06 Management Report for the PWO Group

This publication contains the combined management report for Progress-Werk Oberkirch AG and the PWO Group for the financial year ending December 31, 2009. The Group prepares its financial statements in accordance with the IFRS international accounting standards, while Progress-Werk Oberkirch AG prepares its financial statements in line with the provisions set out in the German Commercial Code (Handelsgesetzbuch – HGB).

The composition of the consolidated Group is described in detail in the Notes to the Annual Report. There was no evidence that changes to the consolidated Group had a material influence on the earnings, financial and asset positions

Group profile

PWO is one of the world's leading automotive suppliers of high-end metal components and subsystems designed to contribute to the safety and comfort of motor vehicles. These product areas are reporting sustained above-average growth irrespective of market cycles. This is due to the fact that safety requirements are constantly on the rise in all vehicle classes and sales regions.

The Group specialises in developing and manufacturing components and subsystems made of steel, stainless steel and aluminium, the emphasis being on mass production in volumes often reaching several million units per batch.

In this context, we focus on the areas in which our products cannot be replaced by other materials, or can only be replaced with difficulty, in other words, at great cost.

We are the world's leading producer of deep-drawn electric motor housings, with an annual production of over 80 million units. We mainly manufacture the housings at the Oberkirch site and have developed the world's fastest transfer process for complex metal forming for this purpose.

PWO positions itself as a leading innovator in both customer-oriented product development and the corresponding manufacturing processes. We regularly roll out ground-breaking innovations in modern mass production for the global automotive industry.

In engineering, the power to innovate is critical for the quality of parts, production speed and integration into downstream metal forming processes. The fact that we make our own tools is one of our unique selling points.

From this position as market leader, we have also begun to tap the market segment for somewhat less technically complex products. This especially applies to our sites in the emerging countries Mexico and China.

This product area has generated strong interest from both existing and potential new customers. PWO is highly credible as a high-tech supplier that is able to surpass previous market participants in terms of both sustainable quality and delivery reliability in this segment.

The high degree of transparency in the way we do business allows us to implement standards worldwide that enable us to remain competitive with our offers in the market and still achieve the necessary profit margins in the process.

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

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

This means that we are the only manufacturer in the world to offer such a broad product range and be in a position to cover the entire value chain from made-to-order and customer-related development to tool and series production.

We supply mechanical components for electrical and electronic systems as well as safety components for airbags, seats and steering. Together, these account for around two-thirds of revenue and are primarily made for well-known international TIER 1 suppliers, who then deliver these components in their systems for numerous vehicle models and various manufacturers. Structural components and subsystems for vehicle bodies and chassis are typically supplied directly to automotive manufacturers for specific models.

We are not substantially dependent on the success of individual vehicle models thanks to high revenue from products for TIER 1 suppliers and supply orders for a broad range of vehicles in different categories.

The Group is headquartered in Oberkirch, in the south west of Germany and is therefore located in one of the centres of German automotive manufacturing. Across the globe, PWO is also maintaining its own production sites in Canada, the Czech Republic, China and Mexico. Other countries or regions are covered by cooperation partners. The Group employed an average of 1,932 staff during the year under review.

Economic environment

Macroeconomy

The financial crisis that began towards the end of 2008 led to a shortage of liquidity on the financial markets and caused companies all over the world to focus on securing their own liquidity – not least because the supply of credit from the banking sector was hugely disrupted.

An immediate consequence was a strong negative effect on stock cycles. Internal stock levels were reduced, orders were cancelled and investments reduced to a minimum. The upstream production sectors and producers of capital goods suffered the most. World trade was also greatly affected as exports collapsed.

Consumer activity was almost the only factor supporting the economy in most places. In the final quarter of 2008, and the first quarter of 2009 in particular, the world economy slid into the deepest recession since the Second World War.

The wide-ranging rescue measures of governments and central banks first saw success with the stabilisation of the international financial system, which enhanced the liquidity situation on the financial markets.

Worldwide measures to revive the global economy also began to have an effect from early summer 2009, with the campaign to support the automotive industry (many countries introduced so-called scrappage premiums) being a prime example.

These measures led to a turnaround in the stock cycle, depleted inventories were replenished and the entire flow of goods started its revival.

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The capital goods sector also showed a slight recovery, albeit starting from a much lower level.

Industrialised and emerging nations have found themselves back on an expansion course since the second quarter of 2009. However, the momentum and depth of the recovery remain fragile.

The tangible slowdown in industrial production in Germany is a prime example of this, starting from the end of the third quarter of 2009 and continuing during the fourth quarter. The stimulating stock cycle from summer 2009 has now run its course.

Germany's gross domestic product (GDP) contracted by a total of 5.0% in 2009, as a consequence of which the country suffered one of the steepest declines among the OECD countries. The OECD countries reported an average decrease in GDP of about 3.5%, with OECD countries in the Eurozone recording a decline of 4.0%.

Sector development | Automotive sector

According to the German Automotive Industry Association (VDA), the international car industry performed better than originally anticipated in 2009.

A worldwide drop of up to 20% was forecast for new registrations of private cars at the beginning of the year.

However, government incentive programmes in many countries and the sales boom in China ensured that global car sales were down by just 3%.

In Western Europe, 13.6 million new vehicle registrations were recorded in 2009.

This exceeds the previous year's figure by a mere 1%, with the strongest growth registered in countries that introduced scrapping programmes at an early stage: Germany +23% and France +11%. The Italian car market fell marginally short of the previous year's level (-0.2%).

In the United Kingdom and Spain, the scrapping programmes also helped during the year. Sales for 2009 as a whole, however, dropped by 6% and 18% respectively due to the steep decline at the beginning of the year.

The financial and economic crisis led to a 27% plunge in demand in the new EU countries. The number of new registrations increased only in the Czech Republic (+13%) and Slovakia (+7%), while sales stagnated in Poland.

The sharpest declines were recorded in Romania (-60%), Bulgaria (-49%) and the Baltic States (-71%). In Russia 49% fewer cars were sold than in the previous year.

In the US market, sales of light vehicles for 2009 as a whole fell by 21% to 10.4 million. German manufacturers were able to continue increasing their share in the light vehicle market for the fifth year running, now holding 7.3%. Sales in the USA stabilised towards the end of the year.

Japan recorded a 7% drop in new vehicle sales to 3.9 million units in 2009, with business picking up towards the end of the year.

In India (+17%) and China, sales of new vehicles recorded dynamic growth in the year under review. Sales in China rose by more than 47% to 8.4 million units after the Chinese government halved the sales tax for small vehicles with engine sizes of up to 1.6 litres in February.

The German market was strongly influenced by extraordinary factors in 2009. Substantial structural changes were made in the wake of the so-called scrapping incentive. Manufacturers that were primarily involved in the small and subcompact vehicle segment, as well as in the compact class, were able to markedly increase sales.

Suppliers from France, Italy, Korea and Japan gained the most from this situation. According to statistics from the (German) Federal Motor Transport Authority, there were almost twice as many registrations of subcompact vehicles in 2009 as in the previous year (+97%).

The small vehicle segment grew by a total of 66% and the compact class by 31%. However, the upper mid class (-16%), the premium class (-18%) and sports cars (-26%) suffered heavy losses.

Altogether, domestic registrations increased by 23% to more than 3.8 million cars. As larger vehicles hardly benefited from the scrapping incentive and the market for diesel powered vehicles collapsed, German manufacturers were only able to increase incoming domestic orders by a below-average 16%.

Without the scrapping incentive, the VDA estimates that there would probably have been one million less registrations in 2009 – which would have been a serious decline compared to the previous year's total.

Following the expiry of the scrapping incentive, domestic sales in November lagged about 6% below those for the same month in the previous year, with December down some 5%.

Overall, German manufacturers recorded an unsatisfactory 17% fall in exports, exporting some 3.4 million units in 2009. However, the major portion of the collapse came in the first half-year. Orders from abroad have been up again since August 2009, increasingly gaining momentum in the process.

In the last five months of 2009, orders from abroad were up by some 16% compared to the same period in the previous year. In fact, 23% more private cars were exported in December, although this figure is distorted somewhat by the very low baseline figure from the previous year.

Production at German factories also rose markedly in the fourth quarter of 2009, albeit compared with an equally low baseline figure. Due to the weak first half-year, only about 5 million cars were produced in the whole of 2009 – about 10% less than the previous year.

Sector development | Industry Suppliers

The revenue of suppliers to the German automotive industry also stabilised in the fourth quarter of 2009. Revenue for the full year fell by a good 25% to EUR 49.8 billion compared with 2008. This is roughly equivalent to the 2001 level. Domestic business fared somewhat better than overseas business, with these figures down -24% and -30% respectively.

