

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

INCOME STATEMENT (EURk)	2006	2007	2008	2009	2010
Revenue	225,339	259,566	260,356	206,371	264,195
Total output	227,048	262,600	264,810	206,752	270,714
Materials expenses	117,750	141,332	149,306	112,067	140,828
Staff expenses	62,760	68,765	70,652	67,065	77,023
EBITDA	31,938	32,908	24,184	12,179	33,050
EBIT	15,792	16,719	7,715	-4,949	16,007
EBT	12,709	12,914	2,616	-10,450	9,803
Net profit for the year	8,840	7,673	1,351	-8,949	6,459
BALANCE SHEET (EURk)					
Balance sheet total	164,515	191,790	205,123	204,664	223,459
Non-current assets	82,156	97,220	112,346	110,215	116,422
Current assets	82,359	94,570	92,777	94,449	107,037
thereof cash and cash equivalents	6,779	1,953	2,265	7,704	7,290
Equity	68,788	76,789	67,980	61,465	68,971
Interest-bearing borrowings	39,843	51,815	69,451	86,792	87,147
Other liabilities	55,884	63,186	67,692	56,407	67,341
Return on Equity in % (based on EBT)	18.5	16.8	3.8	negative	14.2
Return on Equity in % (based on net profit)	12.9	10.0	2.0	negative	9.4
Net debt as % of equity	48	65	99	129	116
Equity ratio in %	41.8	40.0	33.1	30.0	30.9
CASH FLOW (EURk)					
Cash flow from operating activities	25,296	17,902	25,031	6,008	24,840
Cash flow from investing activities	-13,179	-26,007	-33,937	-12,658	-16,849
Interest paid and received	-1,895	-2,366	-3,092	-3,748	-4,594
Free cash flow	10,222	-10,471	-11,998	-10,398	3,397
Dividends paid	-2,750	-3,000	-3,250	-1,375	0
Other cash flow from financing activities	-3,183	4,408	19,839	15,981	-2,461
Cash flow of the period	4,289	-9,063	4,591	4,208	936
FIGURES PER SHARE (EUR)					
Average number of shares (millions)	2.50	2.50	2.50	2.50	2.50
Earnings per Share (diluted = basic)	3.54	3.10	0.58	-3.58	2.58
Dividend per share	1.20	1.30	0.55	0.00	1.00*
XETRA share price, year closing	36.00	35.00	16.48	20.00	35.50
EMPLOYEES AS OF DECEMBER 31					
PWO Group (excluding temporary workers)	1,406	1,801	2,010	1,965	2,079
thereof employees in Germany	958	993	1,054	1,052	1,047
thereof employees abroad	366	717	831	764	907
thereof apprentices	82	91	125	149	125

* Proposal to the 88th ordinary Annual General Meeting

THINKING AHEAD

At PWO, innovations at PWO do not happen by chance. They result from the continuous pursuit of improvements in processes and products. Passion, and our ambition of always creating the technically perfect solution for all customers, spur us on to peak achievements.

We deploy our extensive know-how in machine tool manufacturing, and in forming and connecting technology for steel, stainless steel and aluminium, in order to create new product solutions for our global automotive industry customers, and to exploit additional structural potential in terms of product design.

Our components and sub-systems are utilised in vehicles where they largely remain invisible, while they are nevertheless tangible in terms of their daily contributions to greater comfort and safety.

We produce high-tech components to the highest degree of precision and in superior quality on a series manufacturing basis. We focus our innovative strengths on high-growth areas in modern automotive design, where our know-how makes a difference. We set standards with our product developments, and already represent the international benchmark in many areas.

Customer-orientation, flexibility, and the deployment of state-of-the-art methods and technologies – these are our success factors.

By thinking ahead we create genuine added value for our customers, business partners and shareholders.

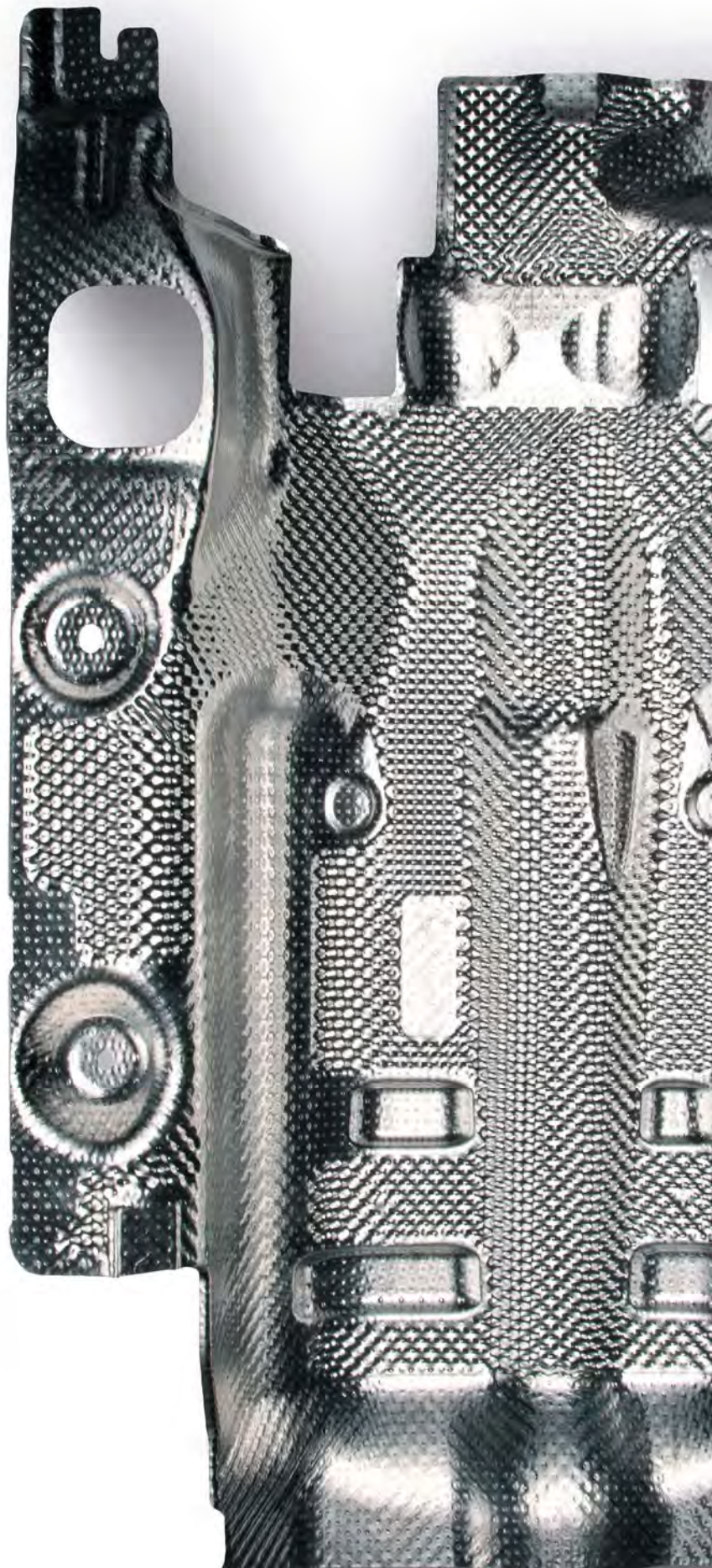
PWO – WE MAKE MOBILITY SAFE AND COMFORTABLE

Accompany us on an exciting journey of discovery through PWO's corporate world. We will show you how PWO employees contribute to making both today's and tomorrow's vehicles safer and ever more comfortable ...



PWO. THINKING AHEAD.

CONTENT



Acoustic heat shield on the vehicle floor

PWO produces specially structured aluminum linings that protect against heat from vehicle systems, while helping to reduce noise at the same time.



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**Karl M. Schmidhuber –
Management Board Chairman, Management Board member
responsible for Market and Technology:**

“We are growing in line with the market’s constantly increasing demands, and we are exploiting success potentials. Success, and especially maintaining a successful position in global competition calls for a continuous flow of peak achievements. Through new products and improved production processes, we are continuously demonstrating our innovative strength, and the farsightedness of our corporate approach. We think and act in a future-oriented and sustainable manner in the interest of our customers, shareholders and employees.”

**Bernd Bartmann –
Management Board member responsible for Administration
and Finance:**

“Setting clear targets, and analysing and assessing results – this is how we create a bridge between planning and performance. Our IT infrastructure is internationally standardised, and allows us to implement state-of-the-art control and steering. Our figures speak for themselves. Our internal and external communication is highly transparent.”

A man in a dark suit, white shirt, and red tie, wearing glasses, is looking down at a row of metal parts on a workbench. He is in a factory or industrial setting with large metal pipes and wooden beams in the background. The lighting is dramatic, highlighting the man and the parts.

**Dr. Winfried Blümel –
Management Board member responsible for Production and
Materials Management:**

“Production at all our sites is stringently based on the value stream principle. PWO is distinguished by optimal material flows, robust processes, extremely rapid response times to changes in customer requirements, and continuous improvement. Consequently, we are now setting international benchmarks in many areas. And we are proud of this.”

THINKING AHEAD. UTILISING OPPORTUNITIES.

We tap growth markets through know-how, the right positioning, synergies, and the requisite flexibility.



From left to right: Bernd Bartmann,
Karl M. Schmidhuber, Dr. Winfried Blümel

MANAGEMENT'S LETTER TO SHAREHOLDERS

Dear Shareholders,

Compared to the last two years, it gives us pleasure to report again on an extremely positive trend in the 2010 business year, which could not have been anticipated to occur in this form at the outset of the year.

Our customers' call orders staged a strong recovery from as early as the first quarter. We made a successfully rapid transition from short-time working to a high capacity utilisation level thanks to the farsightedness of retaining our core workforce during the crisis, as well as the strong commitment shown by our employees. A leap in sales allowed us to reemploy all temporary workers, some of whom had already been associated with our company for many years before the crisis hit. This rapid production ramp-up was not connected with any particular additional expenses thanks to the highly structured and stable production processes of our PWO Production System.

A strong fourth quarter even allowed us to beat the forecast that we upgraded in August 2010 of revenue in excess of EUR 250 million, and EBIT in the region of some EUR 15 million. Consolidated revenue was up by 28.0 percent to EUR 264.2 million (previous year: EUR 206.4 million), which represents a new record in the company's history. We also achieved a sustainable turnaround in EBIT, following the loss we incurred in 2009. At EUR 16.0 million (EUR -4.9 million), we were ahead of our forecast in this respect too.

Our tax rate is also emerging as better than expected, since we are meanwhile able to offset tax credits at our site in the Czech Republic. We have now become sustainably profitable at this location. As a consequence, both the restructuring and the initial construction phase have been successfully concluded at the first of our three new foreign sites.

We have pushed ahead with the internationalisation of our activities at a rapid pace since 2005, and we are now starting to harvest the fruits of these efforts step-by-step. In summary, we anticipate a significantly positive earnings contributions from our foreign sites over coming years. This means that our long-term strategy, which we left unchanged despite the crisis, is now also starting to pay dividends in terms of profit trends.

In this context, the extraordinary prospects offered by China will not take effect until the medium to longer term. We positioned ourselves in this market for the first time in 2006. We now have a well functioning site with capable workers and this gives us the confidence to anticipate that these operations will achieve above-average growth over the next few years. The revenue we generate in China should more than double by 2012, and then continue to report strong growth in subsequent years. We are also examining prospects for further locations in China, with a view to benefiting to an even greater extent from the potential offered by this major market of the future.

In the NAFTA region, too, revenue is set to double over the next two years in line with major new series start-ups, both at our established site in Canada, and in Mexico. We made good progress with the restructuring of our Mexico location in 2010. Business and production processes were stabilised, the Group (SAP) IT system was introduced, and we implemented an

extensive expertise base. The previous year's losses were reduced despite major restructuring expenses and start-up costs.

While considering these good prospects abroad, we should not forget our German site at Oberkirch. It continued to generate the Group's key earnings contributions in 2010, and again proved its performance capabilities. Oberkirch still sets our Group benchmark with its 8.6 percent EBIT margin. This site defines sector standards with the innovative product and process solutions that are developed here. A team of experienced specialists is working intensively on transferring this performance quality to our international locations, and on driving further ahead with their technological development.

This presentation of topics that characterised the 2010 business year shows that we have meanwhile resumed what we were obliged to temporarily discontinue at the outset of the crisis, in other words, the realisation of our long-term growth path.

Based on our ability to innovate products and process solutions, and on our quality and delivery reliability, we grew revenue by an average of 10 percent per year in the ten years until 2007, the last year before the crisis. We have now resumed this growth path, and we are assuming that we will boost our annual growth rates to above our former average over the next three to five years.

Not only are we benefiting from the growth rates of international markets, we are also winning additional order volumes that exceed the scope of those that normally expire each year as series production runs are discontinued.

We will focus in the coming years on strengthening our locations, and particularly on how the turnaround in both Mexico and China will make positive contributions to Group earnings. In this process, we aim to realise a further significant enhancement of our EBIT margin. Since our investment requirements will be limited at the same time, this creates the basis for generating positive free cash flow that will allow us the scope to both pay down debt and pursue a shareholder-friendly dividend policy.

This development would be impossible without competent and flexibly-minded employees, who we would like to expressly thank for their great commitment.

We would like to thank you, dear shareholders, for the confidence and loyalty that you continued to invest in us over the past year. We are extremely confident that we will continue to achieve significantly profitable growth over the years to come.



Karl M. Schmidhuber
(Chairman)



Bernd Bartmann



Dr. Winfried Blümel

REPORT OF THE SUPERVISORY BOARD



Dieter Maier (Chairman of the Supervisory Board)

In the following, the Supervisory Board of Progress-Werk Oberkirch Aktiengesellschaft reports on its activities during the 2010 financial year. The report focuses on the cooperation between the Supervisory Board and the Management Board, key issues covered during Supervisory Board meetings, with particular attention paid to the treatment of the annual and consolidated financial statements, and, finally, committee work.

During the 2010 financial year, the Supervisory Board fulfilled its duties and responsibilities as defined by German law, the Articles of Association of Progress-Werk Oberkirch and the Rules of Procedure formulated for the Supervisory Board. It supervised the controlling systems for accounting, compliance, and operating risks, as well as the internal audit system and the Group-wide risk management system.

To this end, the Supervisory Board cultivated continuous cooperation and intensive dialogue with the Management Board, which also comprised all further significant questions relating to the company. The Supervisory Board regularly acted in an advisory capacity and supervised the management of business affairs regarding their legality, expediency and profitability. The Supervisory Board was directly involved in all decisions of material importance to the company or the Group. In particular, the definition of the Group's strategic direction resulted from close collaboration between the Management and Supervisory Boards.

The Management Board regularly provided detailed verbal and written Management Board reports to the Supervisory Board in a timely and comprehensive manner. This communication addressed in depth all significant issues relating to trends on markets of relevance for the company and the Group, short and long-term corporate planning, current business progress, as well as the position of the company and the Group including their liquidity and risk positions, the Group-wide risk management system, investment activities, ongoing development projects, and the Group's strategic further development. The Supervisory Board critically reviewed all information provided by the Management Board regarding plausibility. The Management Board provided reports that fully satisfied the Supervisory Board's requirements regarding scope and subject.

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 resolution 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 necessitated such approval. Between meetings, the Management Board issued verbal or written reports to immediately and thoroughly inform the Supervisory Board of extraordinary business transactions. Such reports were made when transactions were deemed vital to the assessment of the Group's situation, development and management. The Management Board presented issues requiring Supervisory Board approval for deliberation in a timely manner. There were no incidents during the year under review that would be classified as extraordinary or problematic.

The Supervisory Board Chairman was also personally in regular and intensive contact with the Management Board, and regularly informed himself about current business developments

and key business events. He also informed the other Supervisory Board members outside the scope of meetings, and discussed developments with them.

During the reporting year, there were also no conflicts of interest among the members of the Management or Supervisory boards that would require immediate disclosure to the Supervisory Board, as well as notification to the Annual General Meeting.

The services of the law firm Gleiss Lutz, in which Supervisory Board member Dr. Gerhard Wirth is a partner, were approved by the Supervisory Board.

PLENARY MEETINGS

The Supervisory Board intensified its activities in 2009 due to the effects of the crisis on the automotive sector and its suppliers. It retained this practice in the year under review, since the risks connected with the sharp recovery of the sector in 2010 were also regarded as above average. Plenary meetings were held six times, on March 25, May 26, July 22, August 2, September 23 and December 16, 2010. With one exception, the Supervisory Board members were in full attendance at all meetings.

At all meetings, the Supervisory Board concerned itself with corporate strategy, the current market situation, ongoing development projects, and the status of investments. All meetings also included discussions of the Management Board's relevant results report on the commercial and operating position. Questions relating to the AGM, financing, and updated extrapolations for the reporting year and subsidiaries' trends were also handled. Due to the expectation of significantly above-average growth of the Chinese automotive market, further investments in the Suzhou site, as well as its medium and long-term prospects and risks, were also discussed in detail in 2010.

The Supervisory Board extensively covered and approved the 2009 financial year consolidated financial statements at its meeting on March 25, 2010. The auditor was present, and reported on the significant results of its audit.

At its meeting on December 16, 2010, which was held as a telephone conference, the Supervisory Board noted by way of summary the budget of both the company and the Group for revenue and earnings, and investments and development for all sites, as well as discussing its financing, risks and alternative scenarios. The final approval of the medium-term planning occurred at a meeting held on January 31, 2011, at which the Supervisory Board also concerned itself with the audit of its efficiency. In particular, it examined the completeness and regularity of the topics on which the Supervisory Board is required by duty to question the Management Board. Together with the Management Board, the Supervisory Board, at its meeting on December 16, 2010, also discussed and passed a resolution concerning the declaration of compliance of Progress-Werk Oberkirch AG pursuant to Section 161 of the German Stock Corporation Act (AktG) relating to the recommendations of the "Government Commissioned German Corporate Governance Code" in its version of May 26, 2010, which the Federal Ministry of Justice published in the official section of the Electronic Federal Gazette on July 2, 2010, as well as departures from these recommendations.

The Corporate Governance Report, which is reproduced in the 2010 annual report of Progress-Werk Oberkirch AG, and the Annual Corporate Governance Statement pursuant to Section 289a of the German Commercial Code (HGB), which is accessible on the website of Progress-Werk Oberkirch AG (www.progress-werk.de), contain further remarks about corporate governance.

At its meeting on March 14, 2011, the Supervisory Board comprehensively covered the parent company single-entity annual financial statements in the consolidated financial statements for the 2010 financial year, including the combined management report for the company and the Group, the Management Board's proposal for the application of unappropriated retained earnings, and the Management Board's related parties report pursuant to Section 312 of the German Stock Corporation Act (AktG). Pursuant to Section 315a of the German Commercial Code (HGB), no consolidated financial statements were prepared according to the HGB. The financial statements, the combined management report, the Management Board's proposal for the application of unappropriated retained earnings, the related parties report, and the audit reports prepared by the auditor were provided to the Supervisory Board members ahead of meetings. The parent company single-entity annual financial statements, the consolidated financial statements, the combined management report, the audit report prepared by the auditor, and the Management Board's proposal concerning the application of unappropriated retained earnings, were also discussed at a meeting of the audit committee on March 14, 2011, which preceded the Supervisory Board meeting of the same day. The audit committee had previously discussed the parent company single-entity annual financial statements and the consolidated financial statements in a telephone conference on February 14, 2011. The auditor was present at both meetings on March 14, 2011, and reported on the key results of its audit.

The accounting and parent company single-entity annual financial statements, the consolidated financial statements, the combined management report for the parent company and the Group, and the related parties disclosure of the Management Board pursuant to Section 312 of the German Stock Corporation Act (AktG) were audited and furnished with an unqualified audit opinion by Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Stuttgart. The audit opinion furnished by Ernst & Young GmbH with regard to related parties disclosure was as follows: "In accordance with our duty and based on our audit and assessment, we hereby confirm that the details specified within the disclosure report are accurate."

The Supervisory Board submitted the parent company single-entity annual financial statements and the consolidated financial statements, the combined management report for the company and the Group, and the Management Board's proposal concerning the application of unappropriated retained earnings to its own examination, and, at the recommendation of the audit committee, gave its approval to the results of the audit conducted by the auditor at its meeting on March 14, 2011. No objections were raised following the conclusive results of the Supervisory Board's examination. The Supervisory Board approved the consolidated and parent company single-entity annual financial statements, which were adopted as a consequence. At its meeting on March 14, 2011, the Supervisory Board also subjected the related parties report to its own examination, and gave its approval to the results of the audit conducted by the auditor. No objections to the Management Board's statement at the end of the related parties report were raised following the final result of the Supervisory Board's examination.

The Supervisory Board also approved the Management Board's proposal concerning the application of 2010 unappropriated retained earnings. Since the company had refrained from distributing a dividend for the 2009 financial year due to the macroeconomic and sector crisis, the Supervisory and Management boards decided to distribute a dividend again for the 2010 financial year. In this context, the objective is to return to the tradition that had been cultivated for many years at Progress-Werk Oberkirch AG of maintaining a distribution ratio equivalent to one third of consolidated net income. The company administration will propose to the AGM on May 25, 2011 that it distributes a dividend of EUR 1.00 per 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. It conferred on them certain rights to the extent 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. The Personnel Committee convened three times during the year under review, on March 25, May 28, and December 14, 2010. It concerned itself mainly with adjusting Management Board compensation to the German Act concerning the Appropriateness of Management Board Remuneration (VorstAG). The members were in full attendance at all meetings.

The Audit Committee convened eight times during the year under review, on February 15, March 8, March 25, April 29, July 22, July 29, September 23, and October 27, 2010. With one exception, all committee members participated in all meetings. The key topics of its discussions were the financial statements for the 2009 financial year, the recommendation for the Supervisory Board's proposal for the election of the auditor, and the agreement of its fee for the 2010 financial year, the quarterly financial reports in the 2010 financial year, commercial trends, and, in line with the indications of the overall Supervisory Board, the mandating of the auditor, including the special audit task relating to the authorisation and utilisation concept for the Group IT systems. Furthermore, the Audit Committee obtained the auditor's Declaration of Impartiality pursuant to Section 7.2.1 of the German Corporate Governance Code and monitored the auditor's impartiality. 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. The allocation of mandates to the auditor for services unrelated to auditing was also addressed.

In addition, it received reports from the Management Board, with special attention to the company and Group's profitability, evaluation issues including those regarding investments, controlling and financial reporting, and internal auditing. The Audit Committee regularly assessed the alignment of the Group's current developments with ongoing plans and discussed appropriate action.

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

PERSONNEL COMMITTEE

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

AUDIT COMMITTEE

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

CHANGES AT BOARD LEVEL

There were no changes to the composition of the Management or Supervisory Boards during the period under review.

MESSAGE OF GRATITUDE FROM THE SUPERVISORY BOARD

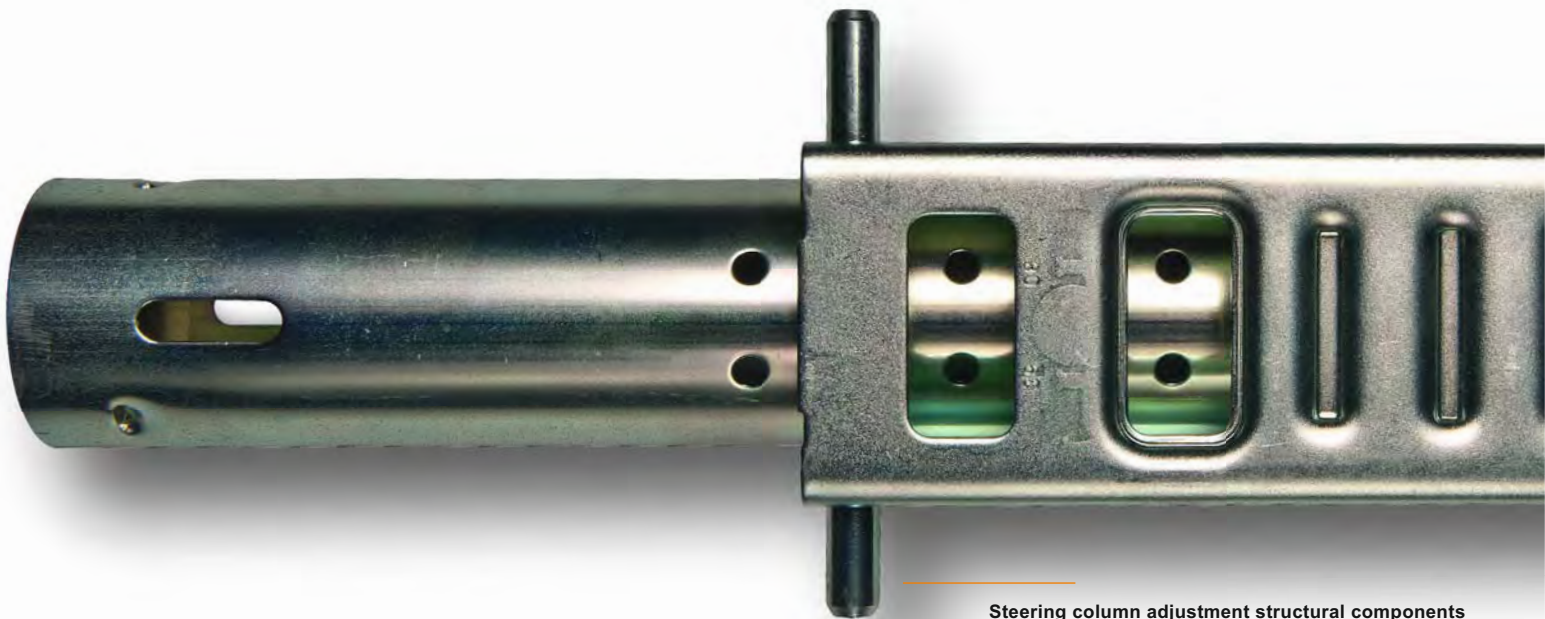
In the 2009 business year, the Management Board successfully handled the extraordinary challenges to which Progress-Werk Oberkirch AG was exposed during one of the worst crises for its sector, and also continued to forge ahead with the strategic development of the company and the Group during a difficult period. Progress-Werk Oberkirch AG was well positioned in the 2010 business year to participate with above-average success in the sector's remarkable business recovery, since the company's international competitiveness and future prospects were not only maintained but expanded further. The delivery reliability for which Progress-Werk Oberkirch AG is known was fully maintained during both the crisis and the upturn, particularly through our consistent retention of our core workforce, with its many years of experience. The Supervisory Board would like to thank the Management Board for its circumspect management during the crisis, as well as during the upturn.

The Supervisory Board would like to extend its special thanks to employees at all of the Group's sites. They made sacrifices during the crisis, and also impressively proved their ability to perform during the upturn. As a consequence, they made key contributions to stabilising the company during difficult times, and provided critical support during the subsequent business recovery.


The Supervisory Board discussed this report in detail at its meeting on March 14, 2011, before subsequently approving it.

Oberkirch, March 14, 2011





Steering column adjustment structural components
PWO solutions optimize vibration behavior, ensuring the steering wheel is steady in the driver's hands.



“Customer requirements represent our raw materials. Their innovative solutions are the end-products we deliver.”

A maximum of comfort and safety involving increasingly compact dimensions – the existing potentials are far from having been exhausted. We identify opportunities in the growing complexity of new vehicles and new energy-saving technologies. For us, sustainability means not a single gram of excess weight. We realise additional functions that offer lower weight at the same time. Together with our customers and suppliers, we generate innovative products in a networked process consisting of product and process development. Among other things, constant process innovations enable higher production speeds and the elimination of subsequent processing steps in series manufacturing. This is how we accelerate processes, and boost development quality. [Stephan Kasper, Project Manager Development, Oberkirch Technology and Expertise Centre, Progress-Werk Oberkirch AG](#)





CORPORATE GOVERNANCE

The principles of corporate governance of Progress-Werk Oberkirch Aktiengesellschaft correspond to the standards of good corporate governance embraced by the German business community. The company's Articles of Association do not contain any provisions that diverge from these principles. Shareholder rights are fully respected, and all shareholders are treated on an equal basis. The free acquisition and disposal of Progress-Werk Oberkirch AG shares is guaranteed.

LEGAL FRAMEWORK

As a stock corporation under German law, Progress-Werk Oberkirch AG is subject to the relevant statutory regulations relating to its management and supervision. Its management and control structure is divided into two parts consisting of a Management Board comprising at least two members, and a six-member Supervisory Board. The Supervisory Board is composed of both shareholder and employee representatives, in accordance with the German One-Third Participation Act for 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 company's operational management and strategic development. The Supervisory Board monitors and advises the Management Board in these matters. The Management and Supervisory boards base the supervision of the company on the German Corporate Governance Code in its relevant current version. The Declaration of Compliance relating to this Code has been published on the company's website at www.progress-werk.de under Investor Relations/Corporate Governance, and is included at the end of this chapter. Supplementary comments about corporate governance can also be found in the Annual Corporate Governance Statement pursuant to Section 289a of the German Commercial Code (HGB), which is also available on the abovementioned company website under Investor Relations/Corporate Governance.

CORPORATE GOVERNANCE PHILOSOPHY

The Management Board regards itself as obligated to provide extensive communication to the public in addition to statutory requirements and stock market standards for prompt reporting that complies with the mandatory equal treatment of all shareholders (annual and quarterly reports, mandatory unscheduled announcements, directors' dealings, and mandatory announcements concerning changes to voting rights shares that are notified to the company).

For this reason, the company has further expanded its capital market communications over the last years, as well as during the 2010 business year. As a consequence, the management speaks, and responds to questions, at capital market conferences. Important information for assessing the company's prospects is published promptly. All reports and announcements are documented and published on the Internet at www.progress-werk.de. The website also provides further information, including about the AGM, the company's Articles of Association, and professional activities and further mandates of Supervisory Board members.

The Management Board regards itself as particularly obligated to the company's shareholders. As its owners, they provide capital for the maintenance and expansion of Progress-Werk Oberkirch AG's international market position, and consequently act on an entrepreneurial basis.

For this reason, the Management Board aims to permanently strengthen the competitive strength of Progress-Werk Oberkirch AG and its subsidiaries, and to simultaneously generate the most attractive return on capital employed on a long-term and sustainable basis. This also includes an appropriate limitation of all risks connected with entrepreneurial decisions.

This has prompted the company to introduce a modern and efficient risk management system, whose efficiency it regularly reviews. The risk management system is being constantly developed further in line with the changes to the company's risk position as a result of its international expansion, and taking into account relevant statutory requirements. The Management and Supervisory boards are convinced that strengthening the company's competitiveness, the achievement of an attractive return on equity to secure its financing, and the responsible management of risks also best correspond to the interests of the other stakeholders of a Progress-Werk Oberkirch AG and its subsidiaries, particularly its employees.

