou)
Co., Ltd., Suzhou, China
Member of the Supervisory Board (from April 1, 2008)

PWO & BMC High-Tech Metal Components (Suzhou)
Co., Ltd., Suzhou, China
Member of the Supervisory Board (until March 2, 2009)

PWO de México S.A. de C.V., Puebla, Mexico
Chairman of the Advisory Board

Bernd Bartmann, Offenburg
Administration/Finance

OTHER POSITIONS HELD
PWO Holding Co., Ltd., Hong Kong, China
Director

PWO & BMC Holding Co., Ltd., Hong Kong, China
Director (until March 2, 2009)

PWO High-Tech Metal Components (Suzhou)
Co., Ltd., Suzhou, China
Member of the Supervisory Board (from April 1, 2008)

PWO & BMC High-Tech Metal Components (Suzhou)
Co., Ltd., Suzhou, China
Member of the Supervisory Board (until March 2, 2009)

PWO UNITOOLS CZ a.s., Valašské Meziříčí,
Czech Republic
Member of the Supervisory Board

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

OTHER POSITIONS HELD
PWO de México S.A. de C.V., Puebla, Mexico
Member of the Supervisory Board

PWO UNITOOLS CZ a.s., Valašské Meziříčí,
Czech Republic
Chairman of the Supervisory Board

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PROPOSAL FOR THE APPROPRIATION OF PROFITS

At the Annual General Meeting, a proposal will be made for using PWO AG's net retained profits of EUR 2,854,180.20 recorded on December 31, 2008 as follows:

	EUR
Dividend distribution of EUR 0.55 per dividend-entitled share	1,375,000.00
Carried forward to new account	1,479,180.20

The proposal for the appropriation of profits does not take into account own shares (so-called treasury shares) held by the company. Should the company be holding treasury shares at the time the Annual General Meeting passes the resolution concerning the appropriation of net retained profits, the amount to be distributed will be reduced by the portion of the dividend amount applicable to the treasury shares. In this case, the retained profit carried forward would be adjusted by the corresponding amount.

Oberkirch, March 11, 2009

The Management Board

Karl M. Schmidhuber
(Chairman)

Bernd Bartmann

Dr. Winfried Blümel

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AUDITOR'S REPORT

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system and the combined management report of Progress-Werk Oberkirch Aktiengesellschaft, Oberkirch, for the business year from January 1 to December 31, 2008. The maintenance of the books and records and the preparation of the annual financial statements and combined management report in accordance with German commercial law and supplementary provisions of the articles of incorporation are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the combined management report based on our audit.

We have conducted our audit of the annual financial statements in accordance with § 317 HGB [„Handelsgesetzbuch": "German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The combined management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Stuttgart, March 12, 2009

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr. Eckart Wetzel
Wirtschaftsprüfer

Stefan Guhl
Wirtschaftsprüfer

09
RESPONSIBILITY STATEMENT

"To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business 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 11, 2009

The Management Board

Karl M. Schmidhuber
(Chairman)

Bernd Bartmann

Dr. Winfried Blümel

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FINANCIAL CALENDAR

May 5, 2009	Interim report for the first quarter of 2009
May 26, 2009	Annual General Meeting 2009
August 5, 2009	Interim report for the first half of 2009
November 4, 2009	Interim report for the first nine months 2009
February 23, 2010	Publication of preliminary annual financial statements for 2009 / Analyst and press conference
April 15, 2010	Annual report 2009
May 4, 2010	Interim report for the first quarter of 2010
May 26, 2010	Annual General Meeting 2010

PWO

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