In October 2009, suppliers were able to record more orders than in the comparable month in the previous year for the first time since April 2008. However, although domestic customer orders rose by 13%, orders from overseas customers still fell by 6%.

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Strategy and management

Corporate Strategy

PWO has a mature business model that is designed to limit risks by virtue of its customer-oriented development and production approach, as well as the broad range of applications, customers and vehicles we deliver components for.

In the early 1990s, we focused exclusively on the automotive industry, rapidly building up and expanding our present customer base and product portfolio. We have now become one of the world's leading suppliers in our field, and have positioned ourselves as a global, strategic partner for our customers. This sets us apart from most of the competition.

This success can only be achieved with a permanently high innovative capacity for developing product solutions and their related production processes, so that customers' requirements are always met or exceeded, especially as regards function, precision, weight and price.

In the future, we will also expand our activities in the emerging nations of Mexico and China, in the large segment covering less complex metal components.

Our aim is to offer our customers in these countries competitive solutions at a higher level of quality than that of existing suppliers in these countries. This will help us substantially enhance our growth prospects for the future.

More than customer satisfaction, maintaining success in such an intensively competitive sector as the automotive industry also requires a high degree of stringency in the inhouse management of processes in order to secure and increase the Group's profitability.

In the 2009 financial year, we emphatically proved our ability to react to all market conditions with the necessary speed.

The Group's profit situation improved accordingly from quarter to quarter following the collapse of the market at the end of 2008 and start of 2009.

Although capacity utilisation continued to be substantially lower than in the past, a distinctly positive EBIT was posted in the fourth quarter of 2009.

Although the automotive industry may have overcome the low point in its current cycle, it has not yet got back to a level which makes sustainable profitability possible.

A broad spectrum of estimates has been released regarding the future development of the sector. These range from an anticipated speedy return to the previously successful combination of prestige, speed and customisation, to a general turning away from the automobile as a status symbol.

We will continue to closely align our corporate strategy with the development of the market and customers' wishes in future. We believe the cornerstones of our strategy – customer satisfaction and cost conscious in-house management – will continue to drive our mission to gain additional market shares and in doing so grow more strongly than the automotive sector as a whole.

Corporate Management

The PWO Group operates five production sites. The Group is managed from Oberkirch, where its competency and technology centre is located and its innovative energy is pooled. Group-wide business processes are also developed and optimised here.

In recent years, we have comprehensively reviewed all in-house processes and documented their individual components within the framework of the PWO Production System. This creates the required transparency which enables us to specifically manage individual steps, optimise the principles of lean management and continue our systematic development. Our sites are constantly competing with each other for in-house best practices solutions covering all areas of business.

All sites around the Group are consistently managed using this system. However, the newest companies in Mexico and China have adapted their production capacity to the local technological requirements. Nevertheless, our zero-error philosophy applies worldwide without any exceptions.

What was originally introduced as a system for continuously increasing productivity and flexibility has shown itself to be a key tool in quickly adapting the Group to the decline in capacity utilisation, not least during the automotive industry's recent sales crisis. It has therefore made a major contribution to the successful combating of the current challenges.

Thanks to the complete transparency of our business procedures, we were able to analyze the necessary adjustment measures individually before making decisions. This in turn allowed us to make targeted changes to our plans while at the same time completely maintaining the stability of the entire system.

Our individual production locations are responsible for supplying their respective regional markets. In line with this approach, our Oberkirch site produces mainly for Western Europe. The Czech Republic serves Central and Eastern Europe, Canada and Mexico supply the northern and southern NAFTA zones, while our Chinese facility supplies its own regional market.

The Group has a highly qualified in-house tool engineering function, which underlines the PWO's innovative strength. The Group mainly produces its tools in-house at its facilities in Oberkirch, Germany and Valašské Meziříčí, Czech Republic.

The other sites are also gradually expanding their tool engineering expertise, with the Kitchener site in Canada leading the way.

This core competency is complemented by our cooperation with external toolmakers, whom we draw on to cover capacity bottlenecks or as cost-effective suppliers of simpler components.

PWO's internal operations take the form of a seamless value chain. Made to order and customer specific development, tool engineering and batch-production personnel cooperate in integrated teams at every stage in the process chain – from product enquiries to launching series production.

The respective teams also regularly oversee proceedings during ongoing production and are continuously developing improvements to productivity and quality.

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Net assets, financing and results of operations | Overview of key figures

	2005	2006	2007	2008	2009
Income statement (EUR thousand)					
Group revenue	219,706	225,339	259,566	260,356	206,371
Total group output	221,121	227,048	262,600	264,810	206,752
Materials expenses	114,293	117,750	141,332	149,306	112,067
Staff expenses	60,241	62,760	68,765	70,652	67,065
Other operating expenses	20,251	17,397	23,038	25,115	20,577
EBITDA	29,052	31,938	32,908	24,184	12,179
EBIT	15,522	15,792	16,719	7,715	-4,949
Net profit for the year	7,915	8,840	7,673	1,351	-8,949
Structure of the income statement					
Group revenue	99.4 %	99.2 %	98.8 %	98.3 %	99.8 %
Total group output	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
Materials expenses	51.7 %	51.9 %	53.8 %	56.4 %	54.2 %
Staff expenses	27.2 %	27.6 %	26.2 %	26.7 %	32.4 %
Other operating expenses	9.2 %	7.7 %	8.8 %	9.5 %	10.0 %
EBITDA	13.1 %	14.1 %	12.5 %	9.1 %	5.9 %
EBIT	7.0 %	7.0 %	6.4 %	2.9 %	-2.4 %
Net profit for the year	3.6 %	3.9 %	2.9 %	0.5 %	-4.3 %
Figures per share					
Average weighted number of shares (in millions)	2.08	2.50	2.50	2.50	2.50
Earnings per share (EUR)	3.80	3.54	3.10	0.58	-3.58
Dividend per share (paid out in EUR)	1.10	1.20	1.30	0.55	0.00*
XETRA-share price at year-end (EUR)**	34.50	36.00	35.00	16.48	20.00
Employees by location as of December 31					
PWO AG, Germany	943	958	993	1,054	1,052
PWO Canada Inc., Canada	158	147	118	106	106
PWO UNITOOLS CZ a.s., Czech Republic	201	211	237	319	299
PWO & BMC High-Tech Metal Components, China (JV)	0	8	10	2	0
PWO High-Tech Metal Components, China	0	0	0	36	80
PWO de México S.A. de C.V., Mexiko	0	0	352	368	279
Apprentices within the Group	78	82	91	125	149
Total	1,380	1,406	1,801	2,010	1,965

* Proposal to 87th Annual General Meeting

** Figures for 2009 and the previous years changed to XETRA-prices

	2005	2006	2007	2008	2009
Balance sheet (EUR thousand)					
Non-current assets	85,115	82,156	97,220	112,346	110,215
Inventories	38,326	41,023	43,887	46,713	42,312
Trade receivables	30,606	32,427	44,767	38,234	38,720
Cash	1,468	6,779	1,953	2,265	7,704
Other current assets	932	2,130	3,963	5,565*	5,713
Subscribed capital	6,391	6,391	6,391	6,391	6,391
Total equity	63,595	68,788	76,789	67,980	61,465
Interest-bearing borrowings	42,004	39,843	51,815	69,451	86,792
Pension provisions	22,486	23,203	24,100	24,914	25,930
Trade payables	13,963	16,035	20,693	23,238	13,772
Other liabilities	14,399	16,646	18,393	19,540	16,705
Balance sheet total	156,447	164,515	191,790	205,123	204,664
Structure of the balance sheet					
Non-current assets	54.4 %	49.9 %	50.7 %	54.8 %	53.8 %
Inventories	24.5 %	24.9 %	22.9 %	22.8 %	20.7 %
Trade receivables	19.6 %	19.7 %	23.3 %	18.6 %	18.9 %
Cash	0.9 %	4.1 %	1.0 %	1.1 %	3.8 %
Other current assets	0.6 %	1.3 %	2.1 %	2.7 %	2.8 %
Subscribed capital	4.1 %	3.9 %	3.3 %	3.1 %	3.1 %
Total equity	40.7 %	41.8 %	40.0 %	33.1 %	30.0 %
Interest-bearing borrowings	26.8 %	24.2 %	27.0 %	33.9 %	42.4 %
Pension provisions	14.4 %	14.1 %	12.6 %	12.2 %	12.7 %
Trade payables	8.9 %	9.7 %	10.8 %	11.3 %	6.7 %
Other liabilities	9.2 %	10.1 %	9.6 %	9.5 %	8.2 %
Balance sheet total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
Cash flow (EUR thousand)					
Cash flow from operating activities	16,267	25,296	17,902	25,031	6,008
Cash flow from investing activities	-16,517	-13,179	-26,007	-33,937	-12,658
Cash flow from financing activities	700	-7,828	-958	13,497	10,858
Net change in cash and cash equivalents	450	4,289	-9,063	4,591	4,208
Principal financial indicators					
Return on Equity in % (Based on EBT)	19.8	18.5	16.8	3.8	negative
Return on Equity in % (Based on net profit)	12.4	12.9	10	2.0	negative
Net debt as % of equity	64	48	65	99	129

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

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Review of Revenue and Earnings

The PWO Group posted revenue of EUR 206.4 million in the financial year 2009. This corresponds to a decline of 20.7% compared to EUR 260.4 million in the previous year. While revenue from tooling operations remained unchanged at EUR 27.1 million, revenue from delivered components and systems fell by 23.1%, from EUR 233.3 million to EUR 179.3 million. We have drawn some important conclusions from this wide range of different developments.