The Management Board respects diversity when making managerial appointments within the company, and, in doing so, particularly strives for an appropriate inclusion of women.

CO-OPERATION BETWEEN THE MANAGEMENT AND SUPERVISORY BOARDS

The Management and Supervisory boards work closely together for the company's benefit. The boards' responsibilities, and the co-operation between them, are set out in writing in their respective procedural rules, and comply with the German Corporate Governance Code – unless divergences are stated. This particularly relates to the board members' rights and duties, and the business distribution plan.

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. Bernd Bartmann was appointed to the member of the Advisory Board of Sparkasse Offenburg/Ortenau on July 22, 2010. Dr. Winfried Blümel does not currently hold positions outside the Group.

Contract terms of Management Board members

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

COMPENSATION REPORT

Management Board compensation

The Supervisory Board of Progress-Werk Oberkirch AG has held the view for many years that employees' wages and salaries and the compensation of the Management Board members should have a balanced relationship. The Management Board supports this view entirely because it holds the same belief.

Even during the severe recession in 2009, there was no risk of an inappropriate divergence between the average pay for employees and the compensation of Management Board members. On the contrary, the members of the Management Board forewent a much higher percentage of income. Management Board compensation again contained variable components

for 2010, in parallel with employees receiving both full Christmas bonuses and profit participation bonuses. Employees were nevertheless required to forego portions of their holiday bonuses.

Compensation of the Management Board members contains fixed and performance-based elements. Management Board members also receive benefits in kind and pension commitments.

Variable payment includes annually recurring components based on profit after tax. An absolute limit has been defined to ensure that extraordinary developments cannot cause inappropriate increases in certain years. The Supervisory Board intends to create a multi-year measurement basis for the variable component of Management Board remuneration at the next opportunity, and is in related discussions with the Management Board.

Total payment to Management Board members amounted to EURk 1,313 for the 2010 financial year (p/y: EURk 648). No variable payment was paid for the 2009 financial year due to the net loss incurred by PWO Group. A variable remuneration component of EURk 487 is due for the year under review due to the marked earnings improvement. The Supervisory Board also undertook to pay Management Board members a one-off special payment of EURk 138 in the 2010 financial year in recognition of the special burdens relating to the recession, and as a special incentive for further successful activities. Benefits for insurance and company cars accounted to EURk 69 (p/y: EURk 67).

Management Board members are also included in directors and officers' (D&O) liability insurance cover, which the company has taken out for board members and certain managers. The D&O insurance includes a deductible of 10% of damages up to one and a half times the annual fixed salary of the relevant Management Board member.

In addition, from their second term of office, Management Board members are covered by a provision for retirement, invalidity and widow's pensions. Individual details regarding pension expenses are provided in the "Management Board compensation" table.

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.

In order to qualify for a retirement pension, members of the Management Board must have completed an uninterrupted 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-cancellable 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 formed pension provisions in line with IFRS for future pension claims of members of the Management Board. During the reporting year, EURk 201 (p/y: EURk 182) was allocated to these pension provisions for active members of the Management Board. This amount includes the service cost without interest cost.


Pension payments of EURk 222 (p/y: EURk 219) were paid to former members of the company's Management Board and their remaining dependent during the year under review. The corresponding pension provision amounted to EURk 1,966 as of December 31, 2010 (p/y: EURk 1,962).

MANAGEMENT BOARD COMPENSATION

	Karl M. Schmidhuber (Chairman)		Bernd Bartmann		Dr. Winfried Blümel		Total	
IN EUR THOUSAND	2010	2009	2010	2009	2010	2009	2010	2009
Basic annual salary	259	239	171	162	189	180	619	581
Benefits in kind	21	21	25	23	23	23	69	67
Performance-based bonus	195	0	146	0	146	0	487	0
Other payments	54	0	42	0	42	0	138	0
Total	529	260	384	185	400	203	1,313	648
PENSION EXPENSES								
Annual payment on commencement of pension (age 65) as of Dec. 31	96	96	72	72	72	72	240	240
Allocation to HGB pension provisions in financial year	164	95	84	46	66	35	314	176

No commitments have been made to provide any further benefits to Management Board members in the event of the 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.

The individual levels of compensation for the Management Board members are detailed in the table above.



“It’s not about how little you pay for something, but about how much quality you get for your money.”

We never make compromises when it comes to quality, because any savings in this area can prove quite expensive. This is why we exploit savings potentials in many other areas. In transportation costs, for example: regional proximity to respective international production sites is an important criterion when selecting suppliers. This particularly applies to high-growth markets such as China and Mexico. [Wolfgang Malsch, Teamleader Purchasing, Progress-Werk Oberkirch AG](#)



Supervisory Board compensation

Supervisory Board compensation is set out in Section 11 of the Articles of Association of Progress-Werk Oberkirch AG. The AGM on May 26, 2010 passed a resolution to amend the Articles of Association relating to compensation for Supervisory Board members. This provision, which is reproduced below, is applicable from the start of the 2010 financial year.

Each Supervisory Board member receives a fixed annual payment of EUR 20,000 for the financial year. The Supervisory Board Chairperson receives double this amount, and the Deputy Supervisory Board Chairperson receives one and a half times this payment. Supervisory Board members also receive a EUR 500 attendance fee for personal attendance at meetings of the Supervisory Board and its committees. Attendance fees are paid only once for several meetings occurring on one day.

Supervisory Board members who have been members of the Supervisory Board for only part of a financial year receive one twelfth of the payment for each month of their activity that they commence. The company reimburses Supervisory Board members for their expenses, and for any VAT which they incur for their Supervisory Board activity. Payment is due once the financial year has elapsed.

The Supervisory Board members are also included in the directors and officers' (D&O) liability insurance cover, which the company has taken out for board members and certain managers. The company pays the related premiums. This cover includes a deductible equivalent to one half of the Supervisory Board members' annual compensation.

The individual levels of compensation for the Supervisory Board members are detailed in the table on page 25.

In the year under review, the company made no payments to Supervisory Board members for services which they personally rendered outside their Supervisory Board activities.

DIVERSITY WITHIN THE MANAGEMENT AND SUPERVISORY BOARDS

The Supervisory Board endeavours to continue to observe the principle of diversity when making future appointments of Management Board members, and aims, in particular, to achieve an appropriate inclusion of women.

The Supervisory Board also welcomes the intention of the German Corporate Governance Code to stipulate regulations for supervisory board composition, and regards itself as committed to this objective. Since new shareholder representative elections to the Supervisory Board are not due until the 2013 AGM, however, it does not appear appropriate to specify specific targets at the current time.

SHARES HELD BY GOVERNING BODIES

At the end of the 2010 financial year, the Deputy Chairman of the Supervisory Board, Dr. jur. Klaus-Georg Hengstberger, held 55.282 percent of the shares outstanding in Progress-Werk Oberkirch AG through Consult Invest Beteiligungsberatungs-GmbH, Böblingen, of which he is the Managing Director. There were also no transactions in the past financial year that oblige reporting under Section 15a of the Securities Trading Act (WpHG).

STOCK OPTION PROGRAMMES

There were no stock option programmes or similar securities-based incentive systems in the company in the 2010 financial year, and there are also currently no such programmes within the company.

SUPERVISORY BOARD COMPENSATION

IN EUR THOUSAND	Fixed compensation		Variable compensation		Attendance fee for meetings		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Dieter Maier, Chairman	40	6	0	0	7	0	47	6
Dr. jur. Klaus-Georg Hengstberger, Deputy Chairman	30	5	0	0	7	0	37	5
Katja Hertwig	20	3	0	0	3	0	23	3
Herbert König	20	3	0	0	5	0	25	3
Ulrich Ruetz	20	3	0	0	4	0	24	3
Dr. Gerhard Wirth	20	3	0	0	4	0	24	3
Total	150	23	0	0	28	0	178	23

**DECLARATION OF COMPLIANCE PURSUANT TO SECTION 161 OF THE
GERMAN STOCK CORPORATION ACT (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 May 26, 2010, as promulgated by the Government Commission, with the following exceptions:

POINT 3.8 | D&O insurance

The Articles of Association provide for the Supervisory Board a deductible equivalent to one half of the Supervisory Board members fixed compensation. The company holds the view that this is an appropriate arrangement.

POINT 5.3.3 | Nomination Committee

The Supervisory Board regards the formation of a Nomination Committee as unnecessary. Since the Supervisory Board comprises only six members, it is agreed that it is appropriate that the entire Supervisory Board should be involved with the nomination of Supervisory Board candidates.

POINT 5.4.1 | Supervisory Board composition

The Supervisory Board also welcomes the intention of the German Corporate Governance Code to stipulate regulations for supervisory board composition, and regards itself as committed to this objective. Since new shareholder representative elections to the Supervisory Board are not due until the 2013 AGM, however, it does not appear appropriate to specify specific targets

at the current time. There is currently no age limit for membership in the Supervisory Board. The company will also refrain from introducing such an age limit because it would unduly limit the pool of qualified candidates.

POINT 5.4.6 | Compensation of Supervisory Board members

Supervisory Board members now receive fixed compensation in line with the company's Articles of Association. In the opinion of the Management and Supervisory boards, this best corresponds to the Supervisory Board's controlling function. Supervisory board members do not receive any payment for membership in committees above and beyond that the provided for in the Articles of Association.

With the exception of the enumerated points, the company has complied with the recommendations of the German Corporate Governance Code of the Government Commission in its version of May 26, 2010 (published on July 2, 2010), respectively in its version of June 18, 2009 (published on August 5, 2009) since the last declaration of compliance pursuant to Section 161 of the German Stock Corporation Act (AktG) was published in June 2010.

Oberkirch, December 2010

Progress-Werk Oberkirch AG

The Supervisory Board

The Management Board



Seat locking mechanism on the vehicle floor

An optimal sitting position plays a key role in personal driving comfort. Seat locking systems from PWO meet the highest safety and quality standards.

PWO SHARE PERFORMANCE



SHARE PRICE PERFORMANCE IN 2010

The PWO share appreciated by 74 percent in 2010, between its XETRA opening price for the year at EUR 20.40 and its price of EUR 35.50 on the last trading day. The high for the year of EUR 37.00 was reached on November 4, 5 and 9. The year's starting price also represented the low for the year.

The PWO share outperformed its sector index significantly in 2010, as in the previous year. With a total increase of 46 percent, however, the DAXsector Automotive Price Index itself also outperformed by a considerable margin: between the start and the end of the year, the DAX index was up by just 11 percent, and the SDAX index appreciated by 40 percent. As a consequence, automotive stocks were among the favourites in an overall gratifying stock market year in 2010.

PWO's share registered a largely constant uptrend over the course of the full year. Only at the start of the third quarter did it follow a general sideways trend on the market, which was reflected in a somewhat more marked consolidation among automotive shares overall.

Average daily turnover of the PWO share was 862 per day in 2010, compared with 1,054 in the previous year. Close Brothers Seydler Bank AG have acted as Designated Sponsors to Progress-Werk Oberkirch AG on the German stock market since early September. They have been joined as Designated Sponsors by Silvia Quandt & Cie. AG since the beginning of October. Daily turnover has since undergone a significant boost and amounted to an average of 1,140 shares traded per day in the fourth quarter of 2010.

INVESTOR RELATIONS ACTIVITIES

The Management Board of Progress-Werk Oberkirch AG has continuously expanded the company's capital market presence and press work over recent years. We launched a communication campaign in 2010 to intensively market the investment case for PWO as a new "global player". The company's strategy and development were presented, and new investor contacts were forged, at a total of 15 conferences and roadshows held in Germany, France, the United Kingdom and Switzerland. Numerous contacts to analysts, investors, and to the financial and investor press, were also cultivated on a daily basis. PWO presented itself at a total of more than 70 one-on-one meetings as part of discussions with analysts, investors, and the press in 2010. In particular, discussions at the German Equity Forum proved very successful, as well as meetings at the DVFA's Small Cap Forum, where we participated for the first time.

ANALYST COVERAGE AND RECOMMENDATIONS FOR THE PWO SHARE

Bank / Research house	Recommendation
First Berlin Equity Research GmbH	Add
Landesbank Baden-Württemberg	Hold
Montega AG	Buy
Silvia Quandt Research GmbH	Buy
SRH AlsterResearch AG	Buy

Status: December 31, 2010

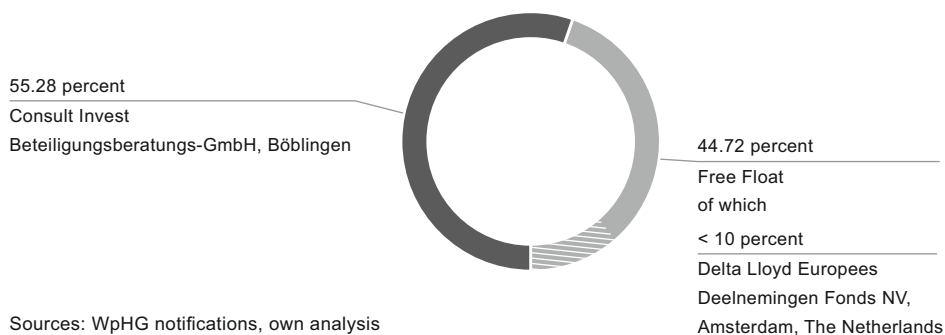
EQUITY COMPOSITION AND DEVELOPMENT

Information about the composition of equity and approved capital are covered on page 87 of the Management Report. The development of equity is presented in detail in the statement of changes in equity, which forms part of the annual financial statements, on page 104. The level and breakdown of share capital was unchanged in 2010.

Stock options continue to form no part of the remuneration of Management Board members or PWO employees. From the point of view of the company's administration, there is only a minor connection between the performance of individual employees and the share price performance, as a consequence of which equity options offer no additional performance incentive.

SHAREHOLDER STRUCTURE

There was no change to the shareholder structure in 2010. The company received no notifications pursuant to § 15a of the German Securities Trading Act (WpHG) (Directors' Dealings).



YOUR CONTACTS

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THE PROGRESS-WERK OBERKIRCH AG SHARE

Share capital on December 31, 2010 (EUR)	7,500,000
Number of shares outstanding on December 31, 2010	2,500,000
Nominal value per share (EUR)	3.00
Trading segment	Regulated market (Prime Standard)
Prime Standard sector	Automotive sector
Industry group	Automotive components and accessories
	CDAX, Classic All Share, Prime All Share
Index membership	DAXsector Automobile, DAXsubsector Auto Parts & Equipment
Reuters / Bloomberg ticker symbol	PWOG.DE / PWO GY
ISIN	DE0006968001
Average daily trading volume (XETRA and regional stock exchanges)	
- in the 2010 financial year	862 shares
- in the fourth quarter of 2010	1,140 shares
	CLOSE BROTHERS SEYDLER BANK AG
Designated Sponsors	Silvia Quandt & Cie. AG

KEY FIGURES		2006	2007	2008	2009	2010
Revenue	EUR mill.	225.34	259.57	260.36	206.37	264.20
EBIT	EUR mill.	15.79	16.72	7.72	-4.95	16.00
Revenue per share	EUR	90.12	103.84	104.16	82.56	105.68
Earnings per share	EUR	3.54	3.10	0.58	-3.58	2.58
Dividend per share	EUR	1.20	1.30	0.55	0.00	1.00¹⁾
Book value per share	EUR	27.52	30.72	27.19	24.59	27.59
VALUATION RATIOS						
XETRA share price, year high	EUR	41.88	39.30	35.55	20.00	37.00
XETRA share price, year low	EUR	33.02	32.50	16.05	14.77	20.40
XETRA share price, year closing	EUR	36.00	35.00	16.48	20.00	35.50
Market capitalisation	EUR mill.	90.00	87.50	41.20	50.00	88.75
Net debt	EUR mill.	33.06	49.86	67.19	79.09	79.86
Enterprise value (EV)	EUR mill.	123.06	137.36	108.39	129.09	168.61
Price/Sales		0.40	0.34	0.16	0.24	0.34
Price/Earnings ratio		10.17	11.29	28.41	negative	13.76
Price/Book		1.31	1.14	0.61	0.81	1.29
Dividend yield	percent	3.33	3.71	3.34	-	2.82
EV/Sales		0.55	0.53	0.42	0.63	0.64
EV/EBIT		7.79	8.22	14.04	negative	10.54

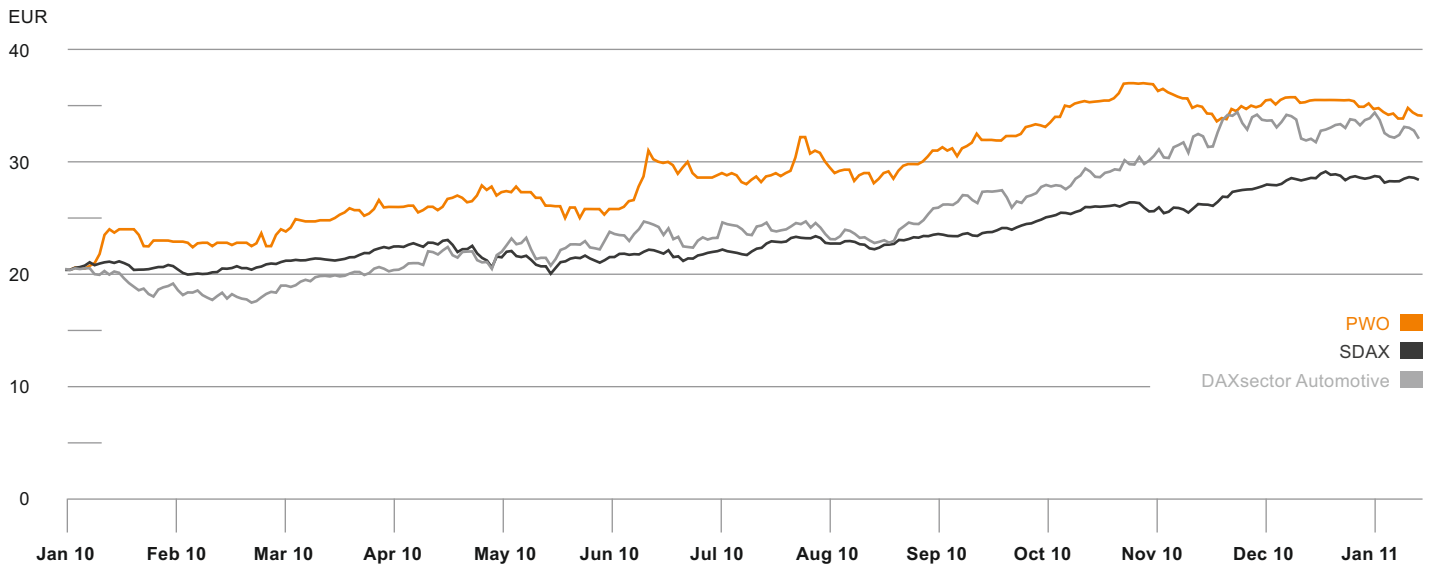
All data based on XETRA year-end closing price.

¹⁾ Proposal to the 88th ordinary Annual General Meeting.

DEVELOPMENT OF THE PWO SHARE IN 2010

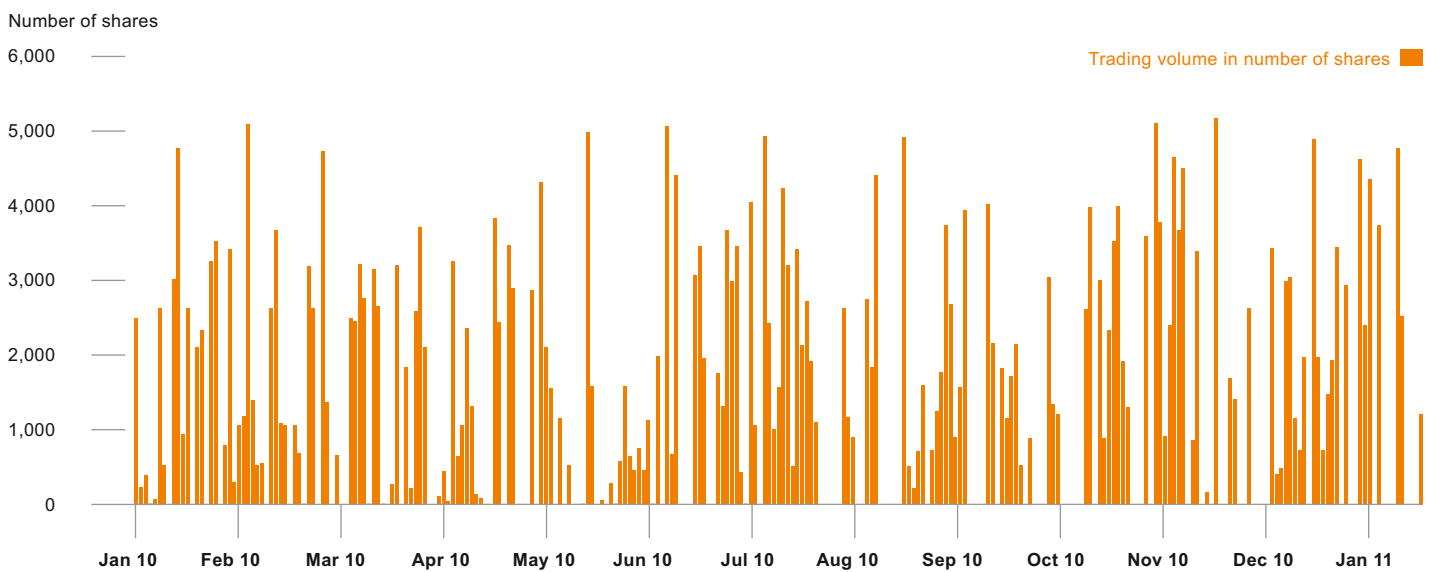
SHARE PRICE DEVELOPMENT

(Indices are rebased on the PWO price on the first trading day 2010)



TRADING VOLUME

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



PWO: A PORTRAIT



THINKING AHEAD: leveraging innovations to exceed customer expectations

Drawing on our outstanding innovative capabilities in product solutions and processes we put our competitive strength to the proof day after day. We are constantly striving for improvements. In doing so, our activities are stringently geared to our customers' requirements, whether in materials input, product design, or production conception. We are continuously expanding our product range, thereby benefiting from the constant growth in the equipment levels deployed in modern vehicles. Components and systems relating to safety and comfort report the strongest growth in this context. These are our specialty areas, where we command globally leading know-how.

Thanks to our creativity in product design and production processes, we often succeed in exceeding our customers' expectations in terms of functionality, precision, and weight. The reduction of complexity represents a key element of creative product design. For example, we reduce the number of handling steps by making welded seams superfluous, or we simplify materials input, for example, by replacing previously required casting fittings by innovative forming processes applied to the same part.

Ready for assembly sub-systems or full-service products allow us to extend our own value-creation on a profitability-enhancing basis. At the same time, we lower our customers' manufacturing complexity. It goes without saying that we nevertheless match our customers' price ideas. Even more doors open to us insofar as we frequently undercut such price ideas.

"The better solution for the customer" – this simple philosophy has allowed us to gain market shares on a global scale over many years.

THINKING AHEAD: clear core competencies making the difference

We focus our range of products and services on the basis of clearly defined core competencies. We are continuously expanding these even further. This allows us to create and maintain our lead over our competitors.

In this context, everything starts with the prerequisites for superior solutions, in other words, with the organisational and operational setup. At global level, we operate according to the value stream principle. The extensive PWO Production System, a proprietary development, combines Lean Management and Lean Production with a consistent zero-defect philosophy that is implemented across the entire Group. It defines our claim of achieving the highest level in terms of efficiency, quality and delivery reliability. A pleasing side effect is that PWO, with its PWO Production System, is the only supplier to date to have twice won the coveted "Automotive Lean Production Award" in the "National Medium-Sized Company" category.

Good tools and extensive knowledge concerning the materials processed are fundamental to the quality and efficiency of all manufacturing processes. These truisms develop into a central challenge when producing millions of units at top speed. This is because tools need to satisfy even more stringent quality criteria when production components have to meet engineering tolerances at micrometre scale on a daily basis, and in production runs entailing millions of units.

Superior tools are not only required to deliver the best quality. They also have a key impact on costs. Drawing on their many years of know-how in steel, stainless steel and aluminium

forming and connecting technologies, our more than 400 employees in the development and toolmaking area maximise production speeds.

In this way, our unique competencies in development and toolmaking comprise two further core expertise areas with which we define standards, and establish a lead over our competitors.

We also deploy this complex forming technology in connection with our extensive development and production know-how. This allows us to position ourselves on a globally unique basis with currently more than one thousand products, thereby significantly further strengthening our market position. Our developers not only think ahead, but also outside the box. By drawing on many years of experience, they are frequently successful in developing groundbreaking solutions that extend well beyond customer requirements.

And, what is more: they open up additional product design scope for our global automotive industry customers – this forms a critical competitive factor in a market that is becoming sharply differentiated with innumerable model and equipment variants.

As a consequence, our range of expertise in development and toolmaking delivers two key contributions to PWO's strategy of continuous growth beyond general market trends at the same time. In addition to new design and product options, it allows us to continuously expand our share in our customers' outsourcing volumes. A current example is that we are benefiting particularly from the expansion we initiated several years ago into the areas of seat structures and adjustments, as well as steering and suspension strut components.

THINKING AHEAD: exploiting automotive construction megatrends

Our product range should be negatively impacted by short-term market changes as least as possible, such as trends relating to powertrains or engine philosophy. We make ourselves as independent as possible from such trends, and consequently focus on major multidisciplinary topics and longer-term megatrends such as safety, comfort, and, in particular, weight reduction.

All these trends offer above-average growth potentials since they reflect all motorists' basic requirements, regardless of which drive concept they may prefer. Consequently, the debates that are currently focusing on CO₂ reduction and e-mobility are among the most important multidisciplinary topics that we are addressing: we are constantly developing new solutions that comprise less material input and reduced weight.

At the same time, it is difficult for our products to be replaced by products made from other materials, because their functions require the utilisation of steel or aluminium. And because, for example, a defined forming behaviour and particular energy absorption are required for magnetic shielding, or a certain type of heat conductivity, or in the case of accidents.

Although there are materials that could replace steel in certain areas, they are either still too expensive (as is the case with very light magnesium – which we could readily process as sheet), or their global market prices are rising too rapidly. Above and beyond high prices and limited scope of use, other materials such as carbon fibres are still far from major series maturity in terms of automotive production.

Where product solutions entailing lower materials input or high-strength steels are concerned, we have established just as strong a reputation over many years as we have for the replacement of heavy or expensive cast or forged parts by lighter sheet components and modules. Here, particularly, we regularly achieve successful substitution solutions.

The launch of electric vehicles has had no significant impact on our product range, since we supply hardly any components in the drivetrain area. Instead, we are already positioned among leading electric drive providers, and we are currently generating additional revenues from applications in this area.

THINKING AHEAD: growth strategy with clear management

PWO Group's revenue grew by an average of 10 percent per year in the ten years before 2007, in other words, before the financial market crisis precipitated the severe economic crisis. We also continually improved our profitability: EBIT was up by an average of 11 percent per year over this period.

Over the same timeframe, we pushed ahead consistently with the Group's internationalisation through the parallel creation and expansion of three new sites in China, Mexico and the Czech Republic. This entailed high investment volumes. We returned to our usual path in 2010, after the international automotive industry's particularly sharp plunge in 2008/2009.

Group management is clearly oriented to this growth strategy. Our focus in this context, however, is not on a fixed growth rate, but on the limitation of our business model's risk exposure, and thereby the reliability of our corporate development. From our perspective, this allows us to serve our stakeholders in the best manner: in other words, customers, employees, financing banks, and our shareholders, whose capital we deploy on the basis of corporate responsibility and profitability.

Reliability comprises both our strategy and our daily business. This is because reliability must be practised anew every day. Our customers demand permanent delivery quality and adherence to delivery dates for their ongoing orders, irrespective of their short-term call order patterns. The fact that we were able to fully guarantee such reliability during the sector's worst crisis of the post-war era not only provided evidence of our business model's resilience. It has also further improved our standing over our competitors in a sustainable manner.

Our philosophy has proved itself excellently as a consequence, particularly during the crisis. At the same time, we never lost sight of our long-term prospects given all the crisis management that was required, and – taking into account the long interludes between the awarding of orders and production start – we invested in the expansion of our production facilities. This applies for all of the Group's sites.

We already started to benefit from this in 2010, and we will benefit to an even greater extent in the years to come. We anticipate strong revenue growth superior to the average of the pre-crisis decade solely from the change to our product portfolio – in other words, from the start and ramp up of new series, less the impact of discontinued series.

EBIT margin growth is also anticipated to run at a higher rate than in the past, because we are not focusing on revenue growth alone, but also on boosting profitability. Moreover, these prospects are independent of call order growth from current series production runs due to the current market recovery. Our books already contain all the orders that are set to generate growth until 2013 inclusive. We are currently acquiring our growth for the years from 2014 and beyond.

THINKING AHEAD: our employees – competent and flexible

Innovative strength in the development of product solutions and production processes, and zero-defect quality for all operating processes – this is the basis of our competitive strength, and the continuous rise in our market share. Our employees implement this on a daily basis with the highest degree of expertise and flexibility. In PWO's more than 90-year history, and across several generations, we have built up extensive know-how in the behaviour of steel in the threshold regions of forming technology. We are constantly expanding this expertise in cooperation with scientific and research institutions.

We pass our knowledge and experience on to younger employees at our individual sites, and between production locations. This allows us to ensure that PWO stands in the forefield of the worldwide market and will remain there in future.

We continued to think ahead beyond the difficult quarters during the automotive sector's sharp plunge, and we planned for forthcoming major series start-ups. For this reason, we implemented all conceivable measures to retain our core workforce within the company. Today, we know that this was the right strategy.

We secure our employees' expertise through extensive further training programmes. The focus is on their specialist and personal development, in order to qualify them for additional tasks, and to enable them to progress professionally. We gradually re-expanded these programmes in 2010, having reduced them during the crisis.

We have traditionally provided a large number of training positions, which allows us to systematically create a base of specialist personnel for the future. And we do this not only in Germany, where the dual training system was first developed. The Group employed a total of 125 trainees as of the end of 2010 (previous year: 149).

This allows us to secure our employees' expertise, making us more independent from the local supply of technical staff. Besides Germany, we also focus on China. The toolmaker's job profile according to the European standard is still unknown there today. Consequently, our work in China is pioneering.