The decline in revenue from series production reflects last year's massive collapse in automotive sales internationally – particularly in vehicles which profited less from governmental sales support promotions for smaller cars around the world. This can therefore be attributed to the 2008/09 global recession which in turn was the result of the international financial markets crisis.

In contrast, the sustained high revenue from tooling operations is a pointer to the future: 2009 maintained a high level after the 32% increase in 2008.

High revenues from tooling operations are the precursor for new series production ramp-ups. The majority of the record volume of new orders received in recent years will enter production in 2010 and 2011. This shows that the PWO Group's fundamental growth track is still very much intact.

The slump in sales in the automotive industry reached its low point at the turn of the 2008/09 year. Following the drastic reductions in demand from automobile manufacturers and TIER 1 suppliers, industry-wide supply chains almost completely dried up.

PWO was able to record a slight increase in revenue over the course of the first quarter of 2009 on the back of the gradual increase in call orders from our customers. Initially, series sales were mainly driven by efforts to replenish the supply chain into the second quarter. The previous hugely negative inventory cycle began to turn around in Q2 2009 and is now having a positive effect as supply chains are being restocked.

During the rest of the second half of the year, business then also started to recover again in terms of consumer demand. This was largely driven by increasing exports from German manufacturers and gradual revival in North America.

In the year under review, total output amounted to EUR 206.8 million after EUR 264.8 million in the previous year. This decline was somewhat stronger than the fall in revenue due to the reduction in inventories, in contrast to the previous year when they were increased. Other operating income also rose slightly.

Our highly flexible structures allowed us to react very rapidly to the major changes in the market. Material expenses were reduced by 24.9% more than the revenue slump in series production.

We achieved this by consistently insourcing services otherwise given to third parties. This had the positive effect that it secures jobs at PWO and also allowed us to record a very strong, almost 45%, reduction in this expenses item.

Expenses from raw materials, consumables and supplies as well as merchandise purchased fell by a below-average amount. However, this was solely due to the relatively higher share of revenue from tooling operations in total revenue.

Procurement management for intermediate products is closely linked to output at PWO. The Group does not have purchase commitments for raw materials that do not relate to call orders from customers. Therefore, no intermittent stock increases with corresponding prefinancing obligations were made above and beyond the normal fluctuations.

Staff costs fell by a considerably below-average 5.1% to EUR 67.1 million, after coming in at EUR 70.7 million in the previous year. The know-how that our employees have built up over the course of many decades forms part of the core of our competitive edge.

Therefore, the most important aim of our HR policy in the 2009 financial year was to secure the jobs of our experienced core workforce. We achieved this aim by making systematic use of the option of short-time working, in addition to the insourcing measures already mentioned. There were no practicable alternatives to the intermittent substantial rise in the staff expense ratio.

In contrast, the 18% reduction in other operating expenses is due to the major cut in expenses for temporary workers, which we reduced by more than half.

In addition, costs from external services in connection with development cooperations in the previous year were no longer incurred, and start-up input was reduced at the three newest foreign sites in 2009.

Depreciation/amortisation rose slightly, mainly as a result of the international expansion. Although sites in Mexico and China recorded higher depreciation/amortisation, this figure fell at other sites, including in Germany.

In addition, an impairment to the goodwill of PWO de México totalling EUR 0.7 million was applied. The related goodwill has now been completely written down. This impairment was performed due to the effects that the economic crisis had on the US automotive market.

In the year under review, EBIT amounted to EUR -4.9 million, after EUR 7.7 million in the previous year. This includes EUR 1.5 million in exchange rate losses, which particularly affected our sites in the Czech Republic and NAFTA region.

We limit currency risks by hedging the budgeted exchange rates of our orders. Due to the most recent upheaval on the international financial markets, the exchange rate losses presented were incurred from the market valuation of hedging transactions. Due to the increased long-term bank liabilities, the financial result deteriorated slightly from EUR -5.1 million in 2008 to EUR -5.5 million in the year under review.

Pre-tax earnings therefore came in at EUR -10.5 million compared to EUR 2.6 million in the previous year. With a tax credit of EUR 1.5 million, the PWO Group posted a net loss of EUR -8.9 million for 2009 (previous year: EUR 1.4 million), with earnings per share of EUR -3.58 (previous year: EUR 0.58).

Segment reporting

In accordance with the Group corporate management, our individual production sites form the basis of our segment reporting by region. The geographical segments are determined on the basis of the location of the Group's assets. Accordingly, segment revenue is classified according to the location of the assets.

Revenue continues to consist of the three strategic product areas 'mechanical components for electrical and electronic systems', 'safety components for airbags, seats and steering' and 'structural components and subsystems for vehicle body and chassis'.

The segment entitled 'Germany' relates to Oberkirch. The 'Rest of Europe' corresponds to the Czech Republic, while 'NAFTA' covers our sites in Canada and Mexico and 'Asia' refers to our activities in China.

Supplies and services provided between individual sites primarily relate to the tools made by our subsidiary at the Valašské Meziříčí site in the Czech Republic for other companies in the Group. These are consolidated at Group level.

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

In the Germany segment, revenue and total output fell more sharply than the overall Group level, by -21.6% and -22.2% respectively in the 2009 financial year. This was particularly due to German automotive manufacturers' caution regarding call orders at the start of the financial year.

Revenue amounted to EUR 164.7 million after coming in at EUR 210.0 million in 2008. Total output reached EUR 163.4 million after EUR 210.1 million in the previous year.

Staff costs were reduced by a below-average amount in Oberkirch. Our site in Oberkirch forms the hub of the Group's innovation and know-how, and as a result, our measures for retaining jobs particularly focused on this site.

In contrast, there was an above-average drop in other operating expenses due to the strong reduction in temporary staff as well as the fall in material expenses on the back of the lower volume of purchased services.

Depreciation/amortisation came in at EUR 11.0 million, slightly down on the previous year mark of EUR 11.4 million. In the year under review, EBIT for the Oberkirch site came to EUR 1.7 million, after being reported at EUR 11.4 million in the previous year.

The net financial result deteriorated from EUR 2.8 million to EUR 3.3 million due to increased bank borrowings.

On the back of the tax credit of EUR 0.5 million for 2009 compared to the tax expense of EUR 2.4 million for 2008, the Germany segment reported a net loss of EUR 1.2 million for the financial year 2009 after recording a net profit of EUR 6.2 million in the previous year.

The site in the Czech Republic, which is represented in the "Rest of Europe" segment, continued its dynamic growth in 2009. The momentum was sustained from the previous year when the site was able to launch a number of series production ramp-ups. Revenue was up 22.6% to EUR 20.6 million in the year under review, following EUR 16.8 million in 2008.

In other words, revenue has more than doubled since 2007. However, we had planned an even more substantial increase for the site, and had already set up the required structures accordingly.

The rise in revenue in 2009 was solely due the increased volume of components and assembly and welding groups that were in the start-up and ramp-up phase. Revenue from tooling operations, which has traditionally been important for the site, remained almost unchanged in 2009.

In the past (including 2008), total output was often substantially higher than revenue due to tool engineering – which often meant substantial changes in inventories due to the time lag involved in billing.

Due to the inventory cycle, stockpiles were not increased in the year under review, while all tools held as own stock in the previous year were invoiced in 2009.

On balance, total output for the year under review was therefore only slightly up on revenue. This figure came in at EUR 21.1 million, up 2.9% on the previous year mark of EUR 20.5 million.

In 2009, segment EBIT improved to EUR -0.9 million, after EUR -1.5 million in the previous year. Earnings were still impacted by the start up of a second 1,250 tonne large press and the resultant ramp-up costs as well as currency losses.

The latter came to EUR 1.0 million, and the site would therefore have posted a neutral earnings figure excluding this effect.

Our production sites in Canada and Mexico together make up the NAFTA segment. On the back of the serious crisis in the US automotive market, revenue from this segment fell by 32.5% in 2009, down from EUR 39.7 million to EUR 26.8 million. Both sites recorded similar declines in revenue.