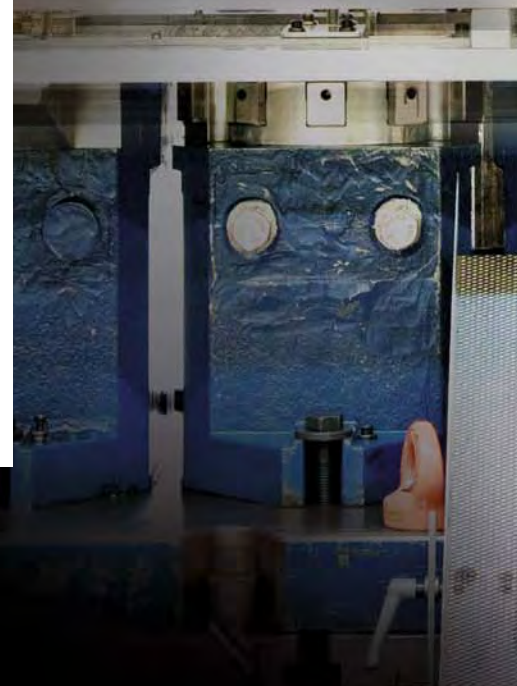
We are highly committed to conveying information and knowledge in our daily work. Our trainees show their gratitude to us by continuing to win distinctions and prizes in their examinations over the past several years. One of our trainees specialising in mechatronics won a sponsorship award in 2010.





“When you start to assess a restaurant’s cutlery in terms of the number of forming steps, then you really have metal in the blood.”

Entrepreneurial thinking is something that applies to all PWO employees. We are fully integrated into the working processes, and we ourselves establish the measures to optimise them. At PWO, local teams of specialist staff are directly responsible for managing the processing of orders within the framework of their daily work. A high degree of transparency, and comprehensible key indicators, allow us to constantly further optimise the capacity utilisation levels of our machines. [Miroslav Pončík, Production Technician, PWO UNITOOLS CZ a.s., Valašské Meziříčí, Czech Republic](#)





Based on their high degree of expertise and experience, our employees are able to successfully handle the daily challenges our sector presents. Exhibiting great flexibility, they respond to, and exceed, our customers' expectations. A particularly high degree of flexibility was required at the start of 2010, when the transition from short-time working to full output was required almost overnight. The ramping up of production following the crisis worked well at all locations, and a sharp rise in call orders was met on schedule. We are particularly proud of this performance on the part of our employees.

THINKING AHEAD: responsibility for sustainable work and business

We regard ourselves as corporate citizens, and from this commitment we derive an obligation to act responsibly and on a sustainable basis, taking ecological and social aspects into account. This particularly concerns environmental protection and occupational safety, as well as how we treat our employees.

In 2010, we established a standard Group-wide framework for environmental and occupational safety, which also comprises business continuity management. To this end, all processes and their reciprocal effects were described and graphically prepared in a binding process house including uniform systematics. Offering ease of overview and use, this process house provides specific help points for daily work, and also ensures uniform standards across the Group.

RESPONSIBILITY FOR ENVIRONMENTAL PROTECTION

Statutory and regulatory environmental requirements relating to, for example, building insulation, heating systems, waste recycling, and the treatment of hazardous substances, have meanwhile converged at a high level globally, at least with respect to the building of new plant.

European requirements for both new constructions and existing plant are applicable in the Czech Republic, and Canadian regulations are no less exacting. At our site in China, all processes are being introduced and gradually fine-tuned according to the principles applied in Oberkirch. We are implementing the key elements of our Group-wide environmental guidelines in Mexico, too, where we have not yet realised any new constructions. We comply with all local statutory and regulatory requirements at all of our sites.

In 2010, we successfully achieved the re-certification of our Oberkirch site according to the international ISO 14001 environmental management standard. Supervisory audits are being conducted successfully at our sites in Canada and Mexico, as well as in the Czech Republic. ISO 14001 forms part of our overall family of standards, which contains numerous additional standards relating to various environmental management areas, including eco balance sheets, key environmental indicators, and environmental performance assessments. This confirms that we have created an environmental management system that corresponds with international standards, and that we also comply with our own requirements.

Particular attention is paid to energy consumption at all our sites. We have pushed ahead with the planned investment in a combined heat and power plant as part of the forthcoming renewal of the heating system at the Oberkirch location. This will achieve significantly higher energy efficiency than the previous system.

Limiting water consumption forms a further focus at our Canadian and Chinese sites. The intentional shutdown of once-through cooling operations when machinery is not running has allowed significant reductions to be achieved in Canada, for example.

Our Chinese site functions as an almost entirely wastewater-free factory. Process water is constantly treated within a cycle process, with fresh water being required solely as sanitary water and to replace evaporation losses, or as part of maintenance work.

RESPONSIBILITY FOR OCCUPATIONAL HEALTH AND SAFETY

Occupational health and safety regulations are also meanwhile set at a high level around the world. In the area of occupational health and safety, too, we not only comply with all statutory and regulatory standards, but we also develop them further, for example, with constantly redesigned machine housings utilising noise protection and modern extraction units.

Safety officers monitor compliance with our standards, and safety groups develop them further. In this context, the handling of lubricants is as regular a topic as skin protection, and the prevention of cuts. A new, extensive, preventative concept was developed and visualised together with the company physician in 2010.

Beyond all organisational measures and their supervision, however, making employees aware of risks and their avoidance is of critical importance. We have set up constant training programmes so that such awareness does not slip into the background during daily work, thereby allowing employees to adjust behaviour accordingly.

And this not only concerns production area employees, but particularly also administrative staff who are generally less aware of these daily risks. In this connection, we also revised our visitors' guidelines in 2010, and adjusted them to reflect the changes in structures due to the company's growth.

SOCIAL RESPONSIBILITY

Our management culture is focused on the appreciation of our employees. We ensure that they are aware of their key contributions to our success. Our managers' task is to communicate attentiveness to, and recognition of, employees, and to structure the overall conditions of their work so that they can work enthusiastically, and with enjoyment.

We attempt to take personal considerations into account as far as possible. We are responsive to individual wishes relating to the structuring of jobs and working hours, and we implement them wherever we can. The treatment of our employees on an equal basis also forms part of the expression of our appreciation of them. There are still remuneration differences between permanent employees and temporary employees within our sector. We have worked out a concept at our Oberkirch site in order to eliminate this divergence over the next two years, and to arrive at a uniform remuneration system for our core workforce and our qualified temporary employees.

We promote our employees' social commitment. For many years, agreements have been maintained between our trainees and social institutions in the locality of the Oberkirch site, through which our trainees commit themselves to actively support these institutions in



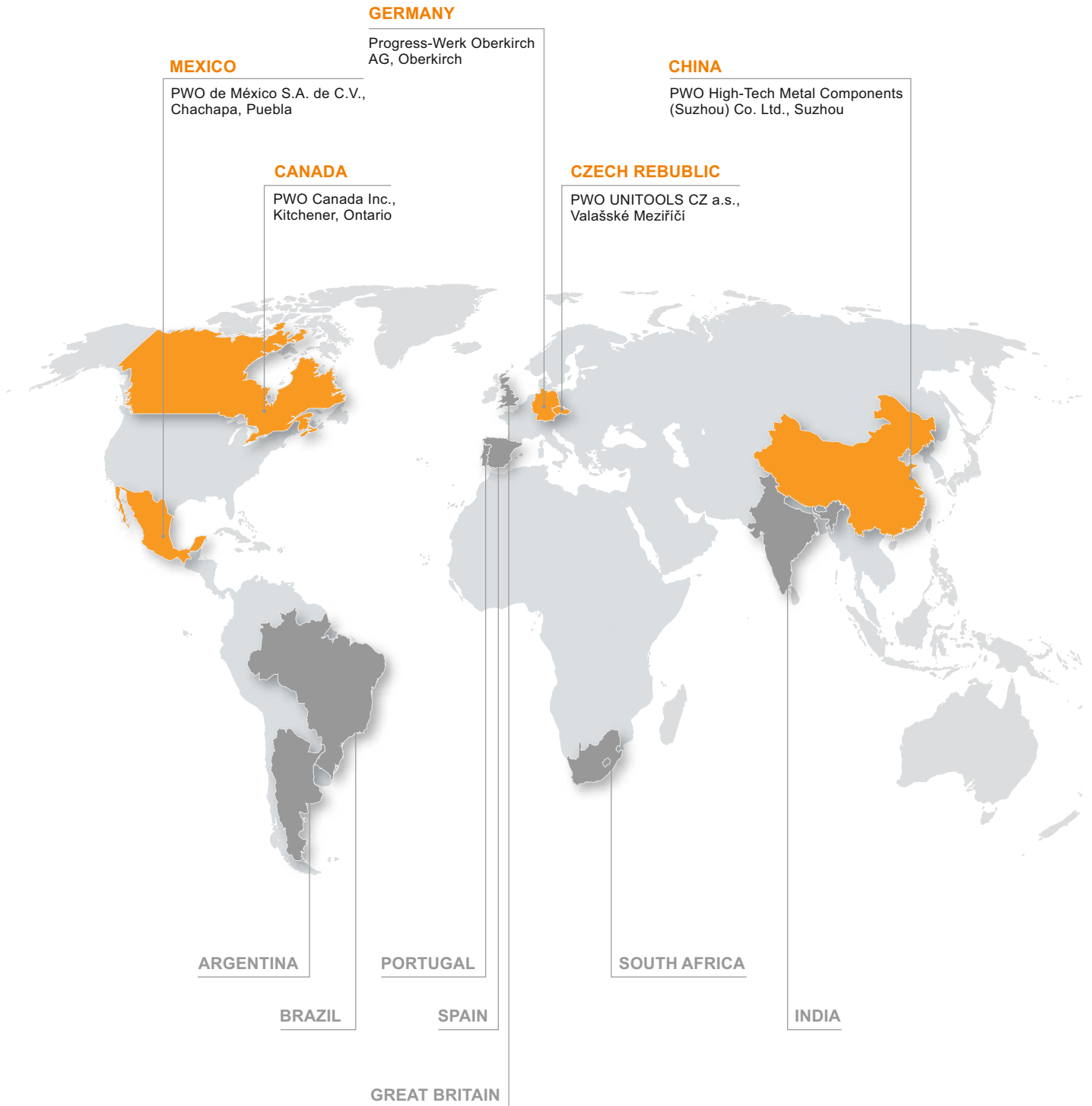
their projects. More than 70 trainees from all three trainee years are currently involved in various projects.

These projects include, for example, traffic training for kindergarten children, who learn to identify trucks' blind spots, or support for the organisation of a summer party at a care home. As a company, too, we are also committed in the social area with the awarding of contracts to support and charitable institutions, as well as through donations.



Electric motor housing for seat adjusters and diffusers for airbags
Complex-design precision housing, developed and manufactured by PWO, is required for safe operation.

PWO SITES



THE YEAR IN REVIEW – HIGHLIGHTS OF 2010

FEBRUARY

PWO confirms meeting its 2009 forecast, and plans continued significant growth from 2010

At all sites, particularly at Oberkirch, consistent cost-cutting measures exert just as positive effect as continuous revenue growth over the course of the year. The Group's by-far largest location thereby generates positive EBIT for the full 2009 year, despite the automotive sector's most severe post-war crisis. The Management Board anticipates revenue growth of up to 15 percent for 2010 and subsequent years.

MARCH

PWO reports high new order intake for Mexico site

Progress-Werk Oberkirch AG reports highly gratifying new order intake for its Mexico location. New series production runs are set to kick off and ramp up mainly over the next two years, feeding through to a doubling of revenue to approximately USD 40 million by 2012. These activities comprise orders for the site's existing customers and other PWO Group customers, and involve components in the bodywork, chassis and steering areas.

MAY

PWO makes successful start to new year

PWO Group benefits significantly from the recovery process in the first quarter of 2010, particularly in the international automobile industry's premium segment. Revenue is up by around 48 percent on the previous year's quarter, which was weak due to the crisis. All sites contribute to the positive earnings trend with marked revenue growth.

AGM passes all resolutions

The 87th Ordinary AGM of Progress-Werk Oberkirch AG at the company's headquarters in Oberkirch passes all resolutions with large majorities, and discharges the Supervisory and Management boards. Karl M. Schmidhuber, CEO of Progress-Werk Oberkirch AG, explains the key developments of the 2009 financial year in the presence of around 200 shareholders, shareholder representatives and guests. PWO manages to steer its way through one of the most difficult years in its history, secure core workforce jobs, and maintain the full scope of the Group's growth prospects.



The PWO site in Mexico opens up the attractive automotive growth market in the southern NAFTA area and in Brazil to PWO.

AUGUST**PWO reports strong second quarter of 2010 and raises full-year forecast**

In the second quarter of 2010, Progress-Werk Oberkirch AG continues to benefit from the ongoing strong recovery in demand, particularly for premium models internationally. Revenue and EBIT improve further compared with the first quarter. Notified customer call orders for the second half of 2010 point towards a continued positive trend, leading the Management Board to upgrade its full-year revenue forecast growth rate from 15 percent to more than 20 percent. The board anticipates revenue in excess of EUR 250 million, and EBIT of around EUR 15 million.

SEPTEMBER**PWO distinguished with the “Automotive Lean Production Award” award for the second time**

At its Oberkirch site, Progress-Werk Oberkirch AG wins the renowned Automotive Lean Production Award in the “National Medium-Sized Company” category for the second time. This award is the key benchmark for gauging how successfully the European automotive industry has implemented efficient structures and processes, and is driving ahead with permanent improvements. PWO launched its Lean Management System at its Oberkirch site in 2004, and had already won the “Automotive Lean Production Award” by 2007. This system has subsequently been expanded and implemented across the Group. The award confirms that PWO has implemented lean management principles across all relevant areas. The aspect of flexibility, in particular, was assessed as excellent. PWO is the only automotive supply company to have received this coveted award twice.

NOVEMBER**PWO reports sound business trends in the third quarter of 2010**

Progress-Werk Oberkirch AG continues its strong operating trend in the third quarter, thereby underpinning its performance over the nine-month period. The marked enhancement of operating profitability is achieved particularly at the Group’s German site. Foreign locations also report stable operating trends. In 2010, the company’s Czech site is also well positioned to generate its first clearly positive EBIT result. The Management Board confirms its 2010 forecast of revenue growth in excess of 20 percent to more than EUR 250 million, and EBIT of around EUR 15 million, excluding currency gains.



Dr. Winfried Blümel (second from the left), PWO Management Board member for production and materials management, accepts the “Automotive Lean Production Award” on behalf of PWO for the second time.



MANAGEMENT REPORT FOR THE PWO GROUP AND PWO AG



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Housing for electric drives in steering and engine cooling systems
 Complex-design precision housing, developed and manufactured by PWO,
 is required for safe operation.

MANAGEMENT REPORT FOR THE PWO GROUP AND PWO AG

On the following pages we present the amalgamated Management Report for Progress-Werk Oberkirch Aktiengesellschaft and the PWO Group for the financial year ending December 31, 2010. The Group continues to prepare its accounts in accordance with International Financial Reporting Standards (IFRS) as applicable in the EU; Progress-Werk Oberkirch AG prepares its accounts in accordance with the provisions of the German Commercial Code. The provisions contained in the Accounting and Reporting Regulations Modernization Act were implemented for the first time in the period under review.

The composition of the consolidated Group is described in detail in the Notes to the annual financial statements. There have been no changes to the group of consolidated companies that have materially affected the net assets, financial position and earnings situation.

COMPANY PROFILE

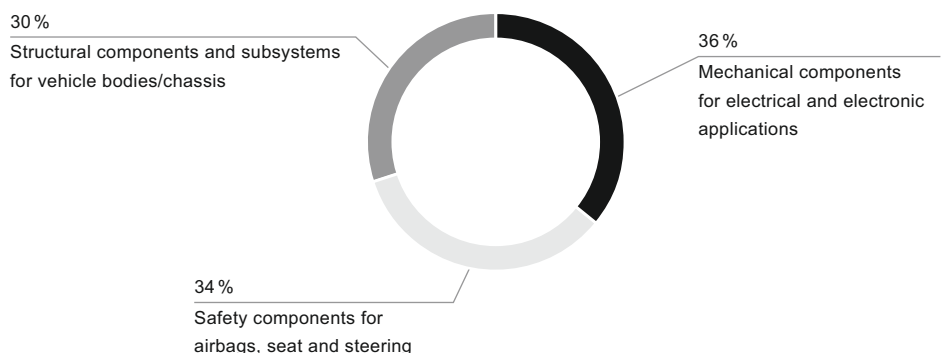
PWO occupies a leading position at the head of the market for sophisticated metal components and subsystems for safety and comfort applications in the auto industry. Viewed across the span of market cycles, these areas exhibit sustained growth that lies above the average trend: Demand among car buyers for greater comfort and greater safety in all vehicle categories and all sales regions is rising inexorably. In application of our core competences in complex sheet metal forming and highly sophisticated bonding technologies, we mass-produce components and subsystems in steel, stainless and aluminium, in some cases in unit numbers running into millions. We concentrate on areas in which our products cannot be replaced by other materials, or where replacement would entail substantial extra cost.

Our innovative skills have led to the development of the world's fastest transfer process in the field of complex metal forming and have established us as the world's leading manufacturer of deep-drawn electric motor housings with an annual output of around 100 million units. We also positioned ourselves at an early stage as a provider of solutions based on high-strength steels which increasingly being used to reduce weight and therefore also CO₂ emissions.



BALANCED SALES DISTRIBUTION

2010 sales (100 % = EUR 264.2 million)



The following areas each account for around one third of sales at PWO:

- Mechanical components for electrics and electronics
- Safety components for airbags, seats and steering
- Structural components and subsystems for vehicle bodies and running gear

With this product range we are the world's only supplier with the ability to offer cover a broad spectrum and embrace the entire value chain from customer-specific development via tool-making to mass production.

The components in the first two areas, accounting for around two thirds of our sales, are sold predominantly to international Tier 1 parts suppliers who in turn resell them to various manufacturers as an integral part of their own systems for numerous models. Structural components and subsystems for vehicle bodies and running gear, on the other hand, are generally supplied direct to the motor manufacturers. Here too, however, the breadth of applications is increased by the rising trend towards international platforms as a basis on which to build a variety of vehicle models. The bulk of our components and subsystems are destined for the premium segment of the auto industry.

As a result of our product range we are not only largely insulated from the success or failure of individual models. We are also able to limit the capacity utilisation risks that arise as models come to the end of their lifespan, since the production capacities thus released can be taken up with a variety of new orders.

The Group headquarters are located in Oberkirch in southwest Germany, in one of the centres of German motor manufacturing. Internationally, we have production facilities of our own in China, Canada, Mexico and the Czech Republic. Other countries and regions are served via cooperative arrangements. At the end of the reporting period the Group employed a workforce of 2,079.

STRATEGY AND CONTROL

Corporate strategy

Customer satisfaction, internationalisation, innovation and cost-conscious management with an active approach to the limitation of risk are the cornerstones of our strategy. It is our intention to continuously develop the competitive strengths of the Group in the global automotive environment and continue to grow at a pace that outstrips the auto industry as a whole. We achieve customer satisfaction through our international leadership in innovative product solutions and associated production processes, with the result that customer requirements in terms of function, precision, weight, price and deadlines are met or exceeded. We regularly introduce pioneering innovations in modern mass production for the global automobile industry.

Innovation in tool-making is the deciding factor that determines component quality, production speed and the integration of downstream processing stages in the forming process. Our internal tool-making facilities are therefore one of our essential distinguishing features.

What's more, we have also earned a long-term reputation as an ultra-reliable supplier noted for zero-defect quality. These features collectively underpin enduring customer relations and open the door to rising order volumes.

Through our strategy of internationalisation we have meanwhile developed the capacity to deliver worldwide, both from our own plants and – in countries and regions in which the market volume in our segment is currently too low to make it economical to operate our own facilities – via cooperating partners. Not only have we gained access to new local markets, we are also





in a position to win orders for which exclusively international suppliers are invited to tender. Such orders in particular include high-volume, long-run platform concepts which are highly attractive not least for their positive impact on capacity utilisation at our established plants in Germany and Canada. In recent years, globalization has made considerable demands on the Group. We have meanwhile established ourselves as a strategic global partner to our customers and distinguished ourselves still further from many competitors who are now post-crisis less well resourced for internationalisation even than they were before.

With a view to safeguarding and enhancing the profitability of the Group in the long term, cost-conscious management and strict internal process control are among the major factors that determine success in an environment as competitive as the auto industry.

Our sustained stable EBIT margin of 6 to 7 percent in the ten years before the crisis and our rapid return to a similar margin which in 2010 – the first year after the crisis – is already almost back to this level, is proof of our long-term ability to successfully manage the competitive pressure in our industry even in difficult times.

In order to actively limit risk and mitigate the typical cyclicity of our business, we rely on a broadly diversified product range which disconnects us from reliance on individual orders and the success of individual vehicle models. We also endeavour to ensure a balanced sales structure comprising large numbers of smaller orders and some individual large orders to safeguard capacity utilisation while limiting the risks presented by follow-up orders. Currently the Group manufactures over 1,000 different components. Our international plant portfolio also serves not least to compensate for differing developments in local markets.

Corporate control

The PWO Group has five production plants worldwide. Management and control are centred in Oberkirch, which constitutes the technology and innovation nucleus of the Group. Here business processes are developed and refined for application throughout the Group.

The Group has implemented a comprehensive PWO Production System in which all internal processes are documented in detail. This ensures the transparency that is necessary to be able to selectively manage and systematically optimise business processes in accordance with the principles of lean management.

As a matter of principle all locations throughout the Group are managed on the basis of this system, albeit with certain adaptations at the two newer companies in China and Mexico to accommodate the technological requirements of local production. This simplifies Group-wide oversight over production and business processes. What's more, our plants are permanently engaged in an internal best practice contest that extends to every aspect of their business processes. Our zero defect philosophy, documented and monitored via the PWO Production System, applies worldwide without restriction.

The system has in recent years made a particular contribution to the success of the Group, in that it has enabled our processes to be fine-tuned both in the face of the sudden and steep collapse that occurred in the second half of 2008 as well as in the recovery that took place both sooner than expected and at a faster pace at the start of 2010.

Our individual production plants each supply their own regional markets. The plant in Oberkirch manufactures goods mainly for Western Europe while the plant in the Czech Republic serves Central and Eastern Europe. The Canadian and Mexican plants supply the north and south of the NAFTA area, and the plant in China serves the local market.

Internally, PWO is structured around an end-to-end value chain. Customer-specific development, tool-making and production come together in integrated teams from the enquiry stage through to the start of series production. Even when production is up and running, the same team regularly monitors the relevant processes and consistently develops improvements to enhance productivity and quality.

ECONOMIC ENVIRONMENT

Macroeconomic background

After the most serious crisis of the post-war era, the global economy recovered substantially in 2010. However, behind the positive overall picture lie some wide regional and industry-specific variations. In the USA, Great Britain and Japan, for example, the upturn has so far developed very little momentum. In addition high public-sector deficits are compelling these and other countries to pursue financial policies oriented towards consolidation. As a result many of the economic stimuli so far provided by the public sector are being reversed.

The German economy, on the other hand, has not only recovered far faster from its economic low-point: with time, the upswing has extended across a far wider front and so become more firmly established. According to the summary published by the leading economic research institutes in the autumn 2010 analysis, Germany is experiencing a robust upturn. Following the export boom and the positive effects of the inventory cycle in the manufacturing sector towards the end of the recession, since mid 2010 there has also been a perceptible increase in domestic demand. The no more than minimal decline in employment during the crisis – thanks to government support – has been a major contributing factor. Now at the start of 2011, both consumer spending and corporate investments are contributing to growth, while exports continue at almost the same pace. The research institutes stress that the economy continues to derive stimulus from the underlying drivers of growth represented by the continuing favourable monetary conditions and the robust German labour market.

Automobile industry

Despite suffering a steep collapse in the global economic crisis in the course of 2009, the German automobile industry staged a marked recovery powered by exports and supported by government incentives (the “environmental premium”). This trend continued in 2010, as German motor manufacturers maintained their sales in both traditional and new international markets. In addition, from the summer onwards German consumer demand began to pick up in a trend which increasingly compensated for the perceptible decline in domestic sales in the first half-year due to the expiry of the environmental premium.

According to the German auto industry association VDA, the 230,400 cars (+7 percent) registered in December 2010 represented the first occasion for a year in which new car registration exceeded the same period of the year before. Domestic orders had been rising since September 2010, with December’s increase coming close to 19 percent. In the year 2010 as a whole, some 2.9 million new cars were registered - still far short (-23 percent) of





*“If I were to state what I do in one sentence,
it would be: doing things well, and talking about it.”*

We accompany our customers to the place where they require our know-how. We provide them with global support with our international production sites, and a network comprising development, procurement and production. We have been manufacturing in Mexico for the last four years, and we are now experiencing a very gratifying trend there in orders in the bodywork, chassis and steering areas. We frequently exceed customer expectations in terms of quality, reliability and flexibility. We don't just talk, but we also act accordingly.

Raul Rojas de Gante, Sales, Key Account Manager, Progress-Werk Oberkirch AG

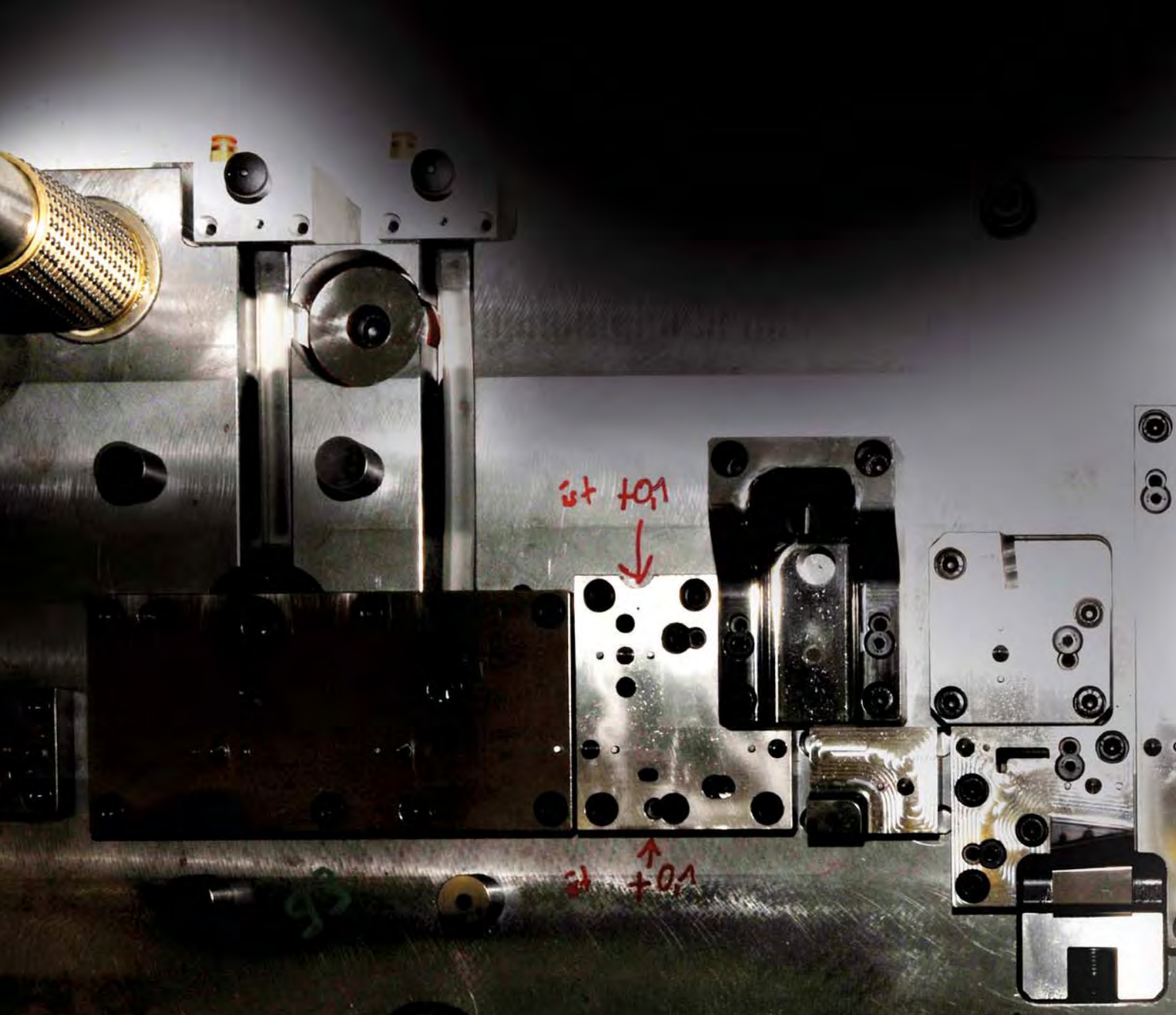




“Knowledge is the only raw material that increases as the result of use. We network knowledge.”

The joint use of resources and systems creates the highest efficiency levels at our company. Our international production sites in China, Canada, Mexico and the Czech Republic are networked with the Group head office in Oberkirch. This ensures that our employees are able to communicate across the entire Group around the world, and around the clock. We harness advanced, IT-supported knowledge management tools, and we have largely standardised our IT infrastructure for our four international subsidiaries. **Srikanth Chikyala**, Organisation/IT, System and Application Programmer, Oberkirch Technology and Expertise Centre, Progress-Werk Oberkirch AG





“A product can only be as good as the tool from which it is made.”

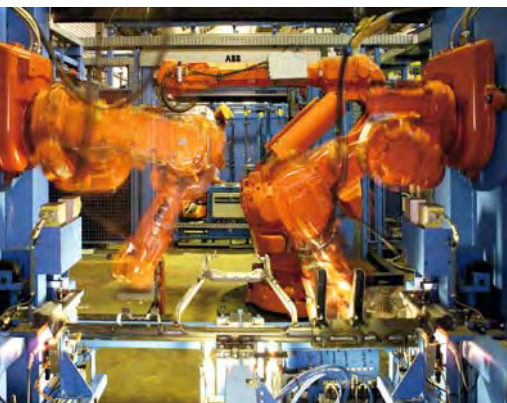
What distinguishes us from other manufacturers of metal automotive components? The answer is to be found at micrometre scale: the highest degree of precision is the indispensable prerequisite for uncompromising product quality, right from the toolmaking stage. And, of course, tools are also decisive for the efficiency of production processes and material consumption – and therefore also for unit cost levels. [Jinfa Yang, Mechanical and Design Engineer, PWO High-Tech Metal Components \(Suzhou\) Co., Ltd., Suzhou, China](#)



the very high total in the previous year. On the other hand, as mentioned above, demand from abroad remained dynamic in 2010: International orders rose by 20 percent while exports increased by around 24 percent to over 4.2 million cars. Boosted by their export successes, the German manufacturers' new car output in 2010 rose by 12 percent overall to over 5.5 million units.

The share of the domestic market accounted for by German brands increased to around 70 percent in 2010 (2009: 66 percent). The proportion of diesel-engined cars also rose steeply by more than 11 percent in 2010, accounting for 42 percent of new car registrations. In December the proportion of diesels actually amounted to 46 percent. It is mainly German brands that are profiting from this development – four out of five new diesels registered in Germany in 2010 were built by German manufacturers. Despite the overall decline in the domestic market, in absolute terms the German manufacturers saw their sales of diesel cars increase by over 5 percent to around 970,000 units. The diesel boom presents no challenges for PWO, since our product portfolio is not dependent on the drive. Therefore we are not exposed to declining sales due to fluctuating demand for different types of engine.

With the exception of Europe – where the number of new registrations must be viewed in the context of the previous year's numerous sales support programmes that have now expired – the international automobile business developed dynamically in many important markets between January and November 2010, as illustrated in the following table:



NUMBER OF NEW REGISTRATIONS

	Number	Change Jan. – Nov. 2010 vs. previous year in %
Europe (EU27+EFTA)*	12,736,100	-5.1
Russia**	1,706,300	27.6
USA**	10,414,600	11.1
Japan	3,972,600	10.3
Brazil**	2,967,700	8.7
India	2,193,100	31.5
China	10,169,600	36.6

* excluding Malta and Cyprus; ** Light vehicles. Source: VDA

Components industry

The component suppliers, too, profited from the dynamic economic recovery in 2010 and from the attendant steep increase in demand. In some areas, as a result of the run-down of capacities during the crisis, stocks were exhausted in the fourth quarter and some delivery shortages occurred. PWO has at all times continuously delivered on time throughout the entire recent cycle.

The most recently available indicators for October 2010 show the order index for the components industry up 15.2 points at 110.9 relative to the same month in 2009. Domestic demand climbed from 105.1 points in 2009 to 117.6 in 2010. International demand rose by 2.9 points in October to 100.6, relative to the previous month.

Also in October, the manufacturing index calculated by the Federal Statistical Office and adjusted for the number of working days stood at 110.3 points, its highest level since June 2008. In the same month in 2009, the index stood at just 93.8 points, equating to a subsequent rise of 17.6 percent. Overall sales booked by the components industry to October 2010 were up 14 percent. While domestic business put on 10 percent, international sales rose by more than a fifth.

NET ASSETS, FINANCIAL POSITION AND EARNINGS SITUATION

Development in sales and earnings

Selected data from the Income Statement (in EURk)	2010	in % of total output	2009	in % of total output
Sales revenue	264,195	97.6 %	206,371	99.8 %
Total output	270,714	100.0 %	206,752	100.0 %
Materials expenses	140,828	52.0 %	112,067	54.2 %
Staff expenses	77,023	28.5 %	67,065	32.4 %
Other operating expenses	24,761	9.1 %	20,577	10.0 %
EBITDA	33,050	12.2 %	12,179	5.9 %
EBIT	16,007	5.9 %	-4,949	-2.4 %
Net income for the period	6,459	2.4 %	-8,949	-4.3 %
Average number of shares (in millions)	2.50		2.50	
Earnings per share (EUR)	2.58		-3.58	
Dividend per share, paid out (EUR; 2010 proposed)	1.00		0.00	

In financial year 2010 the PWO Group achieved exceptionally strong growth in sales revenue which were up 28.0 percent at EUR 264.2 million, while total output rose 30.9 percent to EUR 270.7 million. Following the steep decline in sales in the fourth quarter of 2008 and the weak recovery in the premium segment (which is of primary importance to the Group) in the course of 2009, the auto industry has since in 2010 seen an unexpectedly early and robust recovery in demand for premium vehicles – a demand driven in particular by the export markets.

Given that stocks held along the value chain remained low as a result of the recent crisis, it was necessary to rapidly replenish these inventories to enable us as suppliers to the auto industry to profit generously and at an early point in the year from this increase in demand. From the first quarter onwards we recorded a strong development in business which was sustained throughout the year.

Thus 2010 was one of the few years in our corporate history in which the development in our sales was affected more strongly by changes triggered by the cyclicity of the industry in the volumes of current-production parts called down, than by new and expiring orders.

Tool sales at EUR 20.9 million (p/y: EUR 27.1 million) were well below the level of the previous year, given that a large volume of preliminary tool-making works were undertaken in 2009 in preparation new series production runs that commenced during the reporting period. High-margin sales of series-production components and systems accordingly rose disproportionately to Group sales as a whole, climbing 32.5 percent to EUR 230.4 million (p/y: EUR 173.9 million).

The substantial increase in capacity utilisation during the reporting period led to an improvement – as illustrated in the table on page 57 – in all our cost ratios and thus also to a steep rise in Group profitability. The material cost ratio also profited from a change in the product mix at the Oberkirch plant as well as from improved process stability at the newer plants abroad which was accompanied by lower material consumption. Stronger networking within the Group, particularly in the area of tools, also led to a reduction in outsourced services. The trend towards increased in-sourcing is evident not just in tools but also in prototyping.

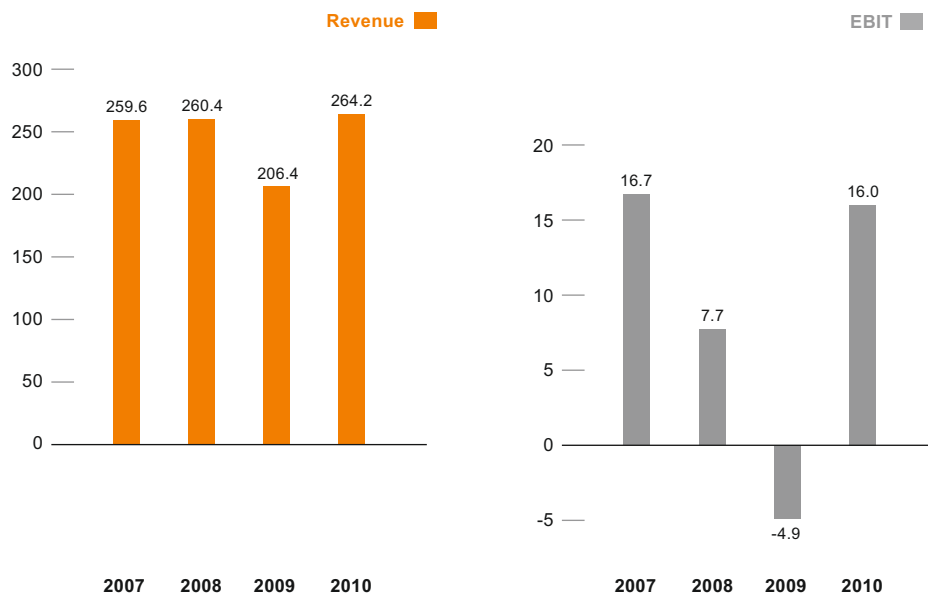
The personnel cost ratio was also substantially reduced. The increase in expenses in absolute terms essentially resulted from the following effects at the Oberkirch plant: the profit share payments to employees that were omitted in 2009, the elimination of the positive effect of short-time working, and the additional cost resulting from collective pay negotiations. In addition at our international locations, particularly in Canada, we began at an early stage to increase our number of employees to cope with the large production runs that were due to start.

In considering the personnel cost ratio, it should also be born in mind that during the reporting period as a result of the supplementary pay agreement concluded in the crisis, there was a reduction in holiday pay at the Oberkirch plant. Full payments will recommence in 2011.

Due to the relatively low requirement for investments in 2010 and our continuing modest investment policy, depreciation in absolute terms was actually slightly below the previous year's level. The ratio of other operating expenses declined rather less substantially than the remaining expense ratios, in particular because the growth in business necessitated the employment of significantly more temporary workers than in the year before, and because maintenance and repairs that had been postponed were once again carried out in full.

REVENUE AND EBIT ALREADY RETURNED TO PRE-CRISIS

in EUR million



EBIT in the reporting period totalled EUR 16.0 million (p/y: EUR -4.9 million). Currency effects within the Group made a small positive contribution of EUR 0.6 million. Even without these effects, we achieved our full-year EBIT target which in August was raised to approx. EUR 15 million.

Interest costs increased to EUR 6.2 million (p/y: EUR 5.5 million), while the tax rate reduced to a welcome 34.1 percent (p/y: tax refund due to negative pre-tax results). This low tax rate was unexpected: it results from the fact that at our plant in the Czech Republic we are meanwhile able of offset tax credits. This will have a positive effect on our tax rate over several years.

Segment reporting

Our production plants provide the basis for our segment reporting, broken down by regions. The segments are determined by the location of Group assets. Sales in these segments are accordingly allocated to the asset location.

Supplies and services exchanged between locations essentially comprise tools manufactured at Valašské Meziříčí in the Czech Republic for other locations. These are consolidated at Group level.

Sales revenue continue to be divided between three strategic products areas, “Mechanical components for electrics and electronics,” “Safety components for airbags, seats and steering” and “Structural components and subsystems for vehicle bodies and chassis.” The developments in these products areas are described at the end of this chapter.



SEGMENT GERMANY

Selected information for the Germany segment (in EURk)	2010	in % of total output	2009	in % of total output
External sales	196,518	95.6%	161,551	98.9 %
Total output	205,552	100.0%	163,425	100.0 %
EBITDA	28,921	14.1%	12,672	7.8 %
EBIT	17,921	8.7%	1,658	1.0 %
Net income for the period	10,319	5.0%	-1,182	-0.7 %

The headquarters of the PWO Group are allocated to the Germany segment. This is the location of the parent company Progress-Werk Oberkirch AG which manages business operations at the Oberkirch plant and is charged with providing Group management structures.

The rate of sales growth in Germany lagged somewhat behind that of the Group since some major production runs were not scheduled to start up until the second half of the year. However, the major contributions to Group earnings continue to be achieved in the Germany segment, as well as by far the highest EBIT margins. In the year under review we managed to return once again to historic highs with an EBIT margin of 8.7 percent. On the other hand as already mentioned, it must be borne in mind that holiday pay was reduced in 2010 as a result of the supplementary pay agreement concluded in the past crisis. Full payments will recommence from financial year 2011.

With the substantial increase in capacity utilisation, in the Germany segment as in the Group almost all cost ratios improved as expected. In contrast to the rest of the Group, however, there was a slight increase in the ratio of other operating expenses – in particular because the growth in business necessitated the employment of significantly more temporary workers than in the year before, and because maintenance and repairs that had been postponed were once again carried out in full. Interest costs declined to EUR 3.2 million (p/y: EUR 3.4 million). After taxes, the income for the period amounted to EUR 10.3 million (p/y: EUR -1.2 million).

SEGMENT REST OF EUROPE

Selected information for the Rest of Europe segment (in EURk)	2010	in % of total output	2009	in % of total output
External sales	25,631	83.6 %	17,304	82.2 %
Total output	30,646	100.0 %	21,053	100.0 %
EBITDA	3,483	11.4 %	955	4.5 %
EBIT	1,390	4.5 %	-894	-4.2 %
Net income for the period	798	2.6 %	-1,700	-8.1 %

In addition to the increase in demand in the marketplace, our plant in the Czech Republic which is allocated to the rest of Europe segment, continues to profit from new and accelerating production start-ups and is growing faster than the Group as a whole. This is all the more gratifying, given that at this plant likewise the volume of tools business fell sharply to EUR 6.9 million (p/y: EUR 9.0 million).

The increased capacity utilisation coupled with a meanwhile high level of process stability led to a substantial improvement in EBIT in the reporting period. At an operating level, that is to say, before negative currency effects of EUR 0.8 million, EBIT in the year under review amounted to EUR 2.2 million. Whereas in the year before, before negative currency effects of EUR 1.0 million, the plant managed only a break-even EBIT. Thanks to tax income in connection with the facility to offset tax credits, net income for the period came in at EUR 0.8 million (p/y: EUR -1.7 million).

Thus the plant not only made its first significant contribution to Group EBIT in financial year 2010 as expected, but is also well on the way towards exceeding the average Group margin in years to come.

SEGMENT NAFTA AREA

Selected information for the NAFTA segment (in EURk)	2010	in % of total output	2009	in % of total output
External sales	37,403	92.1 %	25,796	97.4 %
Total output	40,592	100.0 %	26,475	100.0 %
EBITDA	1,275	3.1 %	-768	-2.9 %
EBIT	-1,990	-4.9 %	-4,019	-15.2 %
Net income for the period	-2,817	-6.9 %	-3,999	-15.1 %

Our two plants in Canada and Mexico are amalgamated in the NAFTA segment. Both plants profited substantially in the reporting period from the rising sales figures recorded by the North American automobile industry and achieved strong growth. Despite substantial expenses in advance of major production start-ups in 2011, the Canadian plant reduced its losses considerably.

Meanwhile, in Mexico we have significantly stabilised the plant's business processes with the result that operating losses were halved in 2010. Various non-recurring depreciation charges that had depressed the previous year's result were absent in the reporting period, however the initial costs of a number of new production start-ups still weighed heavily.

Developments at an operating level at both plants were a source of gratification in the reporting period. EBIT in the year under review also profited from positive currency effects of EUR 0.4 million (p/y: negative effects: EUR 0.6 million). Net income for the period amounted to EUR -2.8 million (p/y: EUR -4.0 million).

SEGMENT ASIA

Selected information for the Asia segment (in EURk)	2010	in % of total output	2009	in % of total output
External sales	4,643	96.5 %	1,720	93.7 %
Total output	4,813	100.0 %	1,835	100.0 %
EBITDA	-668	-13.9 %	-825	-45.0 %
EBIT	-1,339	-27.8 %	-1,123	-61.2 %
Net income for the period	-1,884	-39.1 %	-1,485	-80.9 %

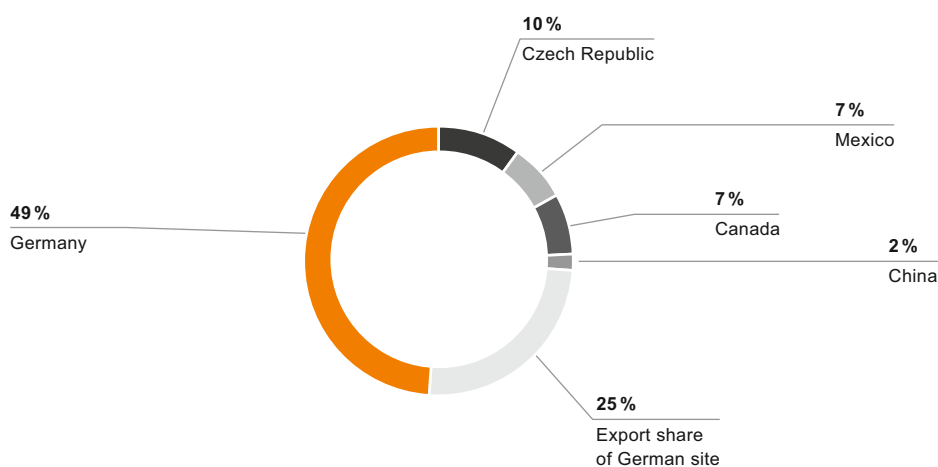
The Asia segment represents the development in business at our plant in China. As reported at the start of 2009, we sold our shares in our previous joint venture to our former partner and withdrew from the undertaking. The plant is now at the development stage and continues to record losses as expected.

Sales revenue and total output rose substantially in the reporting period, not only as a result of booming demand in China, but in particular also because as the plant is developed, new production start-ups are gradually coming on stream.

The plant is slowly reducing its initial losses. Taking into account the earnings contribution of EUR 1.0 million in 2009 deriving from the sale of our stake in the joint venture, it is nonetheless evident that the operating result has improved in the year under review – even after allowing for positive currency effects of EUR 0.5 million (p/y: EUR -0.1 million). However, it will take at least until 2013 before the plant achieves our medium-term sales volume and earnings targets.

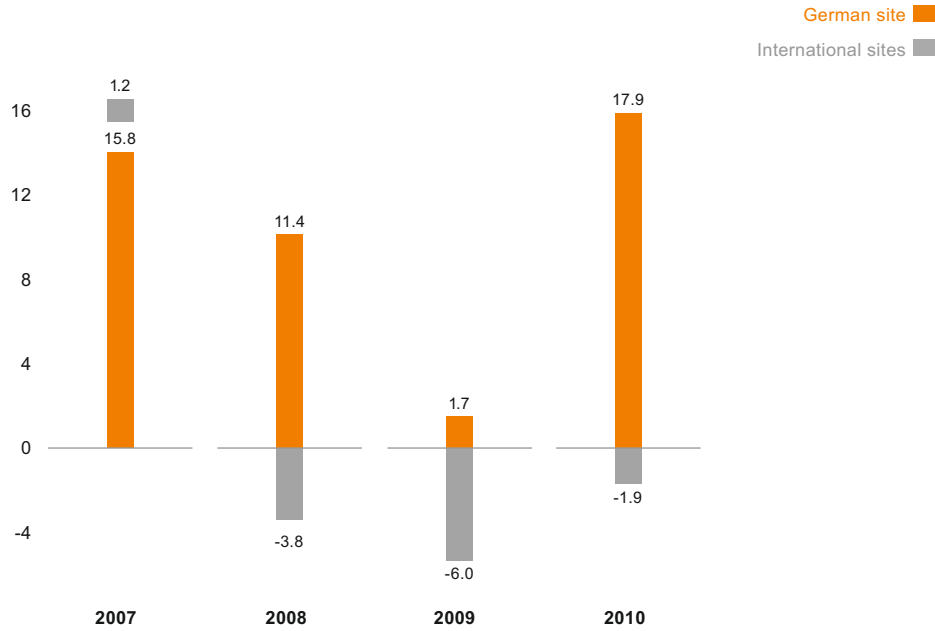
INTERNATIONAL BUSINESS CONTRIBUTES ALREADY 51 % TO TOTAL REVENUE

2010 sales (100 % = EUR 264.2 million)



PEAK IN FOREIGN START-UP COSTS PASSED

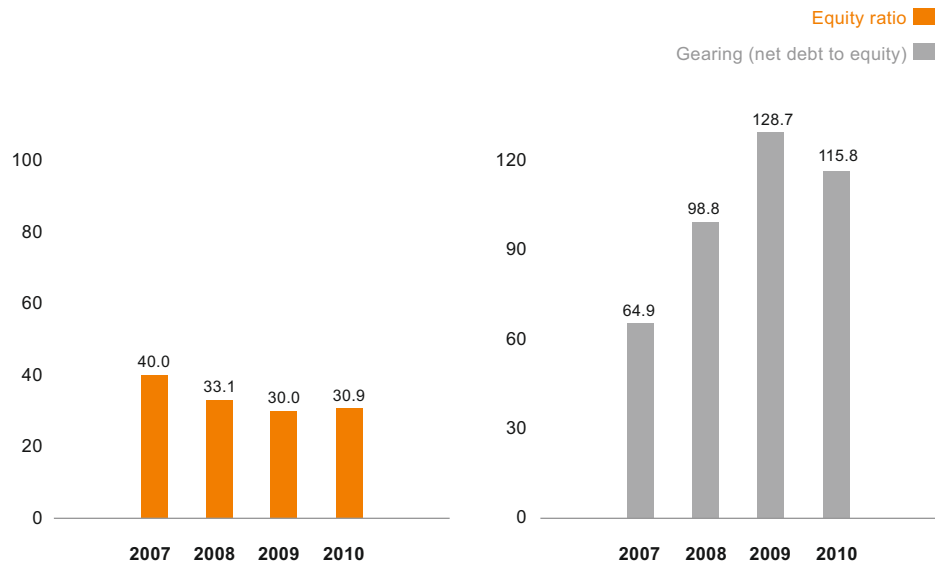
EBIT in EUR million before consolidation items



Financial position, assets and investments

SOLID EQUITY BACKING AND RESUMED DECLINE IN GEARING

in percent



In the year under review, total assets increased to EUR 223.5 million (p/y: EUR 204.7 million). Property, plant and equipment were up only moderately, since although our investments were higher than in the year before, the level was still substantially below the magnitude of previous periods. The increase in total assets was in particular the result of a rise in current inventories and receivables deriving from growth in current business activities.

On the equity and liabilities side, trade payables rose markedly. On the other hand bank borrowings remained almost unchanged relative to the previous year. We were able to finance our strong growth from our own resources. At the same time we also took advantage of the current low level of interest rates on the capital markets and restructured our borrowings over longer terms. Current loans accordingly declined to EUR 28.3 million (p/y: EUR 34.9 million), while non-current borrowings increased to EUR 58.8 million (p/y: EUR 51.8 million).

As a result of the improved earnings situation, equity increased strongly to EUR 69.0 million (p/y: EUR 61.5 million). The equity ratio in turn improved slightly to 30.9 percent (p/y: 30.0 percent), while gearing (net debt expressed as a percentage of equity) slipped to 116 percent (p/y: 129 percent).

Selected information from the Balance Sheet and Cash Flow Statement (in EURk)	2010		2009	
		in % of total output		in % of total output
Non-current assets	116,422	52.1 %	110,215	53.9 %
Current assets	107,037	47.9 %	94,449	46.1 %
Total equity	68,971	30.9 %	61,465	30.0 %
Non-current liabilities	89,582	40.1 %	81,743	39.9 %
Current liabilities	64,906	29.0 %	61,456	30.0 %
Total assets	223,459	100.0 %	204,664	100.0 %
Cash flow from operating activities	24,840		6,008	
Cash flow from investing activities	-16,849		-12,658	
Cash flow from financing activities	-7,055		10,858	
Cash flow for the period	936		4,208	

Cash flow from operating activities in the 2010 financial year quadrupled to EUR 24.8 million (p/y: EUR 6.0 million). The positive net income for the period of EUR 6.5 million contrasted with the previous year's negative EUR 8.9 million.

Investments led to disbursements amounting to EUR 16.8 million (p/y: EUR 12.7 million). Taking account of the EUR 4.6 million (p/y: EUR 3.7 million) balance of interest paid and received, free cash flow for the reporting period was once again positive at EUR 3.4 million (p/y: EUR -10.4 million).

As in the year before, investments at our German plant amounted to around EUR 9 million. The increase in the volume of investments in the reporting period resulted from higher investment at our Czech plant and at the two plants in the NAFTA area. Preparations are being made at all three locations for major production start-ups in the coming years. At the plant in China the focus during the reporting period was initially on stabilising newly developed processes. Investments were accordingly lower than in the year before. Development of the plant will continue in the coming years in line with our medium-term plans.

Cash flow from financing activities in 2010 excluding interest paid amounted to EUR -2.4 million (p/y: EUR 14.7 million), since as mentioned above the balance of bank borrowings was slightly reduced, whereas in the previous year it had been substantially increased.

The overall change in cash and cash equivalents amounted to EUR 0.9 million (p/y: EUR 4.2 million).

ORDERS

As a matter of principle, in the interests of limiting risk, we endeavour to achieve a broadly diversified spread of orders, so that we remain independent both of the success of individual vehicle models as well as of bulk orders for individual products. In addition, to optimise capacity utilisation we are also concerned to stagger the start-up and run-down times of our various series production orders.

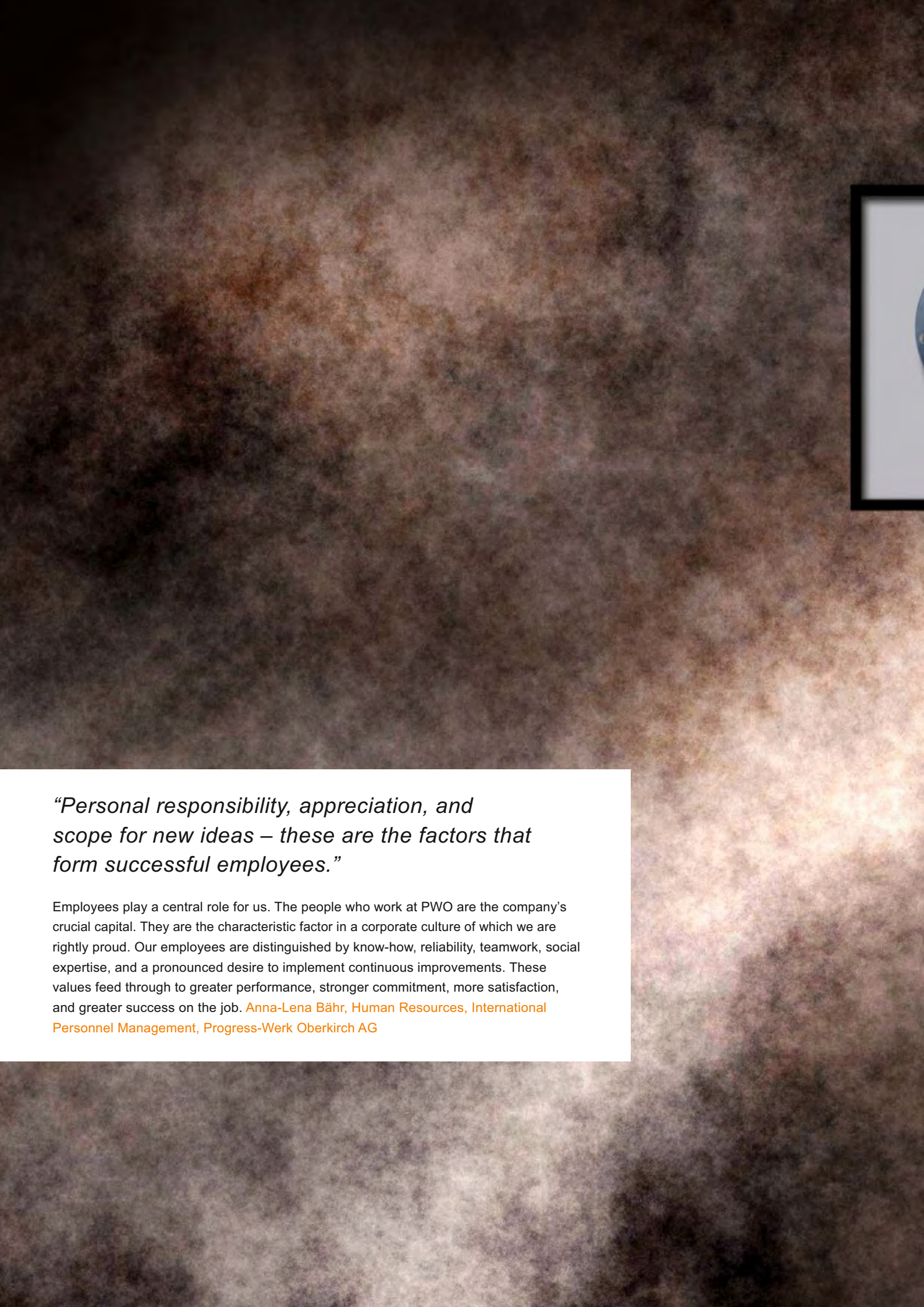
With the lifespan of orders averaging six to eight years, new product orders account for around 15 percent of Group revenue each year. Typical lifetime volumes range from low single-digit to mid double-digit millions. Due to the long lead times in our business, we are already at this time acquiring orders which are scheduled to enter production in the second half of 2012 or even in 2013.

Once again in 2010 we were generally successful in tendering for orders that are of importance to our plants, acquiring new production orders across our entire spectrum of product solutions.

Included among these were our first notable volume orders for drive system components for electric vehicles. We are now already successfully positioned in this future-oriented field of technology. Among the other highlights of the year was an order to develop and manufacture air suspension components for a premium model.

Our strategy of internationalisation again proved its worth in the reporting period: Our German and Czech plants will in future both be supplying components for a major new platform developed by a European manufacturer. The order volume in total will be significant. At our





“Personal responsibility, appreciation, and scope for new ideas – these are the factors that form successful employees.”

Employees play a central role for us. The people who work at PWO are the company's crucial capital. They are the characteristic factor in a corporate culture of which we are rightly proud. Our employees are distinguished by know-how, reliability, teamwork, social expertise, and a pronounced desire to implement continuous improvements. These values feed through to greater performance, stronger commitment, more satisfaction, and greater success on the job. [Anna-Lena Bähr, Human Resources, International Personnel Management, Progress-Werk Oberkirch AG](#)



Mexican plant, too, we were successful in acquiring further substantial new business. The Group's growth targets through to 2013 are now underpinned by orders in hand. What's more, we were also successful in acquiring new orders for the development and production of cross-members in China. Output is due to start in 2012.

Overall, we are currently experiencing a perceptible increase in orders for global platforms involving high unit numbers. Our global strategy has been warmly received by our customers.

GENERAL STATEMENT ON THE GROUP'S BUSINESS POSITION

The PWO Group has accommodated the faster than expected return to high growth rates without difficulty, not least as a result of the far-sighted management decisions taken in the recent crisis to retain the regular workforce. As a result the Group has further added to its reputation as a reliable partner to the automotive industry.

The Group is now poised to embark on another period of strong growth with some extensive production start-ups commencing in 2011 and 2012. The far-reaching internationalisation of the Group in recent years is now beginning to pay off. This applies not just in terms of revenue growth: earnings, too, are expected to improve strongly as start-up losses abroad have passed their peak. This is also the case in terms of investments at all of the Group's locations with the result that in the coming years the ratio of net debt to equity is expected to improve substantially.

The conditions are now in place to enable the Group to ascend to a new order of magnitude in years to come, accompanied by major improvements both in profitability and in the strength of its balance sheet.

EMPLOYEES

CORE WORKFORCE MAINTAINED ALSO DURING CRISIS

Number of Group employees by location

	Germany	China	Canada	Mexico	Czech Republic	Trainees	Total
2007	993	10	118	352	237	91	1,801
2008	1,054	38	106	368	319	125	2,010
2009	1,052	80	106	279	299	149	1,965
2010	1,047	114	165	292	336	125	2,079

Our strong growth in financial year 2010 was achieved without encountering labour shortages thanks to the fact that during the crisis we consciously retained our regular workforce and dispensed with redundancies. Costs were instead reduced by cutting back on the number of temporary employees as well as by trimming material expenditure.

As a result, at the start of the year 2010 when the automotive industry began to experience growth at an earlier time and at a faster pace than expected, we were well positioned to switch rapidly from short-time working to full speed. Thanks to the high degree of flexibility and commitment of our employees, we were able to step up our production volumes in line with the rapid increase in call orders from our customers. During the course of the year we also once again hired a considerable number of temporary workers. However, the number of additional permanent staff needed to accommodate the rising production volumes still remained limited in 2010. The bulk of new employees were hired at our plants in China, Canada and the Czech Republic in preparation, over and beyond the high growth recorded in the reporting period, for the further increases in business anticipated in 2011. As a result by 31 December 2010 the Group workforce had risen to 2,079 (p/y: 1,965) including trainees, or 1,954 (p/y: 1,816) excluding trainees. In China we increased the workforce by 34 excluding trainees to 114, in Canada the workforce was up by 59 to 165 employees and in the Czech Republic by 37 to 336 members of staff.