Total output fell to EUR 26.5 million after EUR 40.2 million in the previous year. Despite wide-ranging adjustments at both sites, EBIT fell to EUR -4.0 million, after being reported at EUR -1.3 million in the 2008 financial year.

The Mexican site was negatively impacted by an increase in depreciation/amortisation, expenses linked to construction at the site, and currency losses totalling EUR 0.6 million.

Although revenue and total output in the Asia segment started the 2009 financial year at a low level, both figures grew considerably with the launch of series production in China. Both figures were up from EUR 0.4 million in the previous year to EUR 1.7 million and EUR 1.8 million respectively in 2009.

This output was exclusively generated by our subsidiary in Suzhou. As planned, we withdrew from our previous joint venture at the start of 2009 by selling our stake.

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Setting up our subsidiary also resulted in ramp-up losses as anticipated in 2009. In addition, this site was also negatively impacted by lower call orders than planned.

All in all, EBIT from the Asia segment came in at EUR -1.1 million in the 2009 financial year (previous year EUR -1.0 million). This figure includes earnings of EUR 1.0 million generated from the sale of our stake in the joint venture.

The breakdown of revenue by product area changed in the 2009 financial year primarily as a result of series ramp-ups and discontinuations.

The share of revenue attributable to 'structural components and subsystems for vehicle body and chassis' fell substantially, from 33.3% in the previous year to 29.1% in 2009. This was due to the completion of a large series production order of module carriers.

Follow-up orders will be ramped up from 2010, which will once again balance out the revenue shares of the three product areas in the coming years.

The revenue share from the other two product areas 'mechanical components for electrical and electronic systems' and 'safety components for airbags, seats and steering' therefore grew in the year under review. However, absolute revenue figures were still substantially down on previous years due to the market development.

Financial position, net assets and investments

PWO Group's total assets only changed slightly in the year under review, falling marginally from EUR 205.1 million to EUR 204.7 million.

Non-current assets were down slightly as a result of the company significantly reducing its investment volume in response to the slump in demand created by the economic crisis, and to safeguard its liquidity. Technical equipment and prepayments rendered dropped as a result, but land and property increased due to the development of the Chinese subsidiary. In 2009, long-term assets totalled 53.8% of the total assets, one percentage point less than in the previous year.

Among current assets, the capital tied up in inventories was reduced and liquidity was increased in turn. Trade receivables showed very little change.

The Group's equity dropped to EUR 61.5 million (previous year: EUR 68.0 million) as a result of retained profit being lower than on the balance sheet date in 2009. The volume of liabilities went up correspondingly.

With regard to their terms to maturity, we deliberately chose long terms in the year under review, as interest rates are currently very attractive. Long-term loans therefore made up 39.9% of the balance sheet total at the end of 2009 compared to 29.5% in the previous year.

This was the result of a significant increase in long-term interest-bearing loans and a slight decrease of short-term loans.

There was also a steep drop in trade payables during the year under review, after recoding a high volume at the end of 2008 due to reasons relating to balance sheet date reporting.

Gearing (net debt as a percentage of equity) increased to 129% after 99% in the previous year and the equity ratio reached 30% after 33%.

Although both figures did not meet our internal long-term goals for the second year running as of the balance sheet date in 2009, we managed to overcome the most serious crisis in the automotive sector in post-war times with a total assets figure that lies above average in our industry. We are now focusing on strengthening our own capital resources again, not least due to the funding requirements for our growth.

PWO Group's cash flow from operating activities went down considerably in the year under review as a result of lower income and due to the lower volume of current liabilities (trade payables) on the balance sheet. In the year under review, it amounted to EUR 6.0 million compared to EUR 25.0 million in the previous year.

As previously mentioned, investments were reduced significantly. As a result, cash flow from investing activities dropped from EUR -33.9 million in the previous year to EUR -12.7 million in the 2009 financial year. EUR 9.0 million of the investments relate to our German site in Oberkirch (previous year: EUR 14.8 million).

After the extensive measures under our lean management concept in the previous years, which were aimed at improving workflows along the value added chain, there was enough leeway in 2009 to reduce the investment volume to the absolute minimum.

We managed our investments in Canada according to the same principles. These investments amounted to EUR 0.4 million (2008: EUR 0.5 million).

In 2009, we were able to reduce the large amount of investment in our Czech site to a minimum once it had been fully developed, without negatively affecting the continuously high volumes of production ramp-ups.

This investment amounted to EUR 0.4 million in the year under review (previous year: EUR 7.9 million). We invested a total of EUR 4.6 million (previous year: EUR 11.9 million) in our sites in Mexico and China, which are still being developed. EUR 3.5 million of these investments went to China (previous year: EUR 9.3 million).

As a result of the lower investment volume, we were able to reduce our net borrowings in 2009, despite significantly reducing the number of trade payables.

The cash flow from financing activities went down from EUR 13.5 million to EUR 10.9 million. At EUR 1.4 million, almost 58% less was distributed for dividends than in the previous year.

Orders

Planning for future models is being continued in the automotive industry despite difficult economic conditions. This provides us with new opportunities, as our growth in periods of average economic development is largely governed by series ramp-ups and completions as opposed to the development of sales figures in the industry.

We were again very successful in acquiring new orders in the financial year 2009.

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After a leading international automotive group selected PWO to develop and manufacture the European order volume of module carriers for a new global vehicle production platform in 2007, we also won the contract for North America in 2009.

We also gained an order from a German premium manufacturer for the development and production of module carriers for two of their high volume production platforms. The total volume of both of these major orders is around EUR 180 million. The corresponding series production ramp-ups are planned for 2011.

In addition to delivering for large international platforms, we are aiming to serve a wide range of smaller order volumes with staggered ramp-up and completion dates.

We also successfully acquired new orders in this area in 2009. This allows us to ensure that our order structure is well balanced, limiting risks for future capacity utilisation.

In addition, business at our Mexico site recorded particularly upbeat development. We were able to replace series production projects which were coming to an end with new orders from the same customers. The site was also successful in positioning itself as a supplier of more complex components, increasing future value creation at the site.

Negotiations about additional new contracts are now at an advanced stage. This volume of new orders will once again lead to a substantial increase in capacity utilisation within the Group in the coming years.

General statement on the Group's business position

In 2009, PWO successfully mastered one of the most challenging years in its corporate history. The Group was able to overcome the earnings pressure from substantially reduced call orders by introducing wide-ranging cost reduction measures and making moves to secure financing. PWO's management has therefore proved itself once again, with the company emerging from the crisis stronger in this current recovering general operating environment.

At present, we are seeing a slow but continuous rise in call orders for series production from our customers. Additional growth is anticipated on the back of a substantial number of new ramp-ups in series production in 2010 and in the following years. We will therefore likely return to a level of capacity utilisation which would pave the way for us to again record net profits and satisfactory margins. We have already secured the financing for ongoing business in 2010 and we are planning to conclude unresolved investment financing agreements as soon as individual investment decisions have been made.

From an internal point of view, we are now once again excellently positioned to continue the sustained successful company development we experienced up to 2008 – the year in which the financial market crisis hit the real economy.

All current assessments from market researchers believe that the general economic data coming from the national economy and automotive industry will gradually normalise, with no renewed substantial drop in demand expected. Last but not least, we can assume that governments and central banks around the world will sustain their efforts to protect the real economy from the remaining risks in the banking sector wherever possible. We are therefore looking forward with confidence and with the conviction that the company can continue its successful development in the years to come.

Employees

Given the dramatic slump in sales in the international automotive industry, we were left with no choice but to make rapid and considerable adjustments to our costs in the 2009 financial year. This was vital to securing the liquidity of the Group and further support from banks. By the same token, we were also looking to avoid placing the long-term development of the Group in jeopardy by introducing measures that were focussed purely on the short-term.

With regard to personnel, we initially had to make adjustments in headcount among temporary staff at the Oberkirch site. Although temporary contracts offer this flexibility, it was still a very difficult decision to make as many of our temporary workers have been closely connected with the company for a number of years.

At the peak of the crisis, we reduced the number of temporary workers by over 100. However, we were able to re-employ a number of these workers over the course of 2009 as call orders improved. At the same time, we also focused on systematically implementing the necessary adjustment measures, retaining our core workforce wherever possible and occupying promising functions within the Group with selected existing personnel or additional specialist employees if required.

Our employees support this course of action by understanding the pressing need for these measures. They have once again underlined their commitment and flexibility in these highly difficult, uncertain times.

Our staff also made financial contributions. Over a number of months, we made extensive use of the option of short-time work at the Oberkirch and Kitchener sites.

In Oberkirch, were able to successfully finalise a new supplementary collective labour agreement for the period up to the end of 2016, replacing the existing agreement. The new deal delivers additional planning reliability for a relatively long period of time.