We have a strong tradition of commitment to training young people in order to offer them the opportunity to gain a foothold on the career ladder, as well as to safeguard our access to the skilled labour we need for further growth. Not least in view of the scale of the Group's forthcoming expansion, in financial year 2008 – before the crisis – we increased our number of trainees by almost 40 percent. Many of them have meanwhile completed their training, and by 31 December 2010 the number of trainees employed by the Group had slipped to 125, compared with 149 in the year before. Nevertheless, the number was still on a par with the end of December 2008.

We offer trainee positions both at our parent plant in Germany, as well as at our international locations. China leads the field with 11 trainees on 31 December 2010, due to the fact that we were unable to recruit skilled workers in the local labour market with the skills we require for our production processes.


In 2010 we once again approved higher training budgets. In total, we invested EUR 2.3 million (p/y: EUR 2.1 million) in basic and advanced training in the year under review.

FURTHER INFORMATION

Product and process innovations

Product and process innovation is a central factor in safeguarding and expanding our competitive position as a supplier to the international automotive industry. Beyond the obvious need for a component or module to fulfil the function required of it, it is a question of being able – at the tendering stage – to put forward intelligent and creative new product designs that offer greater value added than traditional solutions.





*“A zero-defect rate is not only an objective for us,
but also a reality that we put into everyday practice.”*

As a manufacturer of safety components, we feel particularly obligated to zero-defect quality. We strive for perfection down to the smallest detail. We implement our transparent system to map and reduce error costs globally. This naturally also includes a quality inspection and assurance system that is embedded into the production process, and which is largely automated. For us, product quality also means that products are as environmentally compatible as possible in terms of their production, application and disposal. Consequently, we place great emphasis on the efficient use of raw materials and energy – both in production and recycling.

Horst Stamwitz, Teamleader Quality Management System, Quality Technology, Oberkirch Technology and Expertise Centre, Progress-Werk Oberkirch AG



We are regularly able to sway the balance with concepts that substantially mitigate the input material required, reduce the complexity of existing solutions and either integrate previously separate downstream processing stages in one fully automated forming process or even render other stages superfluous. We consistently succeed in making pioneering advances by being the first to develop sheet metal forming solutions for specific applications that overcome the need for expensive welding or casting processes.

In developing such solutions we are able to draw on the extensive expertise we have gained across the broad spectrum of our product portfolio and which forms the basis for our unique market position.

Our own tool-making facility is fundamental to the production processes we can achieve. It is the tool that determines the precision of the product as well as the production process speed that is achievable without forfeiting quality. Manufacturing components, the essential function of which is frequently dependent on tolerances of a few hundredths of a millimetre, calls for tools that must themselves be crafted with far greater accuracy even than the parts they are intended to produce.

We have earned ourselves a high reputation for permanent product and process innovation that stands us in good stead as a development partner for future applications even before tenders are invited for mass production. Currently we can point to particular successes in the field of high-strength steel components and modules which are now increasingly being used in the search for weight and therefore also CO₂ reductions.

Marketing and sales

Our marketing and sales efforts are primarily directed towards expanding our sales to existing global customers, since we now already maintain relationships with the OEMs and Tier 1 and Tier 2 auto industry suppliers of major importance to our business. We take the opportunity to position ourselves at a very early stage for follow-up orders for products in current series production.

We also generate growth via two particular sources: On the one hand, we specifically market solutions in product areas in which the customer currently does not buy from us. On the other hand we target growth by supplying those of our customers' international production plants which we were in the past unable to reach for lack of a local presence. Since new series production orders are not placed until a model is due for replacement, the essential growth momentum resulting from our internationalisation in recent years is still to come.

Our newer plants, particularly in China and Mexico, also have the potential by steadily developing their technological capabilities to qualify for series production orders which are at present not yet able to accept. We are working intensively on this aspect in consideration of local market prospects.

Opportunities to acquire new customers are naturally pursued with vigour. However, the resulting growth is generally achieved only in the medium term, due in part to the in some cases lengthy lead times required even to join a new customer's list of potential suppliers. What's more, customers often expect first-time suppliers to offer prices that would not permit



us to achieve our target margins. We therefore regularly withdraw from such invitations to tender. The decisive features that distinguish PWO from its competitors are our powers of innovation in product and process development, our ability to supply high unit numbers with dependable reliability, our reputation for maximum quality over the entire lifetime of series production, and our global presence.

Research and development

PWO manufactures exclusively to customer order. Accordingly, by far the bulk of our development costs are incurred in the context of customer projects. These costs are either paid directly by the customer as defined development stages are reached or amortised via the price of components in the course of production.

Quality management

Zero defect quality is the standard by which all products and processes are judged in the automotive industry. Nevertheless, on average, the industry is still far from achieving this goal.

As a manufacturer of safety components, PWO accepts a special commitment to meeting this quality standard, irrespective of customer requirements. By implementing extensive quality assurance concepts along the entire internal value chain, we aim to come as close as we can to achieving zero defect quality in our production.

This also serves to improve our profitability as defect costs are consistently reduced. With the aid of integrated, automated quality checks we ensure that the goods we supply to our customers to the greatest possible extent are of zero defect quality. This too serves to distinguish us from our competitors.

Logistics and procurement

We work with steel, stainless and aluminium, and we source our raw materials on the world markets. To date, procurement has not posed a substantial problem even in the case of temporary peaks in global demand. Apart from standard grades, for a large proportion of our products we procure special alloys that are supplied to our international plants by our long-standing partners in the European steel industry.

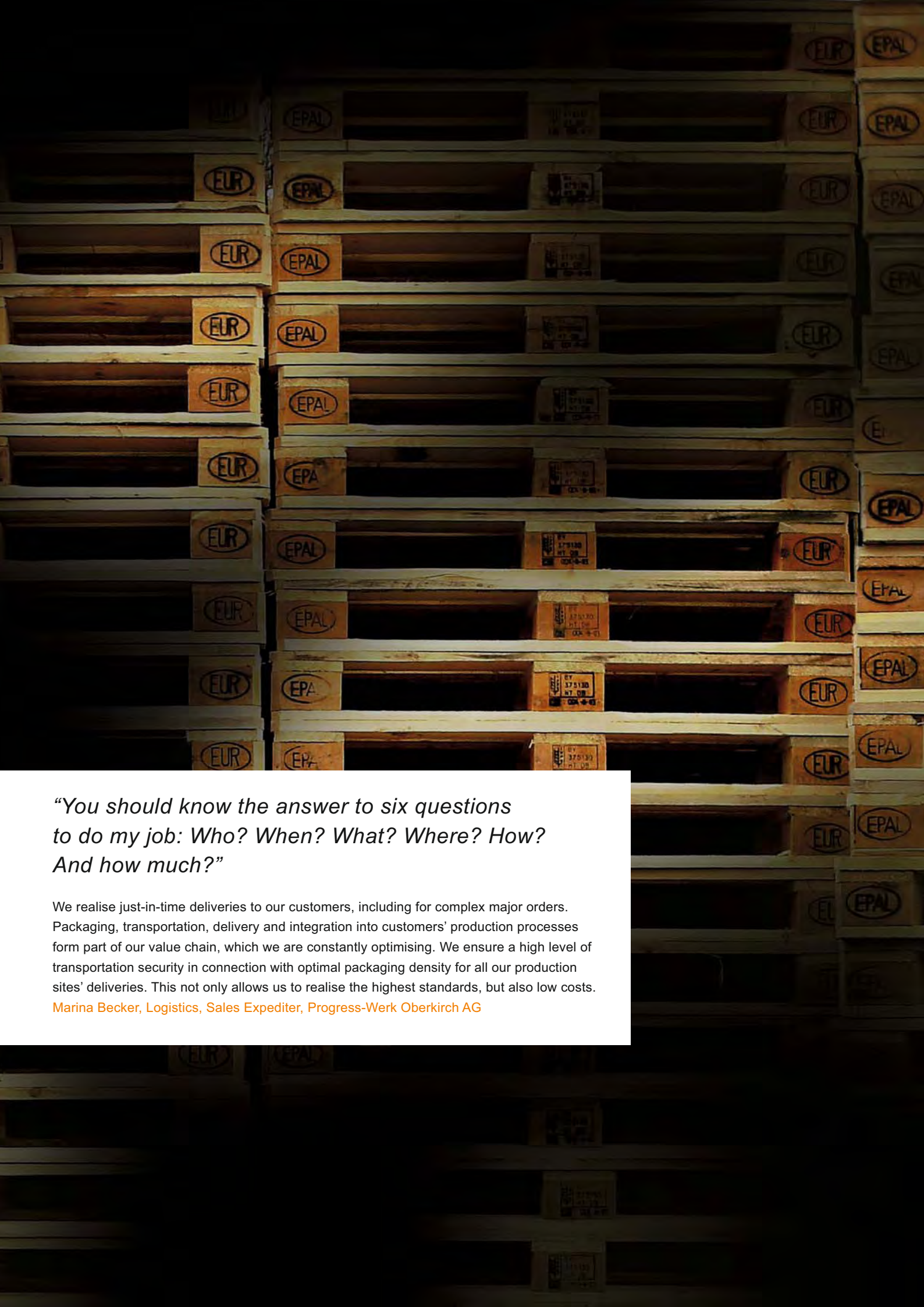
In the interests of diversification of supply, we have staggered contracts with various suppliers. We do not enter into commitments of purchase minimum quantities. Short-term scheduling is based on the call order volume forecasts notified to us by our customers. Deliveries are made to the location agreed with the customer, generally within a tight time window of just a few days.

In the case of energy, which is required on a substantial scale for our forming processes, it is scarcely possible to source our needs from a diversified range of suppliers. Supplies, however, are largely secure.

Corporate responsibility

We regard ourselves as a corporate citizen and as such we accept a commitment to act responsibly in compliance with the law.






“You should know the answer to six questions to do my job: Who? When? What? Where? How? And how much?”

We realise just-in-time deliveries to our customers, including for complex major orders. Packaging, transportation, delivery and integration into customers' production processes form part of our value chain, which we are constantly optimising. We ensure a high level of transportation security in connection with optimal packaging density for all our production sites' deliveries. This not only allows us to realise the highest standards, but also low costs.

[Marina Becker, Logistics, Sales Expediter, Progress-Werk Oberkirch AG](#)





“To make my job comprehensible, imagine the weight of ten locomotives stacked on top of each other, and which are then dropped precisely onto the space of a square centimetre. What these massive forces generate is what I am responsible for at PWO.”

High-strength steel sheets are increasingly employed for bodywork structures in modern vehicle construction. We develop complex lightweight components that meet the highest requirements, and cut energy consumption. We utilise state-of-the-art simulation, calculation and inspection procedures not only to constantly define new standards in sheet forming, but also to test their limits in our complex forming processes. This is how our products set benchmarks in boosting functionality and performance. [Hansjörg Schneider, Teamleader, Customer Support/Process Predevelopment Area, Oberkirch Technology and Expertise Centre, Progress-Werk Oberkirch AG](#)



Our goal is to shape the interactions between employees, customers, business partners and the social environment in such a way as to avoid or restrict any impairments resulting from our business activities, while taking account of social issues and protecting the environment and conserving natural resources. We accept our social responsibility in equal measure both at our international plants as well as at our parent plant in Germany.

Our efforts extend also to ensure comprehensive occupational health and safety levels, which are subject to continuous monitoring and enhancement. In addition, we observe a corporate culture that is centred on an appreciation of our employees, and we support their voluntary commitments to society.

The Group itself also accepts a variety of social commitments, including for example financial aid for social initiatives, support for counselling services and donations. Our efforts are also directed not least towards protecting the environment wherever possible, including a permanent reduction in the natural resources consumed per product unit.

We endeavour in this way to make positive contributions to the social environment in which we operate. In doing so we also comply with the requirements of our customers who in exercising their own corporate responsibility place a similar onus on their suppliers.

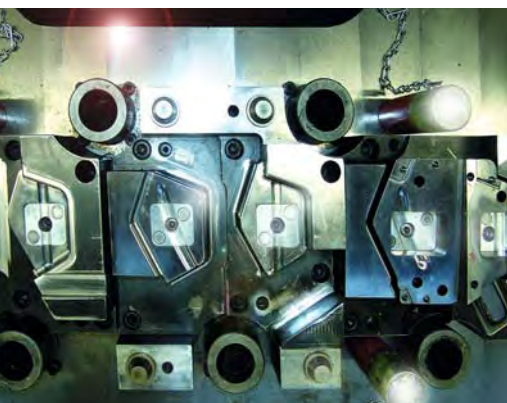
RISK REPORT

Description of the risk management strategy

The goal of our risk management strategy is to avoid and restrict operational risk, insofar as it is possible and meaningful to do so. Financial risks that do not of necessity arise from our business operations, such as for example taking open positions in derivatives, are avoided. Financial activities are accordingly not conducted as a profit centre.

Moreover our business model and our operating processes are – as a matter of principle – structured so as to limit risk, and we continue to strengthen this position:

- As an innovation leader we set standards in our product areas, rather than following the standards of others.
- As quality leader we supply zero defect quality products to the greatest extent possible, and thereby limit the risks arising from product defects
- Thanks to our broadly diversified product we are largely independent of fluctuations in demand in individual areas as well as of the success of individual vehicle models.
- We employ standardised plant and machinery and have established standardised processes in place. We therefore enjoy a high degree of inter-plant flexibility which enables us to optimise production capacity utilisation, also as our order structure varies over time.
- Through our global positioning we act as a strategic partner to an increasing number of customers and have access to international orders with substantial positive effects on sales, not least at our established German plant.
- Setting up plants in regions in which outsourcing is practised at a sustained high level limits the risks of structural under-utilisation of capacities.



- With our strong tradition of commitment to staff training, we command the internal structures and experience needed to develop a major proportion of the skilled labour we require. In this way, we have become steadily less dependent on the supply of skilled labour available in the marketplace – both in our developed markets, where there is a tendency towards demand-induced shortages, and also abroad where in some cases there are no skilled workers available with the qualifications we need.
- We perceive our suppliers as partners with whom we maintain long-term relationships. This in turn enables us to develop stable processes which can be continuously improved.

Main features of risk management at PWO

In the recent crisis the risk management system at PWO once again proved its full worth and displayed its efficiency. No fundamental changes were therefore required in financial year 2010. The principles formulated by the Management Board were refined as required and documented accordingly in our risk management handbook.

This handbook systematically identifies, describes and assesses risks and the manner in which they should be addressed. “Risk owners” report to the Management Board regularly each month, and forthwith in the event that new material risks become apparent.

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

The risk management system is applied uniformly throughout the Group, subject to the stage of development of each individual location. However the scope of application varies: the system is implemented full-scale in Germany, Canada and the Czech Republic. We commenced introduction of the system at our Mexican plant in 2007 and have meanwhile implemented various central elements, adapted to the individual local situation. The plant in China is at the development stage and is still recording a low level of revenue. Its day to day business processes are accordingly less complex and can be supervised using selected risk management system modules.

Main features of the internal controlling and risk management system

As a capital market oriented company as defined in Section 264d of the German Commercial Code (HGB), we are obliged in accordance with Section 289, (5) of the Commercial Code (HGB) to describe the essential features of its internal risk management and control system insofar as this affects our accounting procedures.

We consider an internal control system to comprise the principles, processes and measures introduced internally within the undertaking by the management to support the organizational implementation of management decisions

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

The risk management system comprises the entirety of all organizational rules and activities designed to recognize risk and deal with the risks inherent in the conduct of business.

With regard to accounting procedures, the following structures and processes are implemented at PWO:

The Management Board bears overall responsibility for the accounting-related internal control and risk management system within the Group. All strategic units are integrated into a clearly defined management and reporting structure.

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

The principles, structural and procedural organisation and processes entailed in the internal system for the management and control of accounting risks are defined in a handbook which is updated at regular intervals in line with current external and internal developments.

With regard to the accounting process we consider the essential features of the internal risk management and control system to be those that might materially influence the preparation of the accounts and the overall impression conveyed by the annual financial statements. This in particular includes the following elements:

- Identification of essential risk and control areas of relevance to the accounting process;
- Monitoring controls to oversee the accounting process and its results at Management Board level and at strategic business unit level; these include visits several times each year to foreign plants by the CFO and parent company management staff;
- Preventive measures within the finance and accounting system and within operating business processes which generate material information for the preparation of the annual financial statements and management report, including the separation of functions and predefined approval processes in relevant areas;
- Measures to ensure proper computer-aided processing of accounting matters and data;
- Measures to monitor the accounting-related internal risk management and control system, including intensive personal communication between management staff at the parent company and at foreign plants.

Changes in the risk situation in 2010

The risk situation facing the PWO Group was considerably relieved in 2010 by the rapid increase in demand, in particular for premium vehicles. The risks inherent in the past crisis meanwhile no longer persist. On the other hand, no new material risks have emerged. PWO has already experienced strong growth on frequent occasions in the past and is commensurately experienced in successfully managing growth risks, as well as the typical auto industry risks that remain unchanged.



Market and capacity utilisation risks

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

At certain points in the fluctuating cycle typical of the auto industry, our growth is essentially determined by the difference between production runs that are expiring and those that are starting up, with new production orders in turn dependent on the new models being launched by our customers.

In the case of existing orders, in normal cycles the market and capacity utilisation risks extend in particular to delays in new project start-ups and fluctuating revenue resulting from fluctuating customer demand. Thanks to our broad product range comprising over 1,000 different components and modules manufactured to meet individual customer needs, we are able to effectively counter these market risks. Nor are there any risks arising from development works that are amortised via the price of components during the course of series production.

In the recent crisis we proved our ability to cope successfully even with historically unique market conditions. We also set great store by permanently enhancing the flexibility of all our business processes. This makes it economically viable for us to produce even smaller unit quantities and thereby react far more flexibly to fluctuating demand.

The upturn in financial year 2010 was accompanied in the premium model segment with a marked shift in demand structure towards the developing countries such as China: a shift which in the view of many experts is likely to be sustained. We are currently profiting substantially from this trend, since the rapid increase in demand from our European customers is in large measure driven by exports outside of Europe, leading to a corresponding increase in call orders placed on local production facilities.

For the future, we anticipate that automobile manufacturers will place still more emphasis on developing local production in foreign markets. With our recently developed international plants, we are well positioned to seize the resulting opportunities for growth.

However, we see no long-term structural capacity risks for our established plants in Germany and Canada. Both these facilities serve automotive markets of such size that we expect in future to continue to maintain adequate capacity utilisation and achieve growth by adding market share. This prospect is further underpinned by the fact that these locations enjoy a broad product competence spectrum and are well equipped with plant and machinery, with the result that they are not dependent on follow-up orders in single segments of the market.

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

Moreover, in the event that contracts containing amortisation agreements in respect of defined works to be provided by us are cancelled, there are certain obligations incumbent on the customer. Project-specific market risks entailed in investments and up-front financing are also contractually hedged in the usual way.

Likewise the permanent increase in competitive pressure is among the market risks typical of the automotive components industry. As a leader in innovation we provide our customers with quantifiable value added. In addition we are constantly improving the efficiency of all our operational processes. Our positive development sustained over many years is proof that we are capable of successfully overcoming these risks.

Performance and quality-related risks

Performance and quality-related risks are among the major risks facing the PWO Group. Series production for the international auto industry nowadays means meeting the demands for maximum process security, quality and delivery reliability with sustained effect over many years.

Failure to serve the customer not only leads to short-term financial penalties. The considerable reputational damage that results can also substantially weaken the supplier's position in annual price negotiations both during the lifetime of an order and when new orders are placed.

Managing performance and quality risks is therefore integral to all our business processes. Documenting the conduct and stability of our processes as part of the PWO Production System renders these processes transparent and open to permanent systematic improvement. We are also constantly consolidating the necessary processes to enable us not only to deliver zero defect quality, but also to create a detailed record of the entire production process and document this for the customer. In doing so we once again stand out from our competitors and underpin our market-leading position.

In order to limit production faults and downtime we carry out preventive maintenance to forming presses, welding and assembly lines and tools. We also endeavour to be able to manufacture any given product at all times on at least two machines in order to compensate for potential machinery faults.

We are not only concerned with refining the described levels of performance reliability and product quality at our established plants in Germany, the Czech Republic and Canada, but also with translating these capabilities step by step to our newer locations in China and Mexico.

The markets in these countries, however, generally do not as yet necessitate the highly complex, fully automated production processes that are employed at our other locations. Accordingly, there is greater production leeway which in turn contributes to the limitation of risk.

Risks arising from our international presence

For some years now the Group has been established on a global footing and intends to pursue further globalisation in future. Our plants are positioned in regions in which, on the one hand, our existing customers have set up production facilities, and in which forthcoming model changes promise growth opportunities for us. On the other hand, we only develop new production plants in locations where there is already a sustained high demand for our products and services. In this way we limit structural capacity utilisation risks.

In order to limit risk and avoid unused capacities, investment decisions are based exclusively on orders in hand. In China, however, there are risks arising from up-front investments not only in production equipment but also in infrastructure, given that this plant is an entire new development. Accordingly, we are monitoring developments here with a close eye.

We limit performance and quality risks at our international plants by employing uniform Group-wide business and production processes that are documented and monitored via our PWO Production System.

In order to limit management risks and to support the development of technological capabilities at our newer plants especially in China and Mexico, posts of material importance at our international plants are filled by experienced members of staff who are either seconded from our German plant or trained there. Moreover we continue to progressively develop our Group management functions in order to even more effectively counter potential risks deriving from our international presence.

Risks to accounts receivable

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

Internationally too, we mainly collaborate with existing Group customers with whom we have developed a long-standing relationship of trust, with the result that in principle no greater risks exist.

In view of the zero defect quality we provide, risks arising from receivables are a limited problem. This was once again confirmed in the recent crisis, despite the fact that many companies along the supply chain were severely impacted. If problems arise, all of the partners concerned must find constructive solutions, which is invariably the case.

Financial risks

Financial risks primarily comprise financing, interest and currency risks. These risks were substantially increased during the crisis. However, the in some cases very long-standing relationships with our banks proved their worth and our access to adequate refinancing was never in doubt. Meanwhile, these risks have normalised once more. There were no



bottlenecks in pre-financing the rapidly rising number of call orders in 2010, nor do we see any such problems in financing future growth.

Similarly, the potential financing risks resulting from the failure of financial institutions to fulfil their obligations in connection with the investment of liquid funds or as counterparties to derivative financial assets have also meanwhile declined. This is all the more applicable given our concern to carefully select and diversify our choice of partner.

Interest rate risks are limited by an appropriate combination of short- and long-term borrowing. Investments associated with long-term customer orders are as a matter of principle also financed over the long-term. In the case of variable-interest loans, interest rate swaps are additionally employed.

In the field of currency risks in recent years in general and also intra-year in the period under review, volatility has been markedly higher as financial investors have increasingly turned their attention to the currency markets, as indeed also to the raw material markets. We anticipate that sustained high levels of volatility are to be expected in future. In order to limit currency risks in our business operations, we enter into hedging transactions based on comparable principles throughout the Group. Beyond this, in the field of procurement such risks are structurally limited by the fact that all raw materials and process materials for the plants in Oberkirch and the Czech Republic – and insofar as particular steel grades and alloys are not available locally, for the plants in North America and Asia as well – are purchased in Europe.

Our long-term supply contracts are accordingly denominated in euro. The principal currency risks therefore derive from wages payable in local currencies. However, there are also lending and borrowing arrangements within the Group that in some cases entail currency risks.

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

Procurement risks

The raw materials and process materials required for our production processes particularly include steel, and to a far lesser extent also aluminium. We purchase these metals on the world market, where we are unable to influence either price or availability. As a matter of principle we endeavour to limit procurement risks by building long-term relationships with suppliers of all essential raw materials and process materials. However, the once typical long-term master contracts are currently no longer available in the marketplace.

We have in the past experienced no shortages in the supply of input materials. Thus far we have been able either to pass on price rises in excess of the fluctuation span contractually agreed with our customers via escalation clauses, or to successfully arrive acceptable solutions through negotiations with our customers. In turn, we also pass on price reductions.

Looking ahead to the future, in principle we expect further price rises and increasing price volatility. Nor are occasional shortages of supply to be excluded. The following developments in particular are likely to influence this situation:

- Rising costs in Germany associated with the so-called “eco-tax” and the levy imposed by renewable energies legislation.
- Escalating demand for metals from developing countries – especially China and India – coupled with long-term increases in ore and energy prices which will drive up the cost of steel production.
- Increasing speculation by financial investors in the raw material markets. This phenomenon has latterly spread as a result stricter regulation in the financial sector with banks meanwhile prohibited from engaging in such activities as trading in naked derivatives. Their response has been to dramatically increase their involvement in physical raw materials trading and move into new raw material markets.
- An increase in natural disasters and catastrophic events.

Claims risks

In order to protect ourselves against the risk of claims made against us we arrange corresponding insurance. The sums insured are continuously reviewed on a Group-wide basis and adjusted as necessary. Adequate security is thereby guaranteed at all times.

In addition, we have at our disposal a business continuity management system: a company-specific emergency and crisis management system through which we are systematically prepared to overcome business-critical emergency situations. From our location in Oberkirch the system will steadily be rolled out to control Group-wide risks.

IT risks

PWO possesses a comprehensive modern IT infrastructure extending to all areas of the Group which substantially contributes to ongoing improvements in Group efficiency.

To limit risks we use standard software tried and tested in the marketplace, which we in turn continuously refine to meet our individual needs. In addition, our Group IT processes are permanently and comprehensively monitored by specialist staff in order to safeguard systems functionality and counter risks at an early stage.

Summary risk statement for the PWO Group

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

Even after the recent crisis, PWO can point to a sound and healthy balance sheet. The Group continues to exhibit a robust equity ratio and a high but in view of the earnings outlook for the coming years easily sustainable level of net debt.

In view of our meanwhile extensive experience of managing an international Group, of the marked business process stability that has meanwhile been achieved at our newer international locations and of the extensive orders entering production in the next two years,



the Group risk situation may currently be assessed as not only substantially lower than in the recent crisis, but as far lower also than in the years before the crisis.

COMPENSATION REPORT

The Corporate Governance Report contained in this document (see pages 18 to 26) contains a report detailing the individualised compensation paid to Management and Supervisory Board members. The Remuneration Report forms an integral part of this Management Report.

CHANGES TO THE MANAGEMENT AND SUPERVISORY BOARDS

There were no changes in the composition of the Management Board or Supervisory Board in financial year 2010.

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

The Corporate Governance Statement by Progress-Werk Oberkirch AG is published on the company website at www.progress-werk.de/corporate-governance.html

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

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

The company has share capital of EURk 7,500 which is divided into 2,500,000 bearer shares, each representing EUR 3.00 in capital. All shares are made out to bearer, carry identical rights and convey one vote each at the general meeting.

There are no restrictions on voting rights, limitations on transfer or assignments, preferences or other rights conveying powers of control. Your attention is drawn to the provisions of the German Stock Corporation Act regarding the rights and obligations associated with share ownership. The Management Board is not aware of any restrictions that have been agreed between shareholders and affect voting rights or the transfer of shares.

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

Consult Invest Beteiligungsberatungs-GmbH of Böblingen has notified us that it holds a stake of 55.282 percent in Progress-Werk Oberkirch AG. The Management Board is not aware of any other interests in excess of 10 percent of voting rights. There is no employee participation within the meaning of Section 315 (4), No. 5 of the German Commercial Code.

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



The Supervisory Board decides upon the number of Management Board members, their appointment and the cancellation of appointments, and the conclusion, amendment and termination of contracts of employment with Management Board members. The Supervisory Board may also nominate a member of the Management Board to serve as Chairman or Spokesman of the Management Board. The nomination and appointment of Management Board members may also be revoked prior to the end of their term of office by the Supervisory Board if good cause exists.

In accordance with Section 179 (1) and Section 119 (1), No. 5 of the German Stock Corporation Act, any amendment to the Articles of Association must be resolved upon by the company in general meeting. In deviation from Section 179 (2), Sentence 1 of the said Act, Article 15 of the Articles of Association provides for resolutions on amendments to the Articles to be adopted by the general meeting by a simple majority of voting capital unless some larger majority is mandatorily required by law. Moreover, the Supervisory Board is authorised to resolve upon amendment to the Articles of Association that relate solely to their formulation.

Authorities granted to the Management Board to increase capital

Approved Capital I/2010

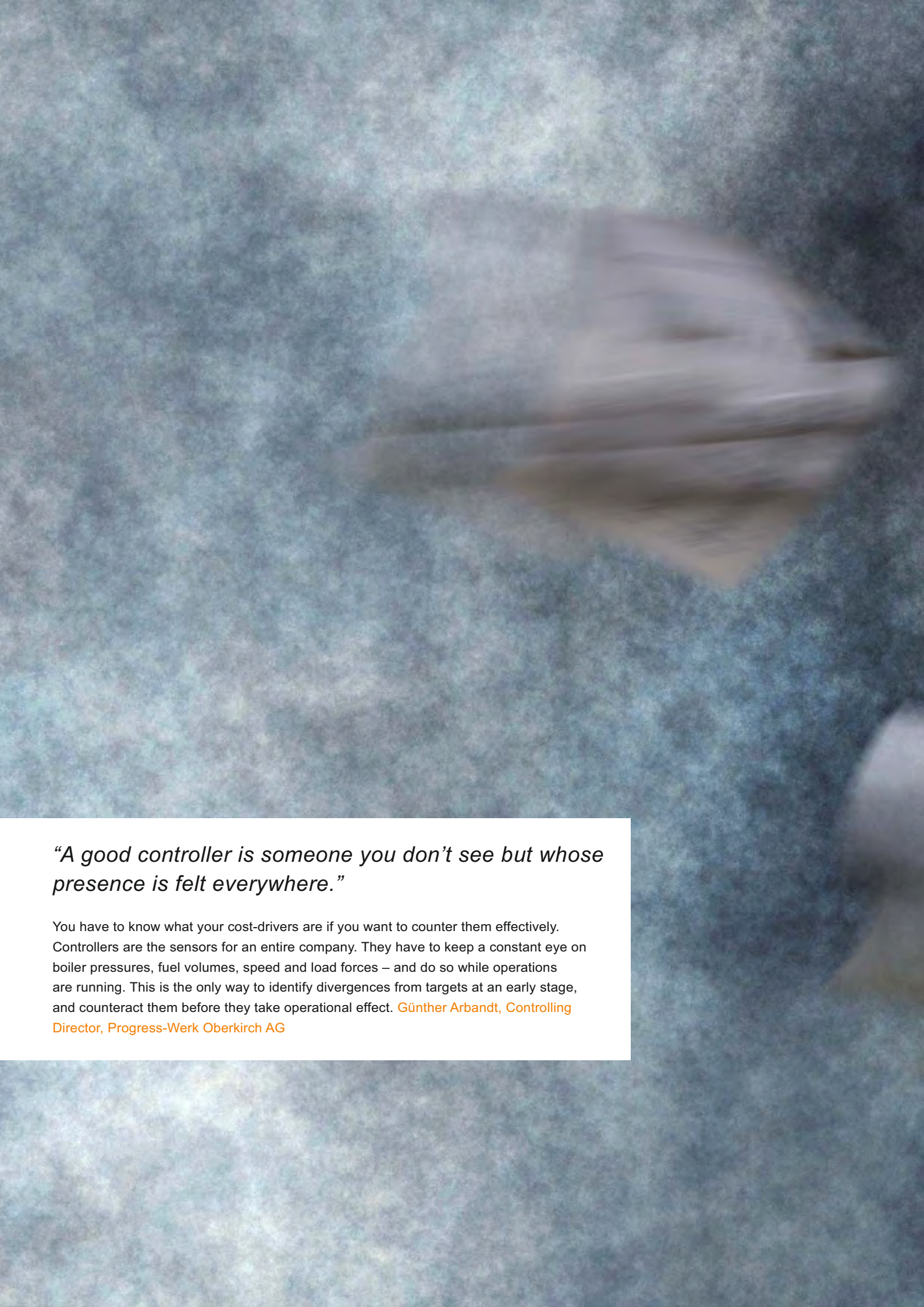
By a resolution adopted by the general meeting on May 26, 2010, the Management Board is authorized with the consent of the Supervisory Board on one or more occasions on or before May 25, 2015 to increase the company's capital stock by up to a total of EUR 3,000,000.00 through the issue of new bearer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

Approved Capital II/2010

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

Conditional Capital 2010

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



“A good controller is someone you don’t see but whose presence is felt everywhere.”