Thanks to the considerable efforts of our employees, the site was largely protected from the financial and economic crisis, and structures were set up to keep us competitive in the years to come. The latter allow wide-ranging new orders worth several hundred million Euros to be carried out in Oberkirch at competitive prices. We are injecting a further EUR 30 million in investments in this area in Oberkirch in the next few years.

This not only secures existing jobs, it also paves the way for new jobs potentially being created. Oberkirch is and will remain PWO Group's most important production site.

Despite having to contend with challenging times in the year under review, we never wavered from our commitment to train young people and provide them with opportunities to make a successful career entry.

On average, we provided 125 training positions in 2009 (previous year: 94). Our employees in the various departments continued to offer young trainees their complete commitment, even under the difficult conditions on the back of short-time. This commitment was once again rewarded with outstanding graduation marks.

Two of the trainees who completed their courses with the best marks were women industrial clerks. One of our mechatronic engineering trainees even gained recognition from the Baden-Württemberg Chamber of Industry and Commerce for the state's best final exam marks.

For this reason, we not only conduct training in Germany, but also at our foreign locations. China has been one particular area of focus since 2008, where an average of 13 employees were in training in the year under review (previous year: 4).

All in all, the PWO Group employed an average of 1,807 employees (excluding trainees) in 2009, after employing 1,845 people in the previous year.

At the Oberkirch site, we expanded the core workforce slightly to 1,054 by taking on a number of former trainees full time with a view to the anticipated future growth (previous year: 1,045).

Headcount was once again reduced at the Canadian site, where wide-ranging personnel adjustment measures were already implemented in the past. The number of employees fell to 106, after 109 in the previous year.

In the Czech Republic, headcount was increased from 282 to 308 on the back of ramping up a new forming press.

New production ramp-ups also meant an increase in headcount in China to 52 employees. In the previous year we had just 20 employees in the country, 6 of whom belonged to the former joint venture. In contrast, we had to reduce headcount to 287 employees in Mexico due to the slump in order volumes (previous year: 389).

In the year under review, we also once again invested in the training and professional development of our workforce in an effort to broaden their expertise in the long-term. Despite the negative impacts of the economic crisis, we invested EUR 2.1 million in this area, matching our investment from the previous year.

Further information

Product and process innovations

PWO has built up an excellent reputation for permanent product and process innovation. We are committed to providing highly creative concepts at every stage of new projects – from material input and product design to developing production techniques. We are dedicated to continually improving ongoing series production and increasing its productivity and quality levels.

We regularly break new ground with innovations such as solutions that use sheet forming for specific tasks, and in doing so replace previously expensive processes like forging and casting. PWO is also set apart from its competition by product design that substantially reduces the amount of material input required, that minimises the complexity of a solution and that completely cuts out previous downstream processing steps or integrates these into a fully automated forming process.

This makes us a popular first port of call for automotive manufactures and TIER 1 suppliers. These groups are increasingly moving away from their tried and tested solutions in search of concepts that would help position them successfully for the future.

We also tap additional potential by offering increasingly modular product designs. This not only cuts development and production costs, but also provides customers with substantially more flexibility during series production. Individual basis modules can also be transported to different locations regionally, and are not assembled until they arrive at a plant close to our customers' production sites.

When conceiving these solutions, we are able to draw on our comprehensive expertise which is based on the wide range of applications spread throughout our broad product range and which makes our market positioning truly unique.

By fully integrating product and process development efforts in joint teams, we ensure that our solutions deliver in line with our customers' needs while strictly adhering to their cost specifications.

This approach creates a firm sense of corporate responsibility and an awareness of cost issues throughout the entire value chain.

Our own tool engineering function represents a vital component of our high-precision and efficient production processes. In tool engineering, the two decisive factors are the precision of a product and the potential speed of the production process without any loss of quality.

Tools that offer absolute precision are essential when producing components that often have functional features requiring tolerances of just a few thousandths of a millimetre. These tools even have to be built much more precisely than the components they are subsequently used to produce.

Marketing and sales

The significantly reduced level of capacity utilisation throughout the entire automotive industry at present is leading to shifts in our customers' demands. There is a trend towards insourcing among manufacturers and TIER 1 suppliers that possess internal know-how in the field of metal forming as well as their own pressing plants.

This trend does not impact ongoing series production orders, as changes to the supply chain in our field are generally difficult to undertake and cause unattractive high levels of costs. However, outsourcing volumes are tending to be lower, at least for the time being, while manufacturers change models.

Nevertheless, excluding a few exceptions, our customers are not making any new investments in pressing systems.

This presents additional opportunities for PWO. Given the reduced profitability in the automotive industry, demand is increasingly focusing on suppliers that can offer significant additional cost cutting potential through in-house development know-how, in addition to pure outsourcing options. This is one area in which PWO is certainly leading the way.

Thanks to the transparency of the automotive industry, where decisions about new vehicle models have a long lead-up period, we are able to precisely position ourselves in terms of sales.

Our broad product range also often allows us to offer our customers solutions in areas that they have not yet ordered in, increasing our share of their procurement volumes in the process.

We are also able to rely on a number of key unique selling points: our innovation in product and process development, our ability to deliver high volumes reliably, our reputation for first-class quality throughout the entire lifecycle of series production as well as our global presence. This really sets us apart from the competition.

Research and development

PWO only produces in response to customer orders. Accordingly, most of our development expenses are incurred as part of customer projects.

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Quality management

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

The objective is to come as close as possible to zero-error quality by implementing comprehensive quality control concepts in development, tool engineering and production.

This means that we rely on integrated, automated quality testing in production to a large extent. A series of measuring and testing robots, sensors and/or cameras form an integral part of the production process. This allows us to ensure that we do everything possible to deliver zero-error quality to our customers.

Our quality assurance concepts are then implemented by our partners in the plant and test engineering field through the deployment and ongoing development of their own technology. This allows us to set ourselves apart from the competition in this area too.

We have embedded our zero-error philosophy along the entire internal value chain in the PWO Production System and clearly present the respective performance of all individual teams around the Group at each site.

This ensures healthy competition for achieving the top quality. The ongoing rise in our performance also serves to secure our profitability as error costs are permanently reduced.

Logistics and procurement

We work with steel, stainless steel and aluminium, and obtain our raw materials on world markets. Our procurement team has always been able to ensure that temporary spikes in demand globally do not represent a significant problem for the Group. Short-term materials scheduling is based on forecasts of the volume of goods for which our customers give us binding notification of their requirements. We generally deliver within a tight timeframe of just a few days to the location agreed with the customers.

In an effort to diversify our procurement sources, we have finalised supply agreements with different suppliers for staggered periods of time. In addition, we also require special steel alloys for a substantial portion of our product range. In this area, we often work closely with well-established partners from the European steel industry from the development phase onwards. These partners then supply our Group's international sites. We do not enter into any obligations for minimum purchasing quantities in supplier agreements for either standard or special steel alloys.

It is not possible to diversify our supplier base for the large amount of energy and water required for the forming process. However, we enjoy high levels of supply security in this area.

With a view to securing our profitability, we are implementing permanent process improvements in all departments as part of our PWO Production System. These should lead to continuous reductions in the amount of resources required for each production unit.

This does not just encompass our own inventory management, but also that of our suppliers, allowing us to realise efficiency enhancements along the extended value creation and quality chain.

Occupational safety and environmental protection

Occupational safety and environmental protection remain top priorities at PWO, even in difficult economic times.

In the year under review, we used the phase of lower capacity utilisation to expand our occupational safety management system. This is designed to reduce the number of accidents further and keep this figure at a permanently low level. To this end, the system for assessing dangers in working with hazardous substances, which was introduced in 2007, has been developed further and expanded to include all tasks.

Across the entire company, including manufacturing, employees now have more rapid and simpler IT-supported access to alarm plans, escape and rescue routes, operating instructions for all systems in the workplace as well as in-depth background information on occupational safety.

An intranet-based electronic accident database also transparently and comprehensively records every injury sustained at work. This allows managers to conduct targeted searches of the injuries sustained under their jurisdiction and implement the appropriate countermeasures without delay.

The first results from the accident analyses reflected the technical and organisational occupational safety standards at PWO by revealing that by far the greatest cause of injuries at work was employee conduct.

In response, we provided further training on conduct-related occupational safety to all managers in the year under review.

Working groups on conduct-related occupational safety were established in all manufacturing departments. These groups meet at regular intervals to define safe conduct for their respective department and monitor how this conduct is being implemented.

Their work is monitored and coordinated by top managers, meaning that occupational safety management is structurally embedded on every hierarchical level.

Given the overall restrictive management of investments in the reporting year, investments in environmental protection were also limited in 2009. However, we were able to complete the planned measurement segments in the compressed air network, paving the way for more precise monitoring from now on.

As expected, we were able to considerably reduce the consumption of all utilities (water, electricity, compressed air, etc.) in the financial year 2009. Increases were also recorded in relation to production hours or total output as expected because basic consumption gains in relative importance when capacity utilisation falls.

Pleasingly, the key figures for the 2009 financial year were not significantly worse than in the previous year at full capacity. This success is down to all employees who shut down systems and whole areas as a matter of course during periods where they were not being used.

The hard work of administrative departments has also played a role, as they provided effective support to our savings measures through targeted order and personnel planning which optimised the relationship between supplier call orders, lot sizes and inventories.

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Risk report

Description of the risk management strategy

The aim of our risk management strategy is to avoid or limit operating risks as far as possible and financially viable. We do not expose ourselves to additional risks of a financial nature that are not necessarily the result of our operating business, such as by taking open derivatives positions. The finance department is not managed as a profit centre.

We have also aligned our business model and operating processes to fundamentally limit risks. We are constantly working to bolster this positioning further:

- As an innovation leader, we set standards in our product areas instead of simply following them.

- As a quality leader, we deliver practically zero-error quality, and are therefore only exposed to very low risks associated with product failure.

- Our broad, diversified product range makes us largely independent of any fluctuations in demand in the individual product areas, as well as of the market success of individual vehicle models.

- The flexibility of our machine pool allows us to optimise the utilisation of production capacities, even if our order structure changes over time.

- We are one of the key suppliers for our customers thanks to our global positioning, this boosts revenues across the Group, including at our long-established German site.

- By setting up sites in regions with sustained high levels of outsourcing volumes, we can limit the risks of insufficient structural capacity utilisation.

Main features of risk management at PWO

PWO's tried and tested risk management system was continually optimised in the financial year 2009. Although no fundamental changes were made, the principles formulated by the Management Board were adjusted and documented according to our risk management handbook where required. This handbook systematically records, describes and evaluates risks and how risks are dealt with.

Risk owners report to the Management Board on a regular basis each month or immediately in the event that major new risks are identified.

The performance of our risk management system is reviewed internally at frequent intervals. This system was again reviewed by the auditor as part of the annual financial statements and its effectiveness confirmed.

The risk management system is applied consistently across the entire Group. The system is currently at different stages of rollout at the individual production companies depending on their respective stages of site development.

The system has now been introduced in full in Germany, Canada and the Czech Republic. We began rolling the system out at our Mexican site in 2007 and we have since introduced a wide range of core elements adjusted to fit the specific situation on the ground.

The site in China is still being established and is only contributing very low revenue at present. As a result, the business processes there are less complex and can still be monitored with selected building blocks from our risk management system.

Main features of the internal controlling and risk management system

In accordance with Section 289 (5) of the German Commercial Code (Handelsgesetzbuch – HGB), being a capital market-oriented stock corporation as defined in Section 264d HGB, we have the duty to describe the main features of the internal controlling and risk management system relating to the accounting process.

There are no legal definitions for the internal control and risk management system with regard to the accounting process.

We regard the internal control and risk management system as a comprehensive system and follow the definitions of the Institut der Wirtschaftsprüfer in Deutschland e. V., Düsseldorf, of the accounting-related internal control system (IDW standard 261 [19] et seq.) and the risk management system (IDW standard 340 [4]).

According to these standards, an internal control system comprises all principles, processes and measures introduced by the company's management, which are aimed at the organisational implementation of managerial decisions for ensuring:

- The effectiveness and viability of the company's business activities (including safeguarding its assets as well as the prevention and disclosure of damage to assets).

- The compliance and reliability of the internal and external accounting processes.

- Compliance with all legal requirements relevant to the Group.

The risk management system comprises all organisational regulations and measures required for uncovering risks and for handling risks arising from business activities.

With regard to the accounting process, PWO has implemented the following structures and processes:

The Management Board carries the sole responsibility for the internal control and risk management system with regard to the Group's accounting process. All strategic units are included in a defined management and reporting structure.

The principles, structural and workflow organisation, and the processes of the accounting-related internal control and risk management system are described in a manual that is regularly revised to reflect current external and internal developments.

Business transactions are recorded at the level of the operating units using a consistent, primarily SAP-based accounting system which among others also permits sanity checks of the accounting processes of the strategic units.

The principles, structure and process organisation and the processes of the internal control and risk management system for accounting throughout the Group are documented in a manual that is adapted in line with external and internal developments at regular intervals.

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With regard to the accounting process, we deem all features of the internal control and risk management system as being important if they could have a significant influence on the preparation and the overall presentation of the annual financial statements, including management report. These are as follows:

- Identifying the main risks and controlling areas relevant to the accounting process.

- Controls for monitoring the accounting process and results at a managerial level and at a level of the strategic units.

- Preventive control measures in the finance and accounting system and in operative, performance-related company processes, which generate essential information for the preparation of the annual financial statements as well as the management report, including functional separation and pre-defined authorisation processes in relevant areas.

- Measures that ensure the proper IT-supported processing of accounting-related issues and data.

- Measures for monitoring the accounting-related internal control and risk management system.

Changes in the risk situation in 2009

In 2009, the PWO Group was exposed to substantially increased risks from the effects of the financial market crisis and the resultant heavy recession in many economies worldwide.

The global automotive industry was hit harder than most sectors. At the same time, banks were substantially limited in their role as a refinancer of the real economy due to the massive requirement for write-offs on products that turned “toxic”.

PWO reacted to this situation with wide-ranging, fast-working cost reductions. It also made securing liquidity a top priority and postponed or reduced investment volumes wherever possible. The capital tied up in current assets was also cut again.

At the same time, the Group stepped up its communications with partner banks and established relations with new partners.

Overall, PWO succeeded in securing its liquidity in the 2009 financial year and avoiding the substantial risks described.

Market risks

Market risks include securing sufficient capacity utilisation for our production sites with suitable orders for series production that provide the right margins for our capital-intensive business.

In periods of usual fluctuations in the automotive industry, our growth is significantly governed by the margins between the completion of existing series production orders and the ramp-up of new orders in connection with our customers launching new vehicle models.

When it comes to existing series production orders, market risks particularly relate to ramp-up postponements for new projects as well as sales fluctuations in series production caused by adjustments in the planned volumes on the customer side.

We can effectively counter these market risks thanks to our broad product range featuring over 1,000 different components and sub-assemblies produced to meet customer-specific requirements.

We do not rely on large individual orders in specific sub-segments of the market to effectively utilise capacity in our machine pool. Instead, we can focus our sales efforts on gaining additional orders that optimise our capacity utilisation in terms of production periods and requirements for our machine pool. These orders should also enable us to offer our customers innovative solutions in product and process development that offer such substantial added benefits that PWO is able to generate more attractive margins as a result.

In addition, such a high volume of ongoing series production orders means that fluctuations in individual orders generally balance each other out and therefore stabilise our revenue during series production periods.

This prevents us becoming dependent on major customers as revenue generated from transactions with individual companies in the automotive industry is always distributed across a wide range of individual projects – each one subject to independent contracts and covering a specific set of products with different durations and volumes. The probability of a simultaneous failure of all our projects is extremely low.

Customers also incur payment obligations if a contract is terminated that contains payback agreements for the entire contractual term with regard to defined services to be rendered by our company. Whenever a particular project involves investment or up-front financing for the work to be undertaken, we also ensure that the project-related market risks are contractually covered under terms normal for our market.

However, by its very nature, this setup cannot protect the Group against the most recent slump in sales experienced by the entire automotive industry, which hit worldwide with almost unprecedented ferocity.

We are largely able to counter market slumps, such as in 2008/2009, by adjusting our cost base thanks to the relatively long lead times for series production ramp-ups in our business.

We did this systematically and successfully in the year under review. We anticipate that market volatilities will again reflect previous cycles in the future, allowing our setup to prove its stability once more.

We are also focusing on permanently increasing the flexibility of all business processes. This allows us to produce smaller order volumes economically and react with more flexibility to fluctuations in demand.

The constant intensification in competition is also typical for the automotive supply industry, and this has been particularly tangible of late.

As an innovation leader, we can offer our customers quantifiable added value. We are also constantly enhancing the efficiency of all company processes. Our sustained long-term positive development pays testament to the fact that we are in the position to successfully circumnavigate risks.

Performance and quality-related risks

The principal risks which the Group is exposed to include those relating to performance and quality. Nowadays, series production for the international automotive industry means sustainably delivering on the requirements of best possible reliability and quality in processes and as a supplier in large volume series production for years on end.

Above all, lapses in performance can cause significant damage to a supplier's reputation as well as financial damage. This can seriously weaken the supplier's position when conducting regular price negotiations during the term of an existing order and when bidding for new orders.