You have to know what your cost-drivers are if you want to counter them effectively. Controllers are the sensors for an entire company. They have to keep a constant eye on boiler pressures, fuel volumes, speed and load forces – and do so while operations are running. This is the only way to identify divergences from targets at an early stage, and counteract them before they take operational effect. [Günther Arbandt, Controlling Director, Progress-Werk Oberkirch AG](#)



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

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

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

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

No events of particular significance have been recorded since the end of the financial year.

REPORT ON RELATED PARTIES

A controlled company report in accordance with Section 312 of the German Stock Corporation has been prepared regarding the relationship with Consult Invest Beteiligungsberatung-GmbH, Böblingen.

As in previous years the report concludes with the following declaration: “No reportable events took place in the financial year under review.”

FORECAST REPORT

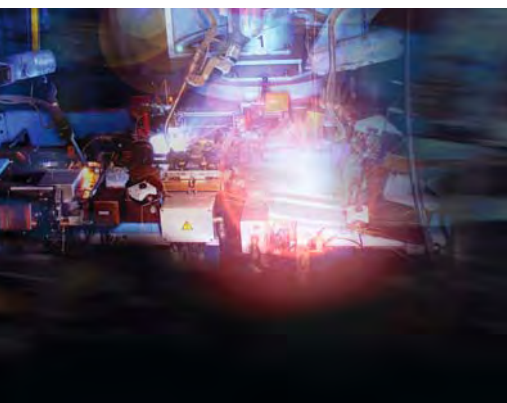
Economic environment

Macroeconomy

The economic research institutes in their autumn 2010 analysis paint a mixed picture of the global economy. On the one hand, they highlight the risks that exist: the real risk of an economic setback in the USA, the high inflation potential resulting from overheating in China and the sovereign debt problems in the eurozone in particular.

For Germany, on the other hand, their outlook is confident as they ascribe the function of Europe's economic driving force to the country. Gross domestic product (GDP) is expected to have risen by 3.5 percent in real terms in 2010. The German Council of Economic Experts goes so far as to consider 3.7 percent achievable. By contrast, the 27 EU states collectively are expected to have recorded growth of just 1.6 percent, with an increase of 1.3 percent in the eurozone. The German Council of Economic Experts is even more pessimistic for the eurozone in that it expects an increase in GDP of just 0.9 percent.

At the start of the year 2011 the German economy is reaping the benefits of its breadth and sustainability: manufacturing output has barely slackened as exports remain dynamic, while the robust labour market is stimulating domestic demand. The rate of unemployment is



at its lowest level since the boom that accompanied German reunification in the early nineteen nineties. The continuing favourable monetary conditions are also exercising a positive effect. The economic institutes and the Council of Economic Experts therefore expect the upturn in Germany to continue in 2011. They respectively predict an increase in GDP of 2.0 percent or 2.2 percent in real terms. The institutes forecast that the pace of growth in the EU-27 in 2011 will again be far more muted at 1.4 percent. A similar forecast applies to the eurozone with growth of just 1.3 percent.

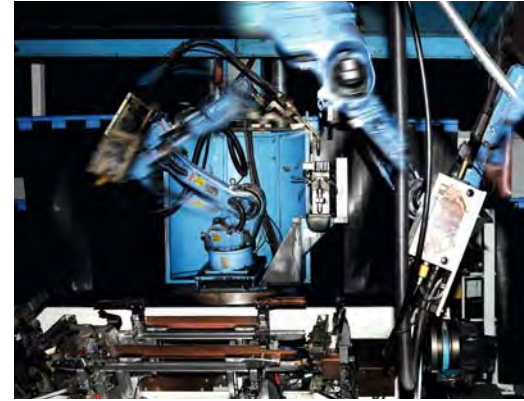
Automotive sector

The VDA perceives the German auto industry as on course for growth on 2011 with orders on hand well above the long-term average. Following on from the roughly 2.9 million new car registrations in Germany in 2010, the VDA expects the domestic market volume to increase by a further 6.2 percent in 2011 to around 3.1 million units. Car exports are expected to reach new record levels. Domestic car production is forecast to increase accordingly, increasing by 5.5 percent from 5.5 million units in 2010 to another new record of 5.8 million.

The global automobile market put on 8 percent in 2010 to reach just under 60 million vehicles, exceeding the level achieved before the economic crisis. The VDA expects to see another 8 percent growth in 2011, taking the total to 64.5 million vehicles. These are good omens for the German auto industry: having already boosted car exports by 23 percent in 2010 to some 4.2 million units, according to the VDA they are likely to put on a further 5 percent growth in 2011 to set a new export record of 4.4 million.

German brands have increased their market share in some important regions. In the USA for example in the past five years their share of the light vehicles market (cars and light trucks) has steadily increased by an average of 0.5 percent per year to 7.6 percent. In the car segment they have boosted their market share to 11.8 percent.

At the same time, the balance of the global automobile market is shifting rapidly. China's stake in the market will rise to 19 percent in 2011, compared with just 10 percent in 2008. In turn, over the same period the USA and Western Europe will forfeit 3 percentage points as their shares decline to 20 percent each. The German manufacturers cannot satisfy the dynamic growth in international markets through exports alone, they also need local production facilities. In 2010 the German car makers increased production on foreign soil by 17 percent to 5.7 million units, a development which is set to continue and which PWO has been quick to take account of in recent years.



Opportunities and risks

The risks described in the risk report for the year under review apply equally to 2011 and the years to come. There are no additional risks of material import either to the Group or to individual segments.

In the coming years PWO will profit from numerous series production start-ups at all of its locations. On the one hand this will safeguard future growth. However for the smaller plants in particular it also entails a considerable management burden. Nevertheless we are confident that any cost risk that may potentially arise can be successfully kept within bounds. With the standard of performance that has meanwhile been achieved we do not foresee any substantially additional risks even at our newer international plants despite the continuing necessary development work.

The essential opportunities and risks therefore derive from the continuing development of the global economy and the demand in the premium segment of the automobile industry. We do not at this time anticipate a renewed downturn of any momentum. On the contrary, we consider additional opportunities to be more likely as a result of growth in excess of our expectations.

However, this also means the risks we are already expecting in association with rising material prices may be further increased. It might then also be necessary heighten the necessary efforts to ensure that all plants are supplied on time with raw materials. In the case of material price increases our aim is as in the past to negotiate mutually acceptable solutions with our customers.

Given that not all countries will be able to participate in equal measure, further very strong growth in the global economy could exacerbate economic imbalances and contribute in future to even greater volatility on the currency markets. The currency risks faced by the PWO Group would then be further increased.

Outlook for the PWO Group

Our detailed planning horizon currently extends as far as financial year 2012. The growth scheduled up to that time is underpinned by orders at all locations. Due to the extended lead times in our business, we are already concentrating on winning orders for the years thereafter.

We expect revenue to grow up to 15 percent in each of the next two years, rising to around EUR 340 million in 2012. All plants are expected to make contributions, with the focus of growth shifting in future to our international locations. Our Czech plant will put on another growth spurt in 2011, after which the pace of expansion based on today's order book will steadily moderate. The plants in Canada and Mexico are each expected to double their revenue by 2012. Due to the lead times referred to above, we are anticipating moderate growth in China in 2011, with revenue doubling in the year after in the double-digit million range.

With regard to the development in earnings we expect that the Oberkirch plant will remain highly profitable in the coming years, also after the resumption of full special payments to employees from 2011. The international plants are scheduled to continuously improve their profitability over the next two years, with the Chinese plant steadily reducing its start-up losses over the planning horizon. Overall we expect the consolidated EBIT margin to rise



to 6.5 percent in 2011. In 2012 the margin will then climb further towards 8 percent, whereby this outlook is still based on a moderate assessment of future market developments.

Growth in excess of our expectations would on the one hand generate additional earnings potential. On the other hand, in periods of very high growth it is also essential to reassess the continuing strategic development of our newer plants and if necessary increase the level of investment in expanding their technological capabilities.

In the coming years we expect to see a disproportionate increase in net income. On the one hand income will be boosted by the sustained positive effect of offsetting tax credits at our Czech plant. While on the other hand as our Mexican plant begins to return a sustained positive result we will be able to utilise losses carried forward. Overall we expect the tax rate to gradually decline to below 30 percent with a correspondingly disproportionate increase in net income.

This will afford the scope to resume appropriate dividend payments to our shareholders, as well as funding further investment and allowing us to reduce net debt. The Group's investment needs for currently scheduled orders are in the magnitude of EUR 20 million or more per year, below the pre-crisis level, since a major part of our developments abroad as well as extensive infrastructural works in Oberkirch have meanwhile been completed.

We are endeavouring to return to our previous dividend rate of around 30 percent of consolidated net income, while at the same time reducing the Group's gearing by adding to revenue reserves and paying down net debt.

MANAGEMENT REPORT FOR PROGRESS-WERK OBERKIRCH AG

Progress-Werk Oberkirch AG (the "parent company") is based in Oberkirch in Baden-Württemberg. It serves as the headquarters of the Group and constitutes the largest production plant and the centre of competence for product development and production technology as well as for the PWO Production System. Central Group functions such as sales and marketing, finance, controlling, legal affairs, IT and human resources are also coordinated in Oberkirch.

In the interests of limit risk, the Group's international plants are closely managed from Oberkirch, particular in matters of finance, controlling and legal affairs. However the plants enjoy broad independent responsibility for day to day business operations.

The financial statements for the AG are prepared in accordance with the provisions of the German Commercial Code, whereas the consolidated financial statements are prepared in accordance with IFRS. The accounting and valuation methods applied in preparing the 2010 financial statements for the 2010 for the first time incorporate the provisions of the Accounting and Reporting Regulations Modernisation Act.

The fundamental information contained in the combined management report for the PWO Group and PWO AG, particularly with regard to markets, strategies and control and the opportunities and risks inherent in business activities, apply also to PWO AG. The development in the workforce is described in a separate chapter on page 68.

Selected data from the Income Statement (in EURk)	2010	in % of total output	2009	in % of total output
Sales revenue	203,131	99.3 %	164,737	101.4 %
Total output	204,614	100.0 %	162,459	100.0 %
Materials expenses	103,315	50.5 %	87,093	53.6 %
Personnel expenses	61,161	29.9 %	55,267	34.0 %
Depreciation and amortisation	10,219	5.0 %	9,785	6.0 %
Other operating expenses	16,132	7.9 %	12,872	7.9 %
Net financial result	-3,040	-1.5 %	-6,400	-3.9 %
Result from ordinary activities	14,632	7.2 %	-5,400	-3.3 %
Net income/loss for the year	9,770	4.8 %	-5,219	-3.2 %
Net retained profit	4,939	2.4 %	10	0.0 %

Due to the rapid increase in demand particularly for premium German models in financial year 2010, both the AG and the Group recorded a steep rise in revenue as illustrated in the above table. The rate of revenue growth at the AG lagged somewhat behind that of the Group, since some major production runs were not scheduled to start up until the second half of the year.

In terms of profitability the AG continues to record by far the strongest earnings in the Group. The year under review saw a return historic highs with an EBIT margin of 8.6 percent. On the other hand it must be borne in mind that holiday pay was reduced in 2010 as a result of the supplementary pay agreement concluded in the past crisis. Full payments will recommence from financial year 2011.

With the substantial increase in capacity utilisation, almost all cost ratios improved as expected. Due to a change in the product mix and a no more than minimal rise in outsourcing costs, the materials expense ratio was substantially reduced. In-sourcing tool-making and prototyping services made a particular contribution.

The staff expense ratio was also well below the year before. The increase in expenses in absolute terms essentially resulted from the following effects: the profit share payments to employees that were omitted in 2009, the elimination of the positive effect of short-time working, and the additional cost resulting from collective pay negotiations.

Due to the current low level of investment needs, depreciation remained virtually unchanged even in absolute terms. The ratio of other operating expenses was on a par with the year before – in particular because the growth in business necessitated the employment of significantly more temporary workers than in the year before, and because maintenance and repairs that had been postponed were once again carried out in full.

As a result of the increased risk premiums demanded by the banks due to the crisis in the global financial markets, interest costs rose to EUR 3.7 million (p/y: EUR 3.1 million). In contrast

to the EUR 3.4 million in writedowns on financial investments in the previous year, in the period under review there were no such writedowns.


After deduction of a tax charge of 30.8 percent (excluding the deferred taxes included in extraordinary income) in the period under review PWO AG achieved a net income for the year of EUR 9.8 million, compared with a net loss of EUR 5.2 million in the year before.

PWO AG's total assets increased in the reporting period to EUR 169.6 million (p/y: EUR 154.0 million). Whereas due to the current moderate level of investment, intangible assets and property, plant and equipment were slightly lower in absolute terms in the period under review, as a result of capital increases at subsidiaries and sums due from associates there was a particular increase in the value of shares in associated companies. Both changes resulted from the increase in funds made available by the AG to subsidiaries for future growth.

On the equity and liabilities side, we recorded an increase in equity as a result of the strong development in earnings at PWO AG in the year under review. The equity ratio accordingly improved once more to a welcome 45.8 percent (p/y: 43.4 percent). Likewise, due to the positive earnings situation, other reserves also increased substantially in the reporting period – due essentially to higher allocations to provisions for employee profit-share payments. Bank borrowings were slightly reduced relative to the year before.

With regard to the future development in business, the comments on opportunities and risks contained in the Group Forecast in principle apply also to the AG. On the other hand we expect slightly lower growth at the AG in financial years 2011 and 2012 relative to the Group, since beyond the major projects currently starting up, future new series production start-ups will exceed scheduled run-downs by a smaller margin. This will not however affect the profitability of the AG. We continue to anticipate that PWO AG will generate the bulk of Group earnings and will achieve a margin on a par with the previous long-term Group average of around 7 percent in both 2011 – despite the resumption of holiday pay – and in 2012.



The background image is a blurred photograph of an industrial machine, likely a textile loom or a similar textile manufacturing equipment. The machine's components, including what appear to be bobbins and threads, are captured in motion, creating a sense of speed and activity. The lighting is somewhat dim, with some highlights on the metallic parts. A white rectangular text box is positioned on the left side of the image, containing a quote and a paragraph of text.

“We all know that a few metres here or there can make a big difference in traffic situations. Here, you learn that a few micrometres can become a matter of life or death.”

You learn something new every day at PWO. In the development of processes and methods, for example. Whether machine tool mechanics, electronics technicians, mechatronics technicians or industrial clerks: training here is fun because we really are taken seriously, and we get the chance to achieve exceptional performance. In small and manageably sized teams, we not only learn just a craft, but how to solve tasks in line with project, product and customer requirements. This also helps ensure that PWO performs outstandingly in future. [Juliane Hug has successfully completed her training as a machine tool mechanic at Progress-Werk Oberkirch AG, and now works as a member of the production team at the Oberkirch site](#)



PWO. VORAUSDENKEN.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE PWO GROUP



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Cockpit module carrier

This carrier holds various components, such as the instrument panel, steering column and center console, and links them securely to the vehicle body. PWO's new design enables the use of a basic module for global vehicle platforms.

GROUP INCOME STATEMENT

Note No.		2010 EURk	2009 EURk
6	Revenue	264,195	206,371
	Change in inventories of finished and unfinished goods	4,288	-2,032
7	Other work performed by the enterprise and capitalised	2,231	2,413
	Total output	270,714	206,752
8	Other operating income	4,948	5,136
	Expenses from raw materials, consumables and supplies as well as merchandise purchased	-127,388	-97,042
	Expenses from services provided	-13,440	-15,025
	Materials expenses	-140,828	-112,067
	Wages and salaries	-64,158	-55,073
	Social security and post-employment expenses	-12,865	-11,992
9	Staff expenses	-77,023	-67,065
	Amortisation of intangible non-current assets and depreciation of property, plant and equipment	-17,043	-17,128
10	Other operating expenses	-24,761	-20,577
	Earnings before interest and taxes (EBIT)	16,007	-4,949
	Financial income	115	80
11	Financial expenses	-6,319	-5,581
	Net financial result	-6,204	-5,501
	Earnings before taxes (EBT)	9,803	-10,450
12	Income tax expenses	-3,344	1,501
	Net profit*	6,459	-8,949
13	Earnings per share in EUR (diluted = basic) related to earnings allocated to shareholders of PWO AG	2.58	-3.58

* The total net profit is attributable to shareholders of PWO AG.

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

	2010 EURk	2009 EURk
Net profit	6,459	-8,949
Other comprehensive income		
Derivative financial instruments		
Net gains/losses from cash flow hedges	-487	3,385
Tax effect	211	-889
Unrealised gains/losses from derivative financial instruments	-276	2,496
Currency translation	1,323	1,313
Other comprehensive income after tax	1,047	3,809
Total comprehensive income after tax	7,506	-5,140

GROUP BALANCE SHEET

ASSETS

Note No.		2010 EURk	2009 EURk
	Land and buildings	41,296	41,263
	Technical equipment and machinery	43,200	43,446
	Other equipment, operating and office equipment	6,699	6,368
	Prepayments and assets under construction	11,211	6,084
14	Property, plant and equipment	102,406	97,161
	Contract and customer-related development services	2,657	1,778
	Industrial property rights and similar rights	3,693	4,045
	Goodwill	5,471	5,338
	Other intangible assets	4	128
15	Intangible assets	11,825	11,289
	Deferred tax assets	2,191	1,765
	Non-current assets	116,422	110,215
	Raw materials and supplies	13,694	10,778
	Work in progress	19,713	15,203
	Finished goods and merchandise	16,726	16,331
16	Inventories	50,133	42,312
	Trade and other receivables	41,959	38,720
	Other current assets	5,400	3,246
	Other financial assets	1,493	1,535
	Income tax receivables	762	932
17	Receivables and other assets	49,614	44,433
18	Cash and cash equivalents	7,290	7,704
	Current assets	107,037	94,449
	Total assets	223,459	204,664

EQUITY AND LIABILITIES

Note No.		2010 EURk	2009 EURk
	Subscribed capital	7,500	6,391
	Capital reserves	17,155	17,155
	Revenue reserves	42,847	37,773
	Translation reserve	1,469	146
19	Total equity	68,971	61,465
	Interest-bearing borrowings	58,821	51,844
	Provisions for pensions	25,488	24,580
	Other provisions	4,714	4,565
	Deferred tax liabilities	559	754
	Non-current liabilities	89,582	81,743
	Trade payables	20,265	13,772
	Payments received on account of orders	1,265	1,261
	Interest-bearing borrowings	28,326	34,948
	Other liabilities	9,987	8,593
	Other financial liabilities	1,996	1,532
	Income tax liabilities	1,707	0
	Current portion of provisions for pensions	1,360	1,350
	Current liabilities	64,906	61,456
20	Total liabilities	154,488	143,199
	Total equity and liabilities	223,459	204,664

GROUP STATEMENT OF CHANGES IN EQUITY

Equity attributable to shareholders of PWO AG

EURk	Subscribed capital	Capital reserve	Revenue reserves	Cumulative income and expense directly recognised in equity		Total equity
				Currency translation	Cash flow hedge	
As of Jan 1, 2010	6,391	17,155	37,403	146	370	61,465
Net profit			6,459			6,459
Other income				1,323	-276	1,047
Comprehensive income	6,391	17,155	43,862	1,469	94	68,971
Dividend payment						0
Capital increase from corporate funds	1,109		-1,109			0
As of Dec 31, 2010	7,500	17,155	42,753	1,469	94	68,971
As of Jan 1, 2009	6,391	17,155	47,727	-1,167	-2,126	67,980
Net profit			-8,949			-8,949
Other income				1,313	2,496	3,809
Comprehensive income	6,391	17,155	38,778	146	370	62,840
Dividend payment			-1,375			-1,375
As of Dec 31, 2009	6,391	17,155	37,403	146	370	61,465

GROUP CASH FLOW STATEMENT

Note No.		2010 EURk	2009 EURk
	Net profit	6,459	-8,949
	Depreciation/reversal of write-downs for property, plant and equipment and intangible assets	17,043	17,128
12	Income tax expense/refund	3,344	-1,501
11	Interest income and expense	6,204	5,501
	Change in current assets	-13,688	3,171
	Increase in non-current liabilities (excluding finance loans)	-558	316
	Increase in current liabilities (excluding finance loans)	8,752	-12,736
12	Income taxes paid	-1,936	755
	Other non-cash expenses/income	-660	2,270
	Gain/loss on disposal of property, plant and equipment	-120	53
	Cash flow from operating activities	24,840	6,008
27	Income from disposal of companies	0	716
	Proceeds from disposal of property, plant and equipment	163	611
	Payments for investments in property, plant and equipment	-15,301	-12,530
	Payments for investments in intangible assets	-1,711	-1,455
	Cash flow from investing activities	-16,849	-12,658
19	Dividends paid	0	-1,375
	Interest paid	-4,655	-3,793
	Interest received	61	45
	Proceeds from borrowings	10,589	25,468
	Repayment of loans	-13,050	-9,487
	Cash flow from financing activities	-7,055	10,858
	Net change in cash and cash equivalents	936	4,208
	Effects from changing Group consolidation scope	0	-65
	Effects of exchange rate changes on cash and cash equivalents	-122	-31
	Cash and cash equivalents as of January 1	3,491	-621
	Cash and cash equivalents as of December 31	4,305	3,491
18	of which cash and cash equivalents	7,290	7,704
20	of which bank borrowings repayable on demand	-2,985	-4,213

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

COMPANY INFORMATION

The consolidated financial statements for the financial year January 1, 2010 to December 31, 2010 were authorised by the Management Board on the basis of a resolution passed on March 3, 2011 and were subsequently submitted to the Supervisory Board for examination. Progress-Werk Oberkirch AG (PWO) is an exchange listed stock corporation headquartered in Oberkirch, Germany. The company's shares are traded on XETRA, within the regulated market in Frankfurt and Stuttgart, as well as within the Regulated Unofficial Market in Berlin-Bremen, 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. Around one third of revenue is generated by each of the following product divisions: mechanical components for electrical and electronic systems, safety components for airbags, seats and steering, structural components/systems for body and chassis.

ACCOUNTING POLICIES

1 | Basis of Preparation of Financial Statements

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

The consolidated financial statements are prepared using the historical cost principle, with the exception of derivative financial instruments and foreign currency receivables and payables 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. Unless otherwise indicated, all values are rounded up or down to the nearest thousand (EURk) according to the commercial method.

2 | Principles of Consolidation

The consolidated financial statements include the financial statement of Progress-Werk Oberkirch AG and its subsidiaries for each financial year ending December 31. Subsidiaries are fully consolidated effective from the acquisition date. Consolidation ends as soon as the parent company ceases to control the subsidiary. The financial statements of the subsidiaries are prepared using uniform accounting methods for the same reporting periods as the financial statements of the parent company.

Business combinations are accounted for by applying the purchase method (IFRS 3). According to the purchase method, the acquirer allocates the cost of a business combination by recognising the 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. Sales, expenses and income as well as receivables and payables between consolidated entities are set off against each other (IAS 27). Deferred taxes are recognised for consolidation procedures with income tax effects.

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

EURk	Ownership interest	Net profit/ loss	Equity
PWO Canada Inc., Kitchener, Ontario, Canada	100 %	-373	11,972
PWO UNITOOLS CZ a.s., Valašské Meziříčí, Czech Republic	100 %	798	8,934
PWO Holding Co., Ltd., Hongkong, China	100 %	253	-280
PWO High-Tech Metal Components (Suzhou) Co., Ltd., Suzhou, China ¹⁾	100 %	-2,110	5,392
PWO High-Tech Tool Trading (Suzhou) Co., Ltd., Suzhou, China ¹⁾	100 %	-27	96
PWO de México S.A. de C.V., Puebla, Mexico ²⁾	100 %	-2,444	6,230

¹⁾ Indirect holding

²⁾ Indirect holding through PWO Canada Inc. in the amount of 1 %

3 | Summary of significant accounting policies

Currency translation

The consolidated financial statements are presented in euros, the functional currency of the parent company. The financial reports of the companies within the consolidated Group prepared using foreign currencies are translated according to the functional currency concept (IAS 21). Each company within the Group determines its own functional currency. The items contained in the financial statements of the companies are measured using this functional currency. All balance sheet items of the foreign consolidated entity were translated to euros by applying the relevant mean rate of exchange at the balance sheet date. Expenses and 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 transferred to 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 transaction date. 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 purchase or production cost in a foreign currency are translated at the foreign exchange rate prevailing on the transaction date. Non-monetary items that are measured at fair value in a foreign currency are translated at the rate that was prevailing at the time the fair value was determined.

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

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

		Year-end exchange rate		Average exchange rate	
		31.12.2010	31.12.2009	2010	2009
China	CNY	8.77	9.77	8.98	9.52
Hong Kong	HKD	10.34	11.09	10.31	10.80
Canada	CAD	1.33	1.50	1.37	1.59
Mexico	USD	1.33	1.43	1.33	1.39
Czech Republic	CZK	25.18	26.41	25.29	26.45

Profit Realisation

Revenue is recognised when it is likely that the economic benefits of the transaction will accrue to the Group, and the amount of revenue can be reliably determined, regardless of the time of payment. Revenue is measured at the fair value of the consideration received or claimable, in accordance with contractually stipulated payment terms, minus taxes or other duties. The Group acts as principal in all sales transactions.

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

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

Dividend income is recognised when the legal claim to payment arises. Lease payments under an operating lease are reported on a straight-line basis over the lease term.

Government grants

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

Taxes

Actual tax refund claims and tax liabilities for the current period are calculated based on the amount expected to be refunded by the taxation authority or paid to the taxation authority. Calculation of the amount is based on the tax rates and tax laws in force at the balance sheet date in the countries in which the Group operates and generates taxable income.

Deferred taxes are recognised using the balance sheet liability method for all temporary differences existing at the balance sheet date between the recognition of an asset or liability in the balance sheet and the tax valuation rates. Deferred tax liabilities are recognised for all

taxable temporary differences, excluding non-tax-deductible goodwill and temporary differences originating from initial recognition of an asset or a liability in a business transaction which is not a business combination, and which at the time of the transaction, influences neither IFRS results for the period nor the taxable results. Deferred taxes are recognised on the carry-forwards of losses to the extent that it is probable that these can be used. Deferred taxes are measured at the tax rates that apply or are expected to apply to the period when the asset is realised or the liability is settled, based on the current legal situation in the individual countries.

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

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

Property, plant and equipment

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

Leases

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

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

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

Borrowing costs

Borrowing costs, which can be allocated directly to the acquisition or production of an asset, for which a considerable time period is necessary, in order to assign the asset in its intended usable or sellable condition, are recognised as part of the acquisition or production costs of the relevant asset. All other borrowing costs are reported as expenditure in the period in which they accrued. Borrowing costs are interest and other costs incurred by a company in connection with borrowing. The borrowing costs for 2010 amounted to EURk 0 (p/y: EURk 72).

Intangible assets

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

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

An impairment test relating to goodwill, other intangible assets with a finite useful life, as well as property, plant and equipment is performed annually if there are specific indications that an asset may be impaired. An impairment loss is expensed if the recoverable amount of the asset is less than its carrying amount. The recoverable amount must be determined for each individual asset, unless the asset does not generate cash inflows that are largely independent from those of other assets or other groups of assets. The recoverable amount is the higher of an asset's net realisable value and its value in use. The net realisable value is the amount that can be realised from the sale of an asset in a normal market transaction less costs to sell. Value in use is calculated using the discounted cash flow method on the basis of estimated future cash expected to arise from continuing use of an asset, and from its disposal at the end of its useful life. The cash flows are derived from long-term corporate planning; historical developments and macroeconomic trends. The value in use of the relevant cash generating unit is normally considered in order to calculate the intrinsic value of the goodwill.

The long-term corporate planning strategy approved by the Supervisory Board runs until the end of the detailed planning period in 2013. Management expects significant sales growth for all units, which will be generated especially from new orders as well as the building up of customer relationships already existing within the Group. Furthermore, due to increases in productivity and efficiency as well as quality improvements, the materials input will

decrease. As a consequence, proportionate staff expenses will also decline. This will feed through to an increase in EBIT overall.

The key assumptions, to which long-term corporate planning reacts sensitively, are development of sales figures in the automotive industry and commodity prices, and increased productivity. These developments were assessed and determined based on past experience, using publicly available data and existing project agreements, but also strategies decided internally.

Cash flows are discounted by applying risk-adjusted pre-tax capitalisation at the balance sheet date. In the case of impairment testing of goodwill associated with PWO UNITOOLS CZ a.s. and PWO Canada Inc., a capitalisation rate (Weighted Average Cost of Capital – WACC) of 10.79 % (p/y: 10.41 %) and 15.26 % (p/y: 11.80 %) was applied respectively with regard to the first phase. The second phase (growth rate in perpetuity) was calculated with a growth rate of 1.0 % (p/y: 1.0 %) in each case. The growth rates of the relevant automotive markets were used as a basis for determining the cash flows.