Consequently, it is vital to maintain a reputation for reliable processes and performance in order to safeguard and increase the capacity of the Group to generate earnings. Therefore, performance and quality management is an integral part of all our business processes and corporate decisions.

As part of our PWO Production System, the progress and stability of our processes are documented, making them transparent, and in doing so paving the way for permanent systematic improvements.

A vital element of this system is the ability of our staff to identify potential risks to performance before they arise on the basis of the data they receive during the production process, and to quickly take the correct course of action.

This involves the preventive servicing of metal forming presses, welding and assembly systems, and tools, to minimise any disruption and downtime.

In addition, we aim to ensure that a product can be made on at least two suitable machines so that production can continue in the event of a malfunction.

In many areas of our product range, we are now setting market standards for the efficient series production of complex components.

In addition to fulfilling the requirements of our customers as well as our legal obligations, we feel obligated in our role as a manufacturer of safety components to go above and beyond that level and maintain especially high quality standards.

For this reason, we have established a zero-error philosophy throughout the entire Group and are gradually building up the necessary processes so that we do not just deliver on this aim, but also trace our performance in this area throughout the production process and provide customers with appropriate documentary evidence.

This again sets us apart from our competitors and highlights our market-leading position.

We are constantly seeking to fine-tune the levels of consistency and product quality at our established sites in Germany, the Czech Republic and Canada, and gradually transfer these standards to our newer sites in Mexico and China.

Overall, the markets in both these countries do not as yet require the highly complex, fully automated production processes we have in Oberkirch, where wage levels are much higher, as well as at Kitchener (Canada) and Valašské Meziříčí (Czech Republic).

As a result there is greater room for manoeuvre in the scheduling of the production process, which helps limit risk.

Management risks at international sites
As part of our internationalisation strategy, we have expanded our location portfolio with production sites in the Czech Republic, Mexico and China in the last few years.

We limit performance and quality risks at these sites with consistent Group-wide business and production processes that are documented and monitored using our PWO Production System.

After some unsatisfactory management of ramping up new series production in the financial year 2008, the Czech and Mexican sites have now implemented much more stable processes. China remains in its set-up phase as planned.

The sites are located in regions with sustained high demand for our services from local automotive manufacturers and suppliers.

Also during this currently weak phase of development in the industry, we remain convinced that we can acquire a sufficient number of orders in a reasonable amount of time to utilise capacity at the sites, and to achieve the appropriate return on capital for the investments undertaken.

With a view to limiting risks and avoiding redundant capacity, investment decisions are exclusively made on the basis of the orders in hand.

In China, risks consist of start-up investments which not only include production plants, but also infrastructure as we are establishing this facility from scratch. We are therefore monitoring the development here very closely.

Risks to accounts receivable
Risks to accounts receivable tended to rise during the downturn in the automotive industry. The declining market volumes and the resultant increase in discounts for buyers of new cars (on the back of the fierce competition) are substantially impacting the already limited profitability of manufacturers and suppliers.

2009 once again saw a substantial number of insolvencies among suppliers, including a number of well-known and major names.

Market consolidation is also evident among manufacturers – particularly brand takeovers, as well as some closures also being discussed.

We supply international automotive manufacturers and their suppliers that have been successfully established on the market for many decades.

This generally limits the risks we are exposed to in our accounts receivable. At the same time, we closely track market developments and customer behaviour in an effort to identify possible warning signs ahead of time, and we introduce countermeasures wherever possible. We have also taken out trade credit insurance to provide additional cover.

Abroad, too, we mostly work with existing Group customers during the initial phase of a new location. We usual develop a long-term trust-based cooperation with these customers, virtually eliminating the possibility of more major risks occurring.

Overall, it is our belief that the Group is not exposed to any substantial risks in relation to receivables. Whether we supply them directly or indirectly, our products are always vitally necessary to the manufacturer's production process.

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Moreover, we are increasingly being engaged as a sole supplier. Where individual problems arise, partners in the supply chain have to and indeed do find constructive solutions.

Financial risks

Potential financial risks primarily include those associated with financing, interest rates and currency movements. In the wake of the financial market crisis and its spill-over into the real economy – especially the automotive industry – there was a rise in financial risk which is not be understated.

This specifically related less to the PWO Group itself, and more to the general limited availability of external funding provided by banks. PWO has earned a well-established reputation as a successful company with sound financial figures and low levels of volatility.

The in part very long-term relationships with our partner banks that we have built up have proved to be highly durable, allowing us to jointly master a difficult year such as 2009. Our access to sufficient refinancing funding was never in serious doubt during the year under review.

This was in no small part thanks to the comprehensive measures introduced in 2008 with the aim of cost-cutting and reducing the company's financing requirements. In addition, a substantial portion of (at that time) short-term bank borrowings were secured for the long term in 2008.

Financing risks may also occur in relation to the investment of cash and cash equivalents and our stock of derivative financial assets, were banks to default on their obligations.

We control this risk through diversification and the careful selection of counterparties. At present, no items of cash and cash equivalents or derivative financial assets are overdue or impaired.

Interest rate risks are limited through an appropriate combination of short and long-term borrowing. Investments and pre-financing associated with long-term customer contracts are always financed on a long-term, project-specific basis. We also make use of interest rate swaps when funds are borrowed on the basis of a variable interest rate.

When it comes to currency risks, there has been a substantial rise in volatility in the past few years. This is due to an increasing number of financial investors becoming involved in the foreign exchange markets, as is also the case in the raw materials markets. Their investment decisions follow different cycles to the development of the real economy, resulting in fluctuations. We are anticipating sustained high levels of volatility for the future.

In an effort to limit currency risks in our operating business, we conclude hedging transactions across the Group. In addition, these procurement risks are structurally limited since all raw, auxiliary and operating materials required for the Oberkirch and Czech Republic sites (and for our overseas production sites in the event that particular steel grades and alloys are not available in North America or Asia) are purchased in Europe.

As a result, our long-term supplier contracts are concluded in Euros. Therefore the main currency risks arise from salaries payable in the local currency.

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

Procurement risks

The raw, auxiliary and operating materials we need for production primarily include steel and, albeit to a much lesser extent, aluminium.

We buy these materials on the world market and have no influence over the factors that determine prices and supply. The situation on the raw materials markets eased somewhat in 2009 on the back of the worldwide recession. However, future price increases, additional volatility in price development and occasional supply bottlenecks are anticipated.

These are likely to result from the sustained rise in demand for these metals from emerging economies, especially China and India, and the long-term rise in metal ore and energy prices, which in turn make steel production more expensive. In addition, there is currently no foreseeable end to financial speculation on the raw materials market.

To reduce our exposure to procurement risks, we have established long-standing relationships and framework agreements with our suppliers covering all essential raw, auxiliary and operating materials.

Thanks to our long-term, trust-based cooperations with our customers, we have always succeeded in agreeing acceptable solutions with them when prices rise in the procurement markets.

By the same token, if prices fall then these reductions are also passed on to our customers. Given the global slump in economic output in 2009, the procurement situation was largely comfortable both in terms of volumes and prices.

Risk of damages

We safeguard against the risk of damages by taking out suitable insurance policies. The level of cover they provide is under continuous review throughout the Group and is adjusted where necessary to ensure that we are protected at all times.

In addition, we continued to establish our business continuity management concept at our largest site in Oberkirch in 2009. This is a company-specific emergency and crisis management system which allows us to systematically prepare for dealing with mission-critical crisis situations.

IT risks

The PWO Group has a wide-ranging, modern IT infrastructure which makes a substantial contribution to constantly boosting efficiency within the Group.

In addition to the applications used in the administrative area and product development, we also rely on electronic data processing software in production, especially for monitoring processes.

In addition, we are connected to the infrastructure of our customers, suppliers and production partners, making a fully automated exchange of data possible.

We rely on well established standard software for limiting risks in this area, adapting it to suit our individual requirements.

Specialist personnel also constantly and comprehensively monitor our Group IT processes in an effort to ensure that systems remain fully functional, and that risks are countered ahead of time.

General statement on the financial situation of the Group

The deep recessions experienced by many national economies, the global financial market and the automotive industry appear to have bottomed over the course of 2009. As a result, the risk situation for the PWO Group has also eased substantially.

However, recovery from this economic trough is also linked to substantial risks, and it will take several years, at least in the automotive industry, before production can return to pre-crisis levels.

We are therefore still closely monitoring the Group's risk situation with a view to reacting to any possible resurgent or new risks ahead of time, and to being able to implement appropriate countermeasures.

The Group has substantially adjusted its cost base, and in doing so boosted its future earnings potential. The management is now focused on turning this potential into real profits, and in doing so reduce the negative impacts on the balance sheet that the Group has had to contend with since 2008.

Compensation report

The corporate governance report on pages 14 to 18 contains the compensation report with separate sections focusing on the Management Board and Supervisory Board. The compensation report is part of the management report.

Changes to the Management and Supervisory Boards

There were no changes to the structure of the Management Board or Supervisory Board during the financial year 2009.

Section 289a of the German Commercial Code (HGB): Annual Corporate Governance Statement

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

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

The required details according to Section 289 (4) and Section 315 (4) of the German Commercial Code (HGB) are presented and explained below:

The company's issued share capital amounts to EUR 6,391 thousand, and is divided into 2,500,000 ordinary bearer shares each with a notional, rounded par value of EUR 2.56. All shares confer the same rights and come with a voting right at the Annual General Meeting.

There are no restrictions on voting rights or the transfer of shares. Equally, there are no preferences or special rights with powers of control.

Shareholders are referred to the provisions contained in the Germany Stock Corporation Act (AktG) on the rights and obligations of those holding shares. The Management Board is not aware of any limitations agreed between shareholders which affect the voting rights or the transfer of shares.

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

The Management Board is not aware of other holdings greater than 10% of voting rights. Employees do not hold shares in the company as defined in Section 315 (4) no. 5 of the German Commercial Code (HGB).

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

The Supervisory Board decides on the number of members of the Management Board, appointments and the revocation of appointments, and the signing, modification and cancellation of employment contracts to be concluded with members of the Management Board.

The Supervisory Board may designate a Chairperson or Spokesperson for the Management Board. If there is good cause to do so, the Supervisory Board may revoke an appointment to the Management Board before expiry of the term of office.

Section 179 (1) and Section 119 (1) no. 5 of the German Stock Corporation Act requires that all changes to the Articles of Association be approved by a resolution of the Annual General Meeting.

In contrast with Section 179 (2) Clause 1 of the German Stock Corporation Act, Section 15 of the Articles of Association stipulates that resolutions on changes to the Articles of Association can be taken by the AGM on the basis of a simple majority of the voting rights held by those with a voting share in the nominal capital, unless a greater majority is required under statutory legislation.

The Supervisory Board is also authorised to decide on changes to the Articles of Association where such changes merely affect the wording, but not the sense.

Following a resolution of the AGM on May 26, 2009, the Management Board is authorised, subject to the consent of the Supervisory Board, to increase the share capital of the company in the period up to May 26, 2014, by issuing new individual bearer shares for cash contributions on one or more occasions by up to EUR 3,195,574.26 (authorised capital). Shareholders must be offered subscription rights.

However, the Management Board is authorised, subject to the consent of the Supervisory Board, to remove the fractional part of any subscription right and to exclude the subscription right of shareholders up to a par value of EUR 319,557.43, in order to offer the new shares to employees of the company and its Group companies.

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

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Significant events after the balance sheet date
After the balance sheet date, there were no significant events that required reporting.

Report on related parties
As required by Section 312 of the German Stock Corporation Act, the Management Board has prepared a report on relations with Consult Invest Beteiligungsberatungs-GmbH, Böblingen.

As in previous years, the report concludes with the following declaration: 'No transactions subject to reporting requirements took place during the year under review'

Forecast report
Economic environment | Macroeconomy
Although the global recession had already bottomed out in early summer 2009, the subsequent recovery, which has mainly been aided by governments issuing economic stimulus packages, remains weak.

Numerous setbacks in the fourth quarter of 2009, particularly in Germany, illustrated this. Investment activities remained at a very low level, and industrial production dropped back considerably, especially after the scrappage premium came to a close. It had previously stimulated vehicle sales. In addition, incoming orders from the industry were down in December.

This situation is exacerbated at the international level by the enormous debt of many countries, the continuing weak condition of the US real estate market, and the lack of upward momentum in the US labour market.

Data remain contradictory. Although the Indicator of Economic Sentiment issued by the Centre for European Economic Research (ZEW) in January 2010 dropped to its lowest point since July 2009 for the fourth month running, companies' sentiment and business forecasts rose, according to the ifo Business Climate Index.

German growth forecasts for 2010 range between 1% and just over 2%. The German government anticipates that economic output will grow by around 1.5%. There is no conviction that the upturn will prove sustainable and stable given that financial policies are losing their momentum, borrowing conditions are restrictive, and the labour market situation is tense.

Forecasts for the Eurozone also remain subdued. In the view of a number of well-known European economic research institutes, real GDP is set going to rise by just 0.2% in each of the first two quarters of 2010.

The OECD expects growth in the Eurozone to reach only 0.9% in 2010. Its forecasts for other European countries, such as the United Kingdom, are similarly reserved.

Economic environment | Automotive sector
According to the VDA, the German automotive sector will focus primarily on the impending normalisation of its business environment, in other words, the period after the scrappage premium has been abolished when sales will no longer benefit from the scrappage premium stimulus.

Consumer confidence is particularly important when considering the future development of the German automotive sector.

Consumers became less confident in the winter of 2009/2010, mainly due to fears of rising unemployment. Data collected by the consumer research institute GfK Group, Nuremberg, confirms this point.

Incoming order volumes of German manufacturers in the months after the scrappage premium provided the first indicators of this situation. Although, at first glance, year-on-year comparisons still look rather stable (-6% in October and November, -3% in December), it must be taken into account that levels had already dropped considerably in late 2008. In November 2008, for instance, figures fell by as much as -28%.

In January 2010, domestic orders lagged 16% behind the previous year's volume due to the scrappage premium no longer being in force. After seasonal adjustments, however, they at least reached December's level.

As this latest trend is likely to continue in the near future, the hopes of automotive manufacturers, similar to those of the German economy as a whole, are focusing on export revival in 2010.

Although total order volumes from abroad were still 10% lower in the year under review than in 2008, they have risen by 16% in the last five months. Exports were up by 15% in the fourth quarter.

This positive trend also continued at the start of 2010. Orders from abroad exceeded the January 2009 order volume by 38%, and, at 264,500 vehicles, German manufacturers sold 18% more vehicles abroad than a year ago.

As a result, the export revival exerts a stabilising effect on domestic production: in December, production of German manufacturers rose again by a significant 24%. Thanks to higher demand for exports, German companies produced 17% (362,700) more vehicles in January 2010.

In overall terms, the VDA forecasts that, despite lower domestic order volumes, domestic automotive production in 2010 will at least reach last year's level due to the recovery of foreign markets, and due to German manufacturers securing a larger market share.

Economic environment | Supplier industry

At the end of 2009, sales of the German supplier industry rose again for the first time since September 2008.

However, the growth rate of almost 2% among suppliers is also primarily due to the base effect of a weak previous year; sales were down by more than 20% in November 2008.

Sales in Germany increased by 1%, and by almost 4% abroad. Incoming order trends encouraged positive sentiment.

The corresponding index of the Federal Statistics Office continued its stabilising path in November 2009, the latest available month. Orders were up by a total of 24%. Domestic orders rose by 29%. In November, foreign customers ordered 16% more than in the previous year.

In the view of the VDA, 2010 will nevertheless prove challenging for German suppliers, as the question of financing will gain importance once the market recovers.

According to banks' estimates, total financing requirements in the automotive supply industry are set to rise by up to 20%, mainly for financing supplies during the period of growing demand.

Opportunities and risks

The risks for the year under review described in the risk report apply also to 2010 and subsequent financial years. There are no additional material risks for the Group or its segments.

The main risks and opportunities for the coming years arise from automotive sector trends. The risks to the company's earnings performance are far less than in the previous year.

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Although forecasts for the global economy at the start of 2010 remain highly uncertain, and the recovery of the international automotive sector is expected to be somewhat restrained, all market research institutes are of the opinion that the worst is over in the market for medium and upper class vehicles, which is particularly important to us. Falling sales in the small vehicle segment following the withdrawal of governments' economic stimulus packages affect us to only a minor extent.

Opportunities arise from potentially better than expected sales volumes resulting from extensive start-ups in series production within the Group, and our expanded international position.

The much steadier production processes at the sites in the Czech Republic and Mexico should improve income in 2010.

However, the focus of managing the Group in the current financial year will remain in ensuring stringent cost management and in closely monitoring market developments.

In the course of the ramp-up of new series productions, investments are set to exceed the much lower volume of the previous year by a wide margin again.

Around 15% of the financing for these start-ups and the planned business expansion for the current financial year has largely been secured. Unfunded tranches will be arranged as required.

Given the significant shift towards longer term interest-bearing loans that we realised in 2009 (60% of the total volume as on December 31, 2009; previous year: 47%), the company's borrowing situation was placed on an even more stable basis, and planning was made more secure.

Improving the balance sheet figures is also of key importance. The equity ratio fell in line with income. It proved possible to limit this decrease to 30% during the latest crisis, an above-average outcome in our industry.

In our opinion however, the equity ratio fell to the lower end of the strategically desirable range for a global supplier of large OEMs