Assumptions that have been made are subject to a certain level of sensitivity. While a change to one of the reasonably foreseeable assumptions made to determine the value in use for PWO UNITOOLS CZ a.s. and PWO Canada Inc. is fundamentally possible based on reasonable judgment, we believe it unlikely that this carrying amount results in the carrying amounts of goodwill for this company units exceeding their recoverable amounts to a significant extent, since the actual recoverable amounts of the company units PWO UNITOOLS CZ a.s. and PWO Canada Inc. exceed their carrying amounts by EURk 10,591 (p/y: EURk 6,282) and EURk 4,410 (p/y: EURk 3,043) respectively.

Last year the goodwill for the company unit PWO de México S.A. de C.V. was written down in full following comparison of value in use and carrying amount as of the balance sheet date, after expectations in the development of the American automotive market temporarily worsened because of the financial crisis.

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

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 occur on different dates, the settlement date is applied for the purpose of initial recognition. Financial instruments are measured at cost on initial recognition; transaction costs are generally included in initial measurement. Subsequent measurement of financial instruments is dependent on how these instruments are allocated to the categories as per IAS 39; they are measured either at fair value or at amortised cost. IAS 39 differentiates between primary and derivative financial instruments.

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

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

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

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

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

Inventories

Inventories of raw materials, consumables and supplies are recognised at the lower of average purchase price or realisable values. Unsalable or obsolete materials are written off accordingly. Work in progress and finished goods are measured at the lower of cost or net realizable value on the basis of item-by-item calculations based, in turn, on current operational accounting. In addition to direct costs, cost includes appropriate portions of material and production overheads as well as production-related depreciation and production-related administration costs. Costs arising from general administration and borrowing costs are not capitalised.

Tooling and development contracts are measured at cost. In this context, the maximum cost is recognised 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 opportunities relating to ownership of the goods.

Cash

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

Provisions

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

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

Other provisions are recognised when the Group has a present obligation, either legal or constructive, as a result of a past event, it is likely 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 significant, provisions are discounted.

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

4 | Changes in accounting methods

New and amended standards and interpretations

The accounting methods applied are basically the same as those used in the previous year, apart from the following new and revised standards and interpretations effective January 1, 2010:

IFRS 3 | Business Combinations (revised) and IAS 27 | Consolidated and Separate Financial Statements (revised)

IFRS 3 (revised) introduces important changes regarding the balance sheet reporting of business combinations. These affect the valuation of shares without controlling influence, the balance sheet reporting of transaction costs, initial recognition and subsequent measurement of contingent considerations and successive company acquisitions. These new regulations will impact on the recognised value of goodwill, profit or loss for the reporting period in which a business combination occurs and on future results.

IAS 27 (revised) requires that the disposal of shares in a subsidiary that does not lead to a loss of control should be recognised as a transaction with owners in their capacity as owners. As a consequence, such a transaction can generate neither goodwill nor gains and losses.

The regulations on distribution of losses among the parent company owners and non-controlling interests and the reporting rules for transactions that result in a loss of control are also amended. The new regulations in IFRS 3 and IAS 27 affect the acquisition and loss of control of subsidiaries and transactions with non-controlling interests on or after January 1, 2010. This change is applied prospectively and did not impact on the Group's financial position and operating results.

IAS 39 | Financial Instruments: Recognition and Measurement – Eligible Hedged Items

It was clarified that it is permitted to designate only part of the changes in the fair value or cash flow fluctuations of a financial instrument as an underlying transaction. This also includes the designation of inflationary risks as a hedged risk or parts thereof in certain cases. This change does not affect the Group's financial position and operating results, since the Group has not undertaken any transactions of this kind.

IFRIC 17 | Distributions of Non-cash Assets to Owners

This interpretation provides guidelines on the reporting of agreements under which a company distributes non-cash assets to owners from the reserves or as dividends. This interpretation does not affect the presentation of the Group's financial position and operating results.

Improvements to IFRS 2008 and 2009

In May 2008 and April 2009 the IASB issued two collective standards on the modification of various IFRS with the primary objective of eliminating inconsistencies and clarifying formulations. The collective standards specify an interim arrangement for each amended IFRS. The new regulations listed below did not impact on the Group's accounting method or the presentation of its financial situation and operating results:

IFRS 5 | Non-current Assets Held for Sale and Discontinued Operations

It was clarified that when classifying a subsidiary as held for sale, all assets and liabilities are classified as held for sale. This applies even if the company continues to hold non-controlling shares in the former subsidiary following the sale. The change is applied prospectively and does not affect the Group's financial situation and operating results.

IFRS 5 | Non-current Assets Held for Sale and Discontinued Operations

It was clarified only non-current assets and asset sale groups classified as "held for sale", and discontinued divisions are relevant to disclosure requirements for IFRS 5. The disclosure requirements included in other IFRS are only then to be adhered to if the current standards or interpretations of these disclosures regarding assets under IFRS 5 and discontinued divisions are expressly required. This clarification did not lead to any change in segment reporting.

IFRS 8 | Operating Segments

It was clarified that segmental assets and liabilities must only be disclosed if these assets and liabilities form the subject of regular reporting to the company officers. According to the Group's internal management system, all locations form the basis for segment reporting (see Note 28).

IAS 7 | Cash Flow Statements

It was clarified that only those expenses that lead to a recognition of an asset can be classified as cash flows from investing activities. As no business combinations occurred in 2010, this change does not affect the cash flow statement.

IAS 36 | Impairment of Assets

This change clarified that a cash-generating unit to which acquired goodwill in the context of a business combination is allocated, must not be larger than an operating segment as per IFRS 8 prior to aggregation according to related criteria specified. This change does not affect the Group.

The following new regulations concerning improvements to IFRS had no effect on the Group's accounting methods or the presentation of its financial situation and operating results:

Issued in April 2009

IFRS 2 | Share-based Payments

IAS 1 | Presentation of Financial Statements

IAS 17 | Leases

IAS 19 | Employee Benefits

IAS 34 | Interim Reporting

IAS 38 | Intangible Assets

IAS 39 | Financial Instruments: Recognition and Measurement

IFRIC 9 | Reassessment of Embedded Derivatives

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

Standards issued but not yet mandatory

Standards issued but not yet mandatory by the date on which the consolidated financial statement was published are listed below. This list refers to issued standards and interpretations which the Group reasonably assumes will be applicable in future. The Group intends to apply these standards when they come into force.

IAS 12 | Deferred Tax: Recovery of Underlying Assets (amended)

The amendment of IAS 12 was issued in December 2010 and will apply for the first time in financial years beginning on or after January 1, 2012. The amendment requires that deferred tax assets and liabilities for specific assets must be recognised based on the assumption that sale of these assets will realise their full carrying amount. The change is not expected to have any effect on the consolidated financial statement.

IAS 24 | Related Party Disclosures (amended)

The amended standard will apply for financial years beginning on or after January 1, 2011. The amendment clarifies the definition of related parties, with a view to simplifying such relations and removing inconsistencies in application. The amended standard introduces a

partial exemption from the disclosure obligations for state-controlled entities. The Group is not anticipating any impact on its financial situation and operating results. Early application is permitted both in respect of the exemption regulations for a state-controlled entity and for the standard as a whole.

IAS 32 | Financial Instruments: Presentation – Classification of Rights Issues (amended)

The amended IAS 32 is to be applied for financial years beginning on or after February 1, 2010. The definition of a financial liability is changed inasmuch as subscription rights (and certain options or option certificates) must be classified as equity instruments if these rights authorise acquisition of a fixed number of equity instruments of the company at a fixed amount in any currency and the company offers them pro rata to all current owners of the same class of its non-derivative equity instruments. The change is not expected to have any effect on the consolidated financial statements.

IFRS 7 | Disclosures of Transfers of Financial Assets (amended)

The amendment of IFRS 7 was issued in October 2010 and is to be applied for the first time in financial years beginning on or after July 1, 2011. The amendment requires extensive new qualitative and quantitative disclosure on transferred financial assets that have not been derecognised, and on the ongoing commitment existing on the reporting date in the case of transferred financial assets. The Group does not expect this to have any effect on its financial situation and operating results.

IFRS 9 | Financial Instruments: Classification and Measurement

The issued version of IFRS 9 reflects the first phase of the IASB project on replacement of IAS 39 and deals with the classification and valuation of financial assets as these are defined in IAS 39. The standard is to be applied for financial years beginning on or after January 1, 2013. In future phases, the IASB will deal with the classification and valuation of financial liabilities, hedges and derecognitions. This project is expected to be completed in early 2011. Application of the first phase of IFRS 9 will affect the classification and valuation of the Group's financial assets. In order to present a comprehensive picture of the potential effects, the Group will only quantify the impact in conjunction with the other phases, as soon as these are issued.

IFRIC 14 | Prepayments of a Minimum Funding Requirement (amended)

The amended IFRIC 14 is to be applied retroactively for financial years beginning on or after January 1, 2011. The amendment provides guidelines for determining the recoverable amount of a net pension asset. The amendment allows companies to treat prepayments of a minimum funding requirement as an asset. The change is not expected to have any effect on the consolidated financial statement.

IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is to be applied for financial years beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to repay a financial liability are classified as a paid consideration. The issued equity instruments are measured at their fair value. If this cannot be reliably determined, measurement must be based on the fair value of the repaid liability. Profits and losses are recognised immediately in profit or loss. The application of this interpretation will not have any effect on the consolidated financial statements.

5 | Key discretionary judgments, estimates and assumptions

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

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

NOTES TO THE INCOME STATEMENT

6 | Revenue

A breakdown of Group revenue by region and product area is presented as part of segment reporting (see Note 28).

7 | Work performed by the enterprise and capitalised

Work performed by the enterprise and capitalised includes EURk 1,076 (p/y: EURk 966) development costs requiring capitalisation according to IAS 38. Development costs mainly consist of investment in the development of a module carrier. A series order has existed for this project since 2008.

8 | Other operating income

Other operating income is as follows:

EURk	2010	2009
Exchange revenue	2,708	1,786
Revenue from derecognition of accruals	387	588
Licence revenue	139	95
Other operating income	1,714	2,667
Total	4,948	5,136

Aperiodic revenue amounted to EURk 594 (p/y: EURk 1,085).

The public authorities provided grants totalling EURk 175 (p/y: EURk 188) for the creation of new jobs and for training and restructuring measures. These grants were recognised in income.

9 | Staff expenses and employees

Staff expenses

EURk	2010	2009
Wages and salaries	64,158	55,073
Social security and pension expenses	12,865	11,992
Total	77,023	67,065

**Year-average number of employees
 by division**

	2010	2009
Development and sales	132	122
Production and materials management	1,176	1,125
Tool centre	442	443
Administration	125	117
Total	1,875	1,807
Apprentices	125	125

10 | Other operating expenses

Other operating costs break down as follows:

EURk	2010	2009
Maintenance costs	4,914	3,230
Temporary employee costs	4,280	1,487
Outgoing freight	2,869	2,397
Exchange costs	2,191	2,240
Rental costs	1,001	760
Travel costs	1,147	782
Legal, audit and consultancy costs	1,096	1,155
Insurance premiums	1,036	897
Minimum lease payments from operating leases	538	466
Other operating expenses	5,689	7,163
Total	24,761	20,577

Aperiodic expenses amounted to EURk 260 (p/y: EURk 133).

11 | Financial costs

Financial costs are comprised of interest payable to banks in the amount of EURk 4,633 (p/y: EUR 3,965), interest payable for pension provisions in the amount of EURk 1,471 (p/y: EURk 1,470), interest payable for finance leases in the amount of EURk 71 (p/y: EURk 12), as well as interest payable for age-related part-time employment in the amount of EURk 144 (p/y: EURk 134). Of the interest payable to banks, financial liabilities not measured at fair value through profit or loss generated interest payments of EURk 4,046 (p/y: EURk 3,640).

12 | Income tax expense

Income tax expense breaks down as follows:

EURk	2010	2009
Actual taxes	3,723	-120
Deferred tax	-379	-1,381
Total	3,344	-1,501

No deferred taxes were recognised for temporary differences related to retained profits from subsidiaries totalling EURk 3,117 (p/y: EURk 3,093), since these profits are to be used to fund the further expansion of business at the individual locations.

The differences between expected income tax expense based on the calculated tax 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.

EURk	2010	2009
Earnings before income tax	9,803	-10,450
Theoretical tax expense at 27.38 % (p/y: 27.38 %)	2,684	-2,861
Change in theoretical tax expense due to different tax rates applicable to foreign entities	-51	54
Tax increase due to non-deductible expenses	178	103
Tax increase (+) / reduction (-) previous years	134	-89
Tax effects from future tax rate changes	20	-113
Tax effects from tax credits	-821	0
Effects from non-capitalised loss carryforwards	1,205	1,366
Other effects	-5	39
Taxes on oncome and earnings	3,344	-1,501

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

EURk	Deferred tax assets		Deferred tax liabilities	
	2010	2009	2010	2009
Intangible assets, tangible assets and financial assets	69	49	3,626	3,198
Other assets	442	398	398	567
Tax loss carryforwards	2,504	2,592	0	0
Tax credits	821	0	0	0
Provisions	1,575	1,623	0	0
Liabilities	256	128	10	14
Sub-total	5,666	4,790	4,034	3,779
Offset	-3,475	-3,025	-3,475	-3,025
Consolidated balance sheet amount	2,191	1,765	559	754

See Note 29 for further details.

13 | Earnings per share

When calculating the earnings per share, the earnings to be allocated to the shareholders of PWO AG is divided by the average number of shares issued in the financial year overall. Measures resulting in dilution effects did not arise.

	2010	2009
Result after tax in EURk	6,459	-8,949
Average number of bearer shares	2,500,000	2,500,000
Earnings per share in EUR	2.58	-3.58

NOTES TO THE BALANCE SHEET

14 | Property, plant and equipment

The change in consolidated fixed assets is presented in the statement of changes to fixed assets (appendix to the notes to the consolidated financial statements).

The following average useful lives were applied:

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

15 | Intangible assets

The average useful life for software is 3 to 5 years.

Development costs of EURk 2,657 (p/y: EURk 1,778) that required capitalisation under IAS 38 are amortised using the units of production method as soon as development is complete and production of series parts commences.

The residual carrying amount of the SAP software amounts to EURk 2,010 (p/y: EURk 2,489). The remaining amortisation period is 3 or 4 years.

As at December 31, 2010, goodwill amounted to EURk 4,331 (p/y: EURk 4,331) for PWO UNITOOLS CZ a.s and EURk 1,140 (p/y: EURk 1,007) for PWO Canada Inc. The increase at PWO Canada is due to amendments in exchange rates.

16 | Inventories

Of the total amount of inventories in the amount of EURk 50,133 (p/y: EURk 42,312) at the balance sheet date, tool replacement components in the amount of EURk 3,527 (p/y: EURk 3,618) are carried at their net realisable value. In the period under review, a valuation adjustment of EURk 268 (p/y: EURk 267) was expensed.

17 | Receivables and other assets

As of December 31, 2010, allowances for trade receivables and other receivables amounted to EURk 1,328 (p/y: EURk 2,096). Prior to the valuation adjustment, the carrying amount of trade receivables and other receivables was EURk 43,287 (p/y: EURk 40,816). The changes to the adjustment account were as follows:

EURk	2010	2009
Value adjustment account as of 01.01.	2,096	1,261
Additions	344	873
Utilisation	-913	-41
Releases	-202	0
Currency translation effects	3	3
Value adjustment account as of 31.12.	1,328	2,096

The impairments, which comprise specific valuation adjustments assessed on a case-by-case basis, suitably reflect the risk of default. In the year under review, the addition, and consequently the increase of valuation adjustments related to a few specific cases. In the case of default, the receivable in question is written off accordingly.

Other assets in the amount of EURk 138 (p/y: EURk 123) and income tax receivables in the amount of EURk 637 (p/y: EUR 704) are classified as non-current.

18 | Cash and cash equivalents

Cash and cash equivalents includes cash in hand as well as short-term bank deposits. Deposits at banks bear interest at a variable interest rate for short-term call deposits. As of December 31, 2010, the Group had access to unutilised lines of credit where all conditions required for use had already been met. For the purposes of the consolidated cash flow statement, cash and cash equivalents in the amount of EURk 7,290 (p/y: EURk 7,704) as of December 31, 2010 consist of cash in hand and on deposit.

19 | Subscribed capital and reserves

Subscribed capital

The AGM of May 26, 2010 approved a capital increase of EURk 1,109 out of company funds from EURk 6,391 to EURk 7,500 through conversion of an instalment of EURk 1,109 of the other profit reserves shown in the consolidated balance sheet at December 31, 2009.

The fully paid up subscribed capital as of December 31, 2010 was EURk 7,500 (p/y: EURk 6,391), divided into 2,500,000 bearer shares.

Approved capital

Following a resolution of the AGM on May 26, 2010, the Management Board is authorised, subject to Supervisory Board approval, to increase the share capital of the company against cash contributions on one or more occasions by up to EUR 3,000,000.00 (Approved Capital I/2010).

Following a resolution of the AGM on May 26, 2010, the Management Board is authorised, subject to Supervisory Board approval, to increase the share capital of the company against cash contributions on one or more occasions by up to EUR 750,000.00 (Approved Capital II/2010).

The AGM of May 26, 2010 approved a contingent increase in the share capital by up to EUR 3,000,000.00 (Contingent Capital 2010).

Capital reserve

The capital reserve includes amounts attributable to the share premium.

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 EURk 1,469 (p/y: EURk 146) arising from the earnings-neutral 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, which is calculated as an effective hedge.

Proposed and distributed dividends

At December 31, 2010, PWO AG reported a balance sheet profit of EURk 4,939,597.25. The distributable amounts are based on PWO AG's accounting balance sheet profit.

A proposal was made at the AGM to allocate PWO AG's balance sheet profit as follows:

	EUR
Distribution of a dividend of EUR 1.00 per bearer share entitled to dividend payments	2,500,000.00
Allocation to other profit reserves	2,400,000.00
Carryforward to new account	39,597.25

No dividend was paid in the reporting year for 2009 due to the previous year's negative performance.

Announcements pursuant to § 21 Paragraph 1 German Securities Trading Act (WpHG)

Consult Invest Beteiligungsberatungs-GmbH, Böblingen, announced a holding of 55.282 % by notice of February 15, 2008.

Delta Lloyd Europees Deelnemingen Fonds NV, Amsterdam, Netherlands, announced a holding of 3.05 % by notice of July 21, 2008.

Delta Lloyd Europees Deelnemingen Fonds NV, Amsterdam, Netherlands, announced a holding of 5.12 % by notice of October 15, 2008.

20 | Liabilities

Pension provisions

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

The majority of pension provisions for defined benefit pension plans concern PWO AG. A pension provision amount of EURk 136 (p/y: EURk 106) relates to PWO de México S.A. de C.V.

The provisions for defined benefit plans are calculated using the projected unit credit method (IAS 19). This entails recognising pension obligations using the present value of pension claims earned as of the measurement date, taking into account the likely future increases in pensions and salaries.

PWO Canada Inc. has defined contribution pension plans. These give rise to an expense of EURk 55 (p/y: EURk 33).

Employer contributions to the statutory state pension scheme amounted to EURk 5,947 (p/y: EURk 5,774).

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

	2010	2009
Interest rate	5.0 %	5.25 %
Staff turnover rate	2.5 %	2.5 %
Projected wage and salaries trend < 40 years	3.5 %	3.5 %
Projected wage and salaries trend > 40 years	2.5 %	2.5 %
Projected pension adjustments	2.0 %	2.0 %

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

The following net obligations arise:

EURk	2010	2009
Present values of benefits	30,779	28,809
Actuarial gains (-) and losses (+)	-3,795	-2,708
Unrecognised past service cost	-136	-171
Balance sheet value as of 31.12.	26,848	25,930

The changes to the cash value of defined benefit obligations were as follows:

EURk	2010	2009
Present values of pension claims as of 01.01.	28,809	26,299
Interest cost	1,471	1,470
Service cost	681	606
Pension payments rendered	-1,350	-1,325
Actuarial gains (-) and losses (+)	1,105	1,731
of which experiential adjustments	38	177
Past service cost	55	25
Foreign currency differences	8	3
Present values of pension claims as of 31.12.	30,779	28,809

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

EURk	2010	2009
Balance sheet values as of 01.01	25,930	24,914
Pension obligation expenses	2,260	2,339
Pension payments rendered	-1,350	-1,325
Foreign currency differences	8	3
Balance sheet values as of 31.12.	26,848	25,930

Of the pension provisions reported in the balance sheet, EURk 25,488 (p/y: EURk 24,580) are non-current and EURk 1,360 (p/y: EURk 1,350) are current.

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

EURk	2010	2009
Service cost	681	606
Interest cost	1,471	1,470
Actuarial gains (-) and losses (+)	18	0
Past service cost	90	263
Pension obligation expenses	2,260	2,339

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

The table below presents the obligations for the current and previous reporting periods:

EURk	2010	2009	2008	2007	2006
Present value of benefits	30,779	28,809	26,300	25,654	27,948
Fair value of plan	0	0	0	0	0
Plan surplus/deficit	30,779	28,809	26,300	25,654	27,948
Experiential adjustments	38	177	-638	-104	-177

The amount for the contributions to be paid into the plan in the reporting period after the balance sheet date is EURk 0.

Other provisions

Other provisions consist of necessary amounts for personnel-related expenses and other identifiable obligations and risks. The provisions shown in the balance sheet are exclusively personnel-related provisions (obligations for age-related part-time employment and service anniversaries). It is expected that the total amount of obligations for age-related part-time employment will accrue within 5 years after the reporting date.

Other provisions have changed as follows:

EURk	2010	2009
Status 01.01.	4,565	3,631
Utilisation	-1,025	-769
Releases	-67	0
Additions	1,241	1,703
of which accrued interest	156	140
Status 31.12.	4,714	4,565

Contributions from the Federal Employment Agency (Bundesagentur für Arbeit) in the context of age-related part-time working agreements of retiring employees are recognised as other assets in the amount of EURk 566 (p/y: EURk 421) and are not under provisions.

Interest-bearing loans

Of the interest-bearing loans, EURk 28,326 (p/y: EURk 34,948) have a maturity of less than one year and EURk 5,910 (p/y: EURk 7,588) have a maturity of more than five years. Bank borrowings amount to EURk 85,100 (p/y: EURk 86,792).

The interest rates associated with the loans with the afore-mentioned borrowings are between 1.44% and 6.97%. Bank borrowings repayable on demand time amounted to EURk 2,985 (p/y: EURk 4,213).

Of the bank borrowings, a total of EURk 19,476 (p/y: EURk 18,216) was secured by way of land charges and mortgages, and EURk 17,141 (p/y: EURk 16,632) through an assignment of property, plant and equipment. In addition, the usual reservations of ownership exist with respect to the supply of raw materials, consumables and supplies.

Other liabilities

Of the other liabilities, EURk 615 (p/y: EURk 769) were classified as non-current.

Finance leases and hire purchase agreements

Finance leases for various technical equipment and machinery in some cases incorporate purchase options, or lessor put options. The assets have a carrying amount of EURk 2,081 (p/y: EURk 371) as of December 31, 2010. Due to the structure of the leases, the assets are depreciated over their expected useful life rather than according to the term of the lease agreement, pursuant to IAS 17.28.

Future minimum lease payments from finance leases and hire-purchase agreements are reconciled to their present cash value as follows:

EURk	Minimum lease payments		Cash value of minimum lease payments	
	2010	2009	2010	2009
Residual duration up to 1 year	486	0	387	0
Residual duration 1 to 5 years	1,481	0	1,261	0
Residual duration > 5 years	424	0	399	0
Total minimum lease payments	2,391	0	2,047	0
Less interest cost	-344	0	0	0
Present value of minimum interest payments	2,047	0	2,047	0

Contingent liabilities and other financial obligations

A guarantee to secure age-related part-time working credits amounted to EURk 2,344 (p/y: EURk 1,996) as of the reporting date.

As at December 31, 2010, other financial obligations including order commitments amounted to EURk 13,387 (p/y: EURk 6,968). These amounts apply to following financial years according to maturity as follows:

Obligations arising from non-cancellable operating lease and rental agreements

EURk	2011 et seq.	2010 et seq.
Residual duration up to 1 year	1,157	970
Residual duration 1 to 5 years	1,136	368
Residual duration > 5 years	5	5
Total	2,298	1,343

Order commitments from investment orders

(Tangible and intangible assets)

EURk	2011 et seq.	2010 et seq.
Residual duration up to 1 year	10,948	5,493
Residual duration 1 to 5 years	141	132
Residual duration > 5 years	0	0
Total	11,089	5,625

Some of the existing operating leases include extension and call options.

21 | Financial risk management

The Group's financial risk management system is geared towards the uncertainties arising from the future development of the financial markets, and aims to minimise adverse consequences for 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 original financial instruments, various hedging measures are implemented, including intensive receivables management and credit checks based on credit information and historical data. The credit risk (default risk) of financial assets is addressed by using appropriate value allowances.

PWO supplies only 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 must be, and 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.

As regards investments of cash and cash equivalents, as well as the portfolio of derivative financial assets, 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 cash/cash equivalents or derivative financial assets are overdue or impaired as a result of default.

As of December 31, 2010, the maximum credit risk of financial assets in the event of counterparty default was equivalent to the carrying amount of those instruments.

	Carrying amount	Carrying amount
EURk	2010	2009
Trade and other receivables	41,959	38,720
Derivative financial assets with hedging relationships	1,493	1,535
Cash and cash equivalents	7,290	7,704

The analysis of overdue but not impaired trade and other receivables as December 31, 2010 is as follows:

EURk	2010	2009
Trade and other receivables	41,959	38,720
of which neither overdue nor impaired	31,768	32,236
of which < 30 days overdue (but not impaired)	5,835	3,674
of which > 30-90 days overdue (but not impaired)	3,205	1,133
of which > 90-180 days overdue (but not impaired)	1,005	927
of which > 180-360 days overdue (but not impaired)	146	246
of which > 360 days overdue (but not impaired)	0	504

No signs of impairment exist with respect to unimpaired trade and other receivables as of the balance sheet date. 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 due to their being be overdue or impaired.

Liquidity risk

PWO has access to sufficient lines of credit furnished by several banks. 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 more than half its financing instruments on a long-term time basis and at fixed interest rates. Additional derivative interest rate hedges will be entered into insofar as such transactions are necessary.

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

December 31, 2010

EURk	< 1 year	1 to 5 years	> 5 years	Total
Bank borrowings	30,010	54,512	5,800	90,322
of which repayment of principal	27,939	51,650	5,511	85,100
of which interest payment	2,071	2,862	289	5,222
Liabilities to leasing companies	486	1,481	424	2,391
of which repayment of principal	387	1,261	399	2,047
of which interest payment	99	220	25	344
Trade payables	20,265	0	0	20,265
Derivative financial instruments with hedging relationships	141	1,098	147	1,386
Derivative financial instruments without hedging relationships	417	278	0	695

December 31, 2009

EURk	< 1 Jahr	1 bis 5 Jahre	> 5 Jahre	Total
Bank borrowings	36,906	48,257	8,194	93,357
of which repayment of principal	34,948	44,256	7,588	86,792
of which interest payment	1,958	4,001	606	6,565
Liabilities to leasing companies	0	0	0	0
of which repayment of principal	0	0	0	0
of which interest payment	0	0	0	0
Trade payables	13,772	0	0	13,772
Derivative financial instruments with hedging relationships	856	0	0	856
Derivative financial instruments without hedging relationships	487	233	0	720

The amounts of derivative financial instruments with hedging relationships presented in the above table correspond to undiscounted cash flows on a gross basis. The following table shows the corresponding reconciliation of these amounts to their carrying amounts:

December 31, 2010

EURk	< 1 year	1 to 5 years	> 5 years	Total
Inflow	1,505	15,297	1,802	18,604
Outflow	-1,646	-16,395	-1,949	-19,990
Net balance	-141	-1,098	-147	-1,386
Discounted at the corresponding interbank rate	-138	-1,003	-124	-1,265

December 31, 2009

EURk	< 1 year	1 to 5 years	> 5 years	Total
Inflow	9,283	0	0	9,283
Outflow	-10,139	0	0	-10,139
Net balance	-856	0	0	-856
Discounted at the corresponding interbank rate	-856	0	0	-856

Interest-rate risk

In order to assess risks arising from changes in interest rates, financial instruments have to be categorised, as a matter of principle, into those with fixed and those with variable interest rates, in accordance with IAS 32. Risks arising from changes in interest rates exist in the case of variable interest rate loans. These risks are 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 only have an influence on the net result if the instruments are measured at fair value. Accordingly, all fixed interest financial instruments measured at amortised cost are not subject to interest-rate risks within the meaning of 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 in all regions. If market interest rates had been 100 basis points higher at December 31, 2010, earnings before tax would have been EURk 89 (p/y: EURk 101) lower. If market interest rates had been 100 basis points lower, earnings before tax would have been EURk 79 (p/y: EURk 90) higher at December 31, 2010.

Currency risk

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

At the balance sheet date, besides the EUR/USD and EUR/CZK exchange rates, for the first time the EUR/CAD exchange rate represented a significant currency risk for 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, a foreign-exchange-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 an exchange risk does not arise from financial instruments that are non-monetary items or from financial instruments denominated in the functional currency. Therefore, in the case of derivative financial instruments, only currency derivatives are included in the sensitivity analysis, since interest derivatives are not exposed to currency risk. The hypothetical effect on profit or loss and equity for each separate primary item included in the sensitivity analysis is determined by comparing the carrying amount (calculated on the basis of the closing rate) with the translation amount, which in turn is determined by applying a hypothetical exchange rate.

If the EUR had appreciated by 10 % against the CZK at December 31, 2010, earnings before tax would have been EURk 539 (p/y: EURk 599) higher and net profit (loss) from cash flow hedges posted to equity would have been EURk 756 (p/y: EURk 926) lower. If the EUR had depreciated by 10% against the CZK at December 31, 2010, earnings before tax would have been EURk 658 (p/y: EURk 733) lower and net profit (loss) from cash flow hedges posted to equity would have been EURk 755 (p/y: EURk 926) higher.

If the EUR had appreciated by 10 % against the USD at December 31, 2010, earnings before tax would have been EURk 249 (p/y: EURk 147) lower and net profit (loss) from cash flow hedges posted to equity would have been EURk 288 (p/y: EURk 833) lower. If the EUR had depreciated by 10% against the USD at December 31, 2010, earnings before tax would have been EURk 305 (p/y: EURk 179) higher and net profit (loss) from cash flow hedges posted to equity would have been EURk 146 (p/y: EURk 719) higher.

If the EUR had appreciated by 10 % against the CAD at December 31, 2010, earnings before tax would have been EURk 3 lower and net profit (loss) from cash flow hedges posted to equity would have been EURk 1,729 higher. If the EUR had depreciated by 10 % against the CAD at December 31, 2010, earnings before tax would have been EURk 3 higher and net profit (loss) from cash flow hedges posted to equity would have been EURk 2,076 lower.

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. 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 %. As of December 31, 2010 and December 31, 2009, there were no changes made to the objectives and guidelines. Net financial liabilities encompass interest-bearing loans less cash.

EURk	2010	2009
Interest-bearing loans	87,147	86,792
Less cash and cash equivalents	-7,290	-7,704
Net financial liabilities	79,857	79,088
Total equity	68,971	61,465
Gearing ratio	116 %	129 %

22 | Financial instruments

At December 31, 2010 the following derivative financial instruments were open:

EURk	Nominal amount	Redemption 2010	Residual amount	Fixed rate p. a.	Variable interest rate	Maturity	Market value
Interest rate swap	1,800	180	630	3.98 %	6-month EURIBOR	2004 to 2014	-28
Interest rate swap	900	180	90	3.86 %	6-month EURIBOR	2006 to 2011	-1
Interest rate swap	3,500	500	2,000	4.19 %	6-month EURIBOR	2008 to 2014	-104
Interest rate swap	3,000	0	3,000	1.84 %	3-month EURIBOR	2009 to 2011	-12
Interest rate swap	1,000	0	1,000	3.15 %	3-month EURIBOR	2009 to 2014	-47
Interest rate swap	1,000	0	1,000	3.15 %	3-month EURIBOR	2009 to 2014	-47
Interest rate swap	1,000	0	1,000	3.15 %	1-month EURIBOR	2009 to 2014	-50
Interest rate swap	1,000	0	1,000	1.97 %	3-month EURIBOR	2010 to 2013	-12
Interest rate swap	1,000	0	1,000	3.15 %	3-month EURIBOR	2010 to 2014	-45
Interest rate swap	1,000	0	1,000	2.19 %	3-month EURIBOR	2010 to 2015	-2
Interest rate swap	1,000	0	1,000	2.06 %	3-month EURIBOR	2010 to 2015	-6
Interest rate swap	1,506	0	1,506	3.84 %	3-month USD LIBOR	2008 to 2011	-39
Interest rate swap	1,882	0	1,882	4.19 %	3-month USD LIBOR	2008 to 2013	-135
Interest rate swap	2,786	0	2,786	5.22 %	6-month USD LIBOR	2009 to 2011	-135
Interest rate swap	1,280	0	1,280	6.08 %	3-month USD LIBOR	2009 to 2011	-37
Interest rate swap	1,787	243	894	3.85 %	6-month CZK PRIBOR	2007 to 2014	-31
FX forward contracts	46,766	0	46,766	-	-	2011 to 2016	228*

* Application of hedge accounting

The market value changes of derivative financial instruments used to hedge future cash flows were reported directly in equity taking tax effects of EURk 94 (p/y: EURk 370) into account.

In the framework of hedge accounting, EURk 22 (p/y: EURk 1,041) was derecognised from equity and booked through revenue in the income statement. Of the amount derecognized, EURk 0 (p/y: EURk 0) 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 hedged cash flows will fall within the timeframe in the above table, and have an effect on gains and losses.

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

EURk	Valuation category (IAS 39)	Book value		Fair Value	
		2010	2009	2010	2009
ASSETS					
Trade and other receivables	LaR	41,959	38,720	41,959	38,720
Other financial assets		1,493	1,535	1,493	1,535
of which derivatives with hedging relationship	n.a.	1,493	1,535	1,493	1,535
of which derivatives without hedging relationship	FAHfT	0	0	0	0
of which deposits > 3 months	LaR	0	0	0	0
Cash and cash equivalents	LaR	7,290	7,704	7,290	7,704
LIABILITIES					
Interest-bearing loans		87,147	86,792	90,901	89,865
Bank borrowings	FLAC	85,100	86,792	88,671	89,865
of which variable interest rate		42,098	43,943	42,098	43,943
of which fixed interest rate		43,002	42,849	46,573	45,922
Liabilities to leasing companies	n.a.	2,047	0	2,230	0
of which variable interest rate		107	0	107	0
of which fixed interest rate		1,940	0	2,123	0
Trade payables	FLAC	20,265	13,772	20,265	13,772
Other financial liabilities		1,996	1,532	1,996	1,532
of which derivatives with hedging relationship	n.a.	1,265	856	1,265	856
of which derivatives without hedging relationship	FLHfT	731	676	731	676
of which aggregated according to IAS 39 measurement categories:					
Loans and Receivables (LaR)		49,249	46,424	49,249	46,124
Financial Assets Held for Trading (FAHfT)		0	0	0	0
Financial Liabilities Measured at Amortised Cost (FLAC)		105,365	100,564	108,936	103,637
Financial Liabilities Held for Trading (FLHfT)		731	676	731	676

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

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

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

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

Financial instruments carried at fair value:

December 31, 2010

EURk	Level 1	Level 2	Level 3	Total
ASSETS				
Other financial assets	0	1,493	0	1,493
of which derivatives with hedging relationship	0	1,493	0	1,493
of which derivatives without hedging relationship	0	0	0	0
LIABILITIES				
Other financial liabilities	0	1,996	0	1,996
of which derivatives with hedging relationship	0	1,265	0	1,265
of which derivatives without hedging relationship	0	731	0	731

December 31, 2009

EURk	Level 1	Level 2	Level 3	Total
ASSETS				
Other financial assets	0	1,535	0	1,535
of which derivatives with hedging relationship	0	1,535	0	1,535
of which derivatives without hedging relationship	0	0	0	0
LIABILITIES				
Other financial liabilities	0	1,532	0	1,532
of which derivatives with hedging relationship	0	856	0	856
of which derivatives without hedging relationship	0	676	0	676

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

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

Comprehensive income and expenditure of assets carried at fair value:

EURk	2010	2009
Reported in the income statement		
Derivatives without hedging relationship	0	0
Reported in equity		
Derivatives with hedging relationship	658	1,520

Comprehensive income and expenditure of liabilities carried at fair value:

EURk	2010	2009
Reported in the income statement		
Derivatives without hedging relationship	-55	-505
Reported in equity		
Derivatives with hedging relationship	-912	-65

The income or expenditure from the fair value measurement of derivatives without hedging relationship is reported in other operating income or other operating expenses.

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

EURk	2010	2009
Loans and Receivables (LaR)	-125	-935
of which due to disposal	86	44
of which due to re-measurement	0	0
of which due to impairment/impairment reversal	-165	-841
of which due to currency effects	-46	-138
Financial Assets Held for Trading (FAHfT)	0	0
of which due to disposal	0	0
of which due to re-measurement	0	0
Financial Liabilities Measured at Amortised Cost (FLAC)	585	658
of which due to disposal	217	378
of which due to re-measurement	0	0
of which due to impairment/impairment reversal	0	0
of which due to currency effects	368	280
Financial Liabilities Held for Trading (FLHfT)	-55	-190
of which due to disposal	17	315
of which due to re-measurement	-72	-505

OTHER INFORMATION

23 | Research and development costs

There were no research costs. Of the customer-oriented development costs in the amount of EURk 7,175 (p/y: EURk 6,765), EURk 1,076 (p/y: EURk 966) was capitalised in intangible assets.

24 | Management Board and Supervisory Board compensation

Overall Management Board compensation is composed of a fixed basic salary component and a variable component. For the 2010 financial year, Management Board compensation due in the short term amounted to EURk 1,313 (p/y: EURk 648). This includes performance-based components amounting to EURk 487 (p/y: EURk 0) and other payments of EURk 138 (p/y: EURk 0). Service costs for pension commitments to members of the Management Board amounted to EURk 201 (p/y: EURk 182) in 2010.

Total Supervisory Board compensation for the 2010 financial year amounted to EURk 178 (p/y: EURk 23).

The Corporate Governance report contains the compensation report with separate sections focusing on the Management Board and the Supervisory Board. The compensation report is part of the Group management report.

Pension payments for former members of the Management Board of PWO AG and their surviving dependants amounted to EURk 222 (p/y: EURk 219). At the reporting date, the corresponding pension provision amounted to EURk 1,966 (p/y: EURk 1,962).

25 | Auditor’s fee

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

EURk	2010	2009
Annual audit	157	222
Tax consultancy services	65	60
Total	222	282

In the financial year under review, the auditor’s fee that was recognised as an expense included an amount of EURk 16 not attributable to the reporting period (p/y: EURk 87).

No further certification and valuation services were utilised.

26 | Related party disclosures

Related parties include the ultimate parent company as well as the members of the Management and Supervisory Boards. In the financial year under review, there were no relationships between the Group and the ultimate parent company. There were no relationships with related parties as regards the supply of goods or the rendering of services. Please refer to the final declaration on the dependent company report included as part of the management report.

Key management compensation, the disclosure of which is governed by IAS 24, includes the income of the Management Board Supervisory Boards. Further details relating to individual compensation of the Management and Supervisory Boards are presented in the compensation report, which is included in the Corporate Governance report. The compensation report is part of the Group management report.

27 | Additional information on the cash flow statement

In the cash flow statement, cash flows are presented on the basis of IAS 7. The amounts taken into consideration in the cash flow statement include cash and bank borrowings due on demand. The bank borrowings payable on demand, amounting to EURk 2,985 (p/y: EURk 4,213) have been included in the balance sheet as “current interest-bearing borrowings”.

Last year, cash flow from investment activity included an amount of EURk 716 in “Proceeds from the sale of companies” from the sale of the shareholding in the joint venture PWO & BMC Holding Co., Ltd., Hong Kong, China.

28 | Segment reporting

In line with the Group's internal management system, our individual production sites form the basis of our primary segment reporting. The Group's main decision-making body is the Management Board of PWO AG. The segments are determined on the basis of the location of the Group's assets. Accordingly, the revenues of these segments are also allocated according to the location of assets. The regions are categorised as "Germany", "Rest of Europe", "NAFTA Area" and "Asia". The NAFTA Area comprises the locations in Canada and Mexico.

Revenues, 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 accordance with the accounting policies applied in the consolidated financial statement.

As at December 31, 2010, just as at December 31, 2009, no customers were identified with whom the Group achieved at least 10 % sales revenue.

Segment information by locations

Financial year 2010

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

Segment information by location
 Financial year 2009

EURk	Germany	Rest of Europe	NAFTA area	Asia	Consolidation	Group
Total sales revenue	164,737	20,597	26,831	1,720	0	213,885
Internal revenue	-3,186	-3,293	-1,035	0	0	-7,514
External revenue	161,551	17,304	25,796	1,720	0	206,371
Total output	163,425	21,053	26,475	1,835	-6,036	206,752
Key income	3,502	399	1,780	1,442	-1,987	5,136
Key expenses	154,255	20,497	29,023	4,102	-8,168	199,709
Depreciation/amortisation	11,014	1,849	3,251	298	716	17,128
Earnings before interest and tax (EBIT)	1,658	-894	-4,019	-1,123	-571	-4,949
Interest income	115	3	61	1	-100	80
Interest expenses	3,468	1,197	653	363	-100	5,581
Earnings before tax (EBT)	-1,695	-2,088	-4,611	-1,485	-571	-10,450
Income tax	-513	-388	-612	0	12	-1,501
Profit/loss for the period	-1,182	-1,700	-3,999	-1,485	-583	-8,949
Assets	121,720	38,666	33,419	17,322	-6,463	204,664
of which non-current assets	50,737	24,214	21,312	12,372	-185	108,450
Liabilities	16,595	5,807	7,346	12,493	100,958	143,199
Investments	9,028	414	1,514	3,486	-457	13,985

Segment assets and liabilities correspond to values from the balance sheets of single Group companies. Major non-cash items in the reporting concern an allocation to other provisions of EURk 1,191 (p/y: EURk 1,703) and to pension provisions of EURk 887 (EURk 989) in the Germany segment. Last year, the NAFTA Area segment included an amortisation of goodwill of EURk 698.

In the following table, external sales are split according to the three strategic product areas. The product divisions are discussed in the Group management report, "Company Profile" chapter.

Segment information by product divisions

Sales revenue

EURk	2010	2009
Mechanical components for electrics and electronics	93,299	67,090
Safety components for airbag, seats and steering	90,496	79,223
Structural components and subsystems for vehicle bodies and chassis	80,400	60,058
Total	264,195	206,371

29 | Discretionary judgments, estimates and assumptions

The Group performs impairments tests for goodwill at least once a 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 value in use, the Group is required to determine, on the basis of estimates, the projected future cash flows associated with the relevant cash-generating unit, as well as to select an appropriate discount rate in order to determine the present value of the aforementioned cash flows. On December 31, 2010, the carrying amount of goodwill was EURk 5,471 (p/y: EURk 5,338).

Deferred tax assets are recognised for all unutilised tax loss carryforwards and tax credits, to the extent that it is probable based on tax planning that future taxable profit will be available against which the unused tax losses and tax credits can actually be utilised. As of December 31, 2010, deferred tax assets for unused tax loss carryforwards had been formed in an amount of EURk 2,504 (p/y: EURk 2,592) and for tax credits in an amount of EURk 821 (p/y: EURk 0). Of the loss carryforwards, EURk 0 was attributable to PWO AG (p/y: EURk 430), EURk 513 to PWO Canada Inc. (p/y: EURk 340), EURk 1,053 to PWO UNITOOLS CZ a.s. (p/y: EURk 1,117) and EURk 938 to PWO de México S.A. (p/y: EURk 705). These corporate entities reported a loss in the current and preceding period. Tax credits mainly concern PWO UNITOOLS CZ a.s.

It is assumed that the deferred tax assets will retain their value due to the planned business development for the subsequent years. The process of determining the level of deferred tax assets requires significant judgment with regard to timing and amount of future taxable profit as well as the future tax planning strategies. At December 31, 2010, the recognised value of tax loss carryforwards was EURk 10,176 (p/y: EURk 10,965), while that of unrecognised tax loss carryforwards which may be utilised for a limited period of time was EURk 3,761 (p/y: EUR 2,591). Of this amount, EURk 800 lapses in 2018, EURk 1,694 lapses in 2019 and EURk 1,267 in 2020. Further details can be found in Note 12.

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

Development costs are capitalised to the accounting method shown. The initial capitalisation of costs is based on the assessment of the Group that technical and economic feasibility has been established. For the purposes 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, 2010 was EURk 2,657 (p/y: EURk 1,778). This amount mainly consists of investments in the development of a module carrier. A series order has existed for this project since 2008.

30 | Corporate relationships

These consolidated financial statements themselves are included in the consolidated financial statements of Consult Invest Beteiligungsberatungs-GmbH, Böblingen, as the ultimate Group holding company, and the latter financial statements are published in the Electronic Federal Gazette (Bundesanzeiger).

31 | Corporate Governance

The Declaration of Compliance with the German Corporate Governance Code, issued by the Management and Supervisory Boards in December 2010 has been made permanently available to the shareholders on the company's website.

32 | Events after the reporting date

There were no significant events after the reporting period.

Oberkirch, March 3, 2011

The Management Board



Karl M. Schmidhuber
(Chairman)



Bernd Bartmann



Dr. Winfried Blümel

CONSOLIDATED STATEMENT OF CHANGES IN NON-CURRENT ASSETS

CONSOLIDATED STATEMENT OF CHANGES IN NON-CURRENT ASSETS

DECEMBER 31, 2010

EURk	01/01/2010	Acquisition and production costs				31/12/2010
		Additions	Reclassifications	Disposals	Currency change	
Land and buildings	60,995	240	-169	343	2,074	62,797
Technical equipment and machinery	162,348	5,518	4,156	1,099	2,990	173,913
Other equipment, operating and office equipment	23,052	1,603	708	903	467	24,927
Prepayments and assets under construction	6,084	9,742	-4,695	0	80	11,211
Property, plant and equipment	252,479	17,103	0	2,345	5,611	272,848
Contract and customer-related development services	1,808	1,076	0	0	0	2,884
Industrial property rights and similar rights	10,671	1,088	0	0	53	11,812
Goodwill	6,536	0	0	0	185	6,721
Other intangible assets	865	0	0	0	67	932
Intangible assets	19,880	2,164	0	0	305	22,349
Non-current assets	272,359	19,267	0	2,345	5,916	295,197

CONSOLIDATED STATEMENT OF CHANGES IN NON-CURRENT ASSETS

DECEMBER 31, 2009

EURk	01/01/2009	Acquisition and production costs				31/12/2009
		Additions	Reclassifications	Disposals	Currency change	
Land and buildings	52,576	2,851	4,951	77	694	60,995
Technical equipment and machinery	155,260	4,010	2,788	1,969	2,259	162,348
Other equipment, operating and office equipment	21,607	1,492	268	544	229	23,052
Prepayments and assets under construction	10,095	4,177	-8,073	0	-115	6,084
Property, plant and equipment	239,538	12,530	-66	2,590	3,067	252,479
Contract and customer-related development services	842	966	0	0	0	1,808
Industrial property rights and similar rights	10,014	489	142	0	26	10,671
Goodwill	6,427	0	0	0	109	6,536
Other intangible assets	885	0	0	0	-20	865
Prepayments	76	0	-76	0	0	0
Intangible assets	18,244	1,455	66	0	115	19,880
Non-current assets	257,782	13,985	0	2,590	3,182	272,359

Depreciation/amortisation					Book values		
01/01/2010	Additions	Reclassifications	Disposals	Currency change	31/12/2010	31/12/2010	31/12/2009
19,732	1,816	0	343	296	21,501	41,296	41,263
118,902	11,279	0	1,089	1,621	130,713	43,200	43,446
16,684	2,153	0	870	261	18,228	6,699	6,368
0	0	0	0	0	0	11,211	6,084
155,318	15,248	0	2,302	2,178	170,442	102,406	97,161
30	197	0	0	0	227	2,657	1,778
6,626	1,464	0	0	29	8,119	3,693	4,045
1,198	0	0	0	52	1,250	5,471	5,338
737	134	0	0	57	928	4	128
8,591	1,795	0	0	138	10,524	11,825	11,289
163,909	17,043	0	2,302	2,316	180,966	114,231	108,450

Depreciation/amortisation					Book values		
01/01/2009	Additions	Reclassifications	Disposals	Currency change	31/12/2009	31/12/2009	31/12/2008
17,839	1,750	-6	61	210	19,732	41,263	34,737
107,691	11,074	0	1,368	1,505	118,902	43,446	47,569
15,101	1,907	0	498	174	16,684	6,368	6,506
0	0	0	0	0	0	6,084	10,095
140,631	14,731	-6	1,927	1,889	155,318	97,161	98,907
0	30	0	0	0	30	1,778	842
5,180	1,417	6	0	23	6,626	4,045	4,834
519	698*	0	0	-19	1,198	5,338	5,908
502	252	0	0	-17	737	128	383
0	0	0	0	0	0	0	76
6,201	2,397	6	0	-13	8,591	11,289	12,043
146,832	17,128	0	1,927	1,876	163,909	108,450	110,950

* Goodwill impairment of PWO de México S.A. de C.V.

AUDITOR'S REPORT

The following audit certificate was awarded by us for the consolidated financial statements and consolidated management report which was amalgamated with the company management report:

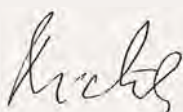
"We have audited the consolidated financial statements prepared by Progress-Werk Oberkirch Aktiengesellschaft, Oberkirch comprising the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes as well as the consolidated management report amalgamated with the company management report for the financial year from January 1 to December 31, 2010. It is the responsibility of the legal representatives of the company to prepare the consolidated financial statements and consolidated management report in accordance with International Financial Reporting Standards as applicable in the EU and with the supplementary provisions of German commercial law applicable pursuant to Section 315a, Para. 1 of the German Commercial Code (HGB). Our task is on the basis of the audit undertaken by us to deliver a judgment on the consolidated financial statements and consolidated management report.

We have conducted our audit of the consolidated financial statements in accordance with Section 317 of the German Commercial Code (HGB) in consideration of the German auditing standards defined by the Institut der Wirtschaftsprüfer (IDW). These require the audit to be planned and conducted in such manner as to detect with adequate certainty any inaccuracies or infringements which may significantly impact on the impression of the assets, financial and earnings situation as conveyed by the consolidated financial statements in consideration of the applicable accounting standards, and by the consolidated management report. In determining the actions to be taken as part of the auditing procedure, consideration was given to a knowledge of the business activities of the Group and its economic and legal environment, as well as to the possible errors likely to be encountered. In the course of the audit the effectiveness of the internal accounting control system and proofs of the information contained in the consolidated financial statements and consolidated management report were assessed on the basis of random samples. The audit encompasses an appraisal of the annual financial statements of the companies integrated into the consolidated accounts, the demarcation of the group of consolidated companies, the accounting and consolidation principles applied and the principal assessments made by the officers legally entitled to represent the company, as well as an evaluation of the overall presentation of the consolidated financial statements and consolidated management report. We are of the opinion that our audit forms an adequately secure foundation on which to base our judgment.

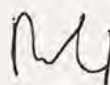
Our audit has caused us to raise no objections.

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

Freiburg i. Br., March 7, 2011
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft



Nietzer
Auditor



Ruby
Auditor

RESPONSIBILITY STATEMENT

“We hereby give an assurance to the best of our knowledge and belief that in accordance with the applicable accounting standards these consolidated financial statements convey an impression of the net assets, financial position and results of operations of the Group which accords with the true facts; and that the development in business including the results and the situation of the Group are so described in the consolidated management report as to convey an impression which likewise accords with the true facts; and that the essential opportunities and risks associated with the anticipated development of the Group are so described.”

Oberkirch, March 3, 2011

The Management Board



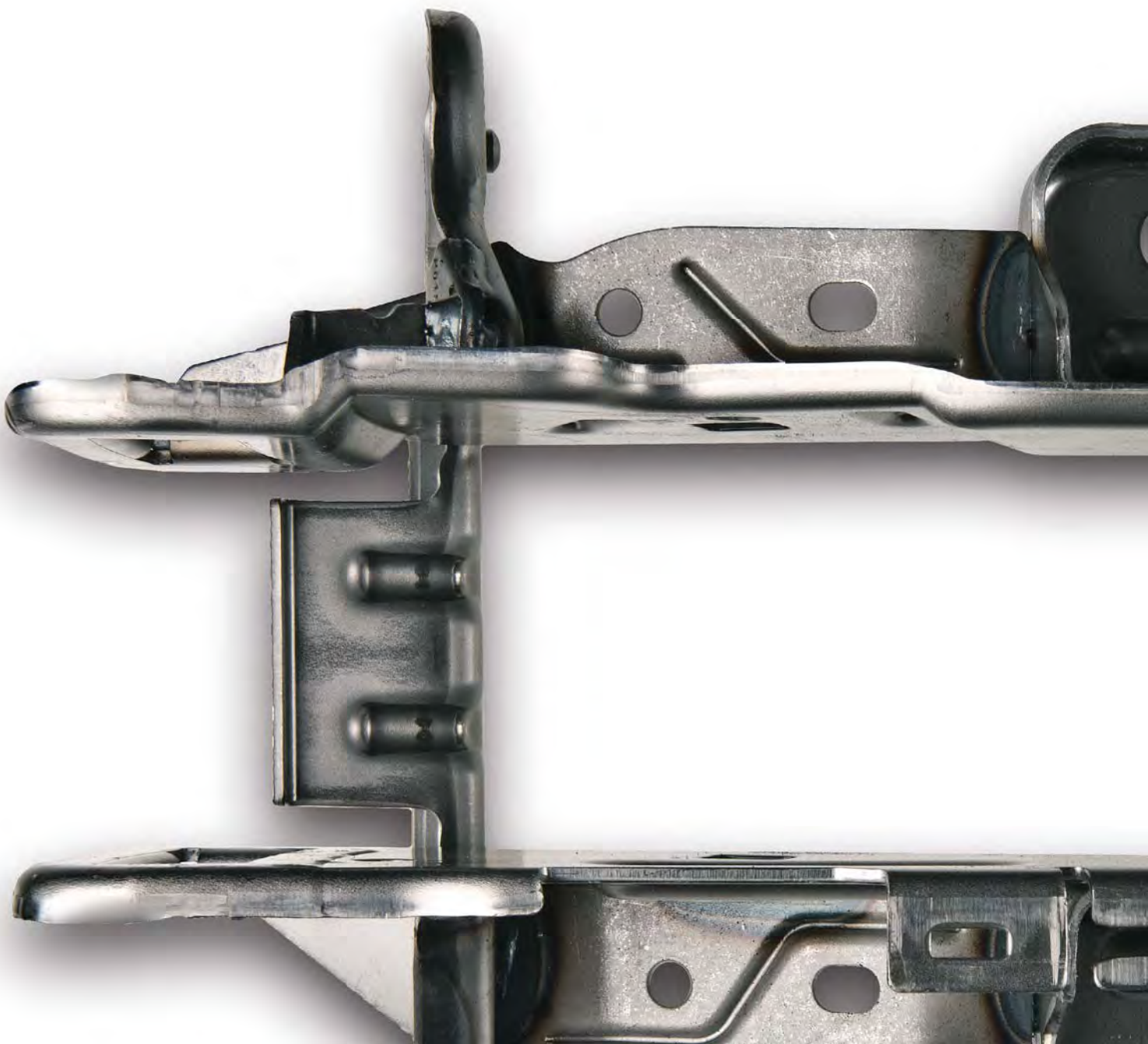
Karl M. Schmidhuber
(Chairman)



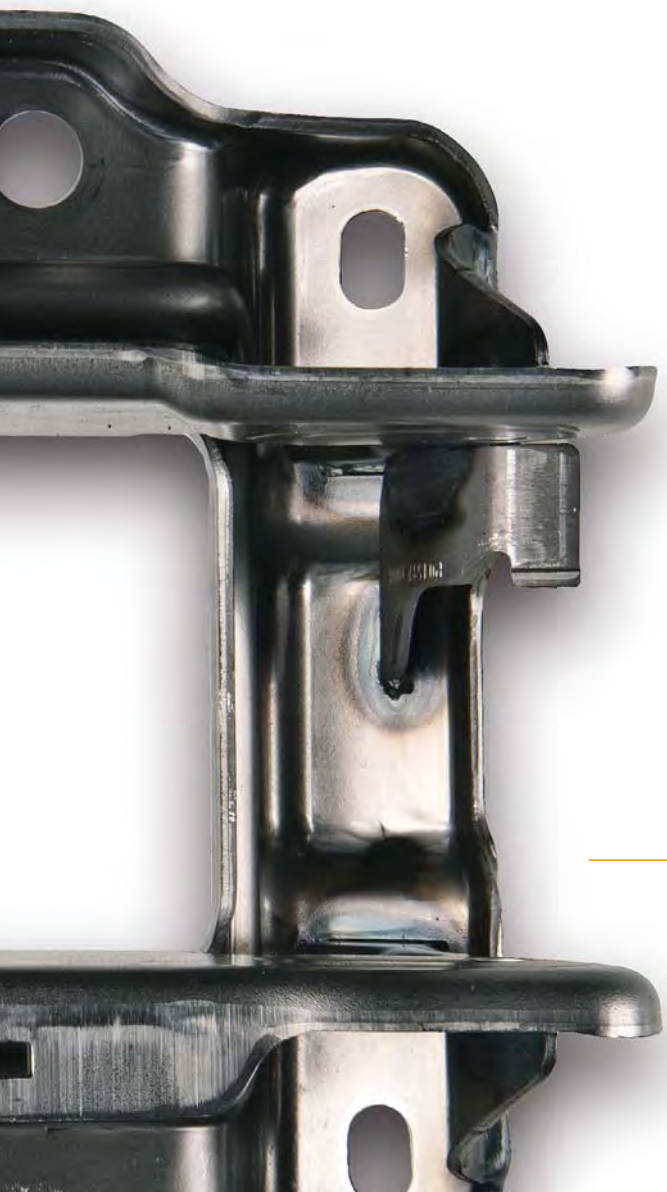
Bernd Bartmann



Dr. Winfried Blümel



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Steering column adjustment structural components

PWO develops and manufactures systems meeting the most stringent functionality and quality standards.

GOVERNING BODIES

SUPERVISORY BOARD

Dieter Maier,

Stuttgart

Chairman of the Supervisory Board

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

Further mandates

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

Leitz GmbH & Co. KG, Oberkochen
 Chairman of the Advisory Board

Dr. jur. Klaus-Georg Hengstberger,

Böblingen

Deputy Chairman of the Supervisory Board

Managing Director of Consult Invest Beteiligungsberatungs-GmbH, Böblingen

Further mandates

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

Katja Hertwig,*

Durbach

Commercial training officer

Member of the Works Council of PWO AG

Herbert König,*

Renchen-Erlach

Industrial manager and

Chairman of the Works Council of PWO AG

Ulrich Ruetz,

Former chairman of the Management Board of BERU AG, Ludwigsburg

Further mandates

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

Sumida Corporation, Tokyo, Japan
 Member of the Board

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

Attorney at Law, partner in
 Sozietät Gleiss Lutz

Further mandates

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

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

* Employee representatives

MANAGEMENT BOARD

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

Further mandates

Beru-Eichenauer GmbH, Hatzenbühl
Chairman of the Advisory Board
(until March 30, 2010)

PWO Canada Inc.,
Kitchener, Ontario, Canada
Director

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

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

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

Bernd Bartmann,
Offenburg
Administration/Finance

Further mandates

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

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

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

Sparkasse Offenburg/Ortenau,
Offenburg
Member of the Advisory Board
(from July 22, 2010)

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

Further mandates

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

PROPOSAL FOR THE APPROPRIATION OF PROFITS

It is proposed to the Annual General Meeting that the net income of PWO AG to December 31, 2010 in the amount of EUR 4,939,597.25 be appropriated as follows:

Payment of a dividend of EUR 1.00 per dividend-bearing share	EUR 2,500,000.00
Allocation to other revenue reserves	EUR 2,400,000.00
Carried forward to new account	EUR 39,597.25

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

Oberkirch, March 3, 2011

The Management Board



Karl M. Schmidhuber
(CEO)



Bernd Bartmann



Dr. Winfried Blümel

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www.progress-werk.de

FINANCIAL CALENDAR

MAY 2, 2011	INTERIM FINANCIAL REPORT 1ST QUARTER 2011
MAY 25, 2011	ANNUAL GENERAL MEETING 2011
AUGUST 2, 2011	INTERIM FINANCIAL REPORT 2ND QUARTER AND HALF-YEAR 2011
NOVEMBER 3, 2011	INTERIM FINANCIAL REPORT 3RD QUARTER AND 9 MONTHS 2011
MARCH 14, 2012	ANALYSTS' CONFERENCE
APRIL 12, 2012	ANNUAL REPORT 2011
MAY 3, 2012	INTERIM FINANCIAL REPORT 1ST QUARTER 2012
MAY 24, 2012	ANNUAL GENERAL MEETING 2012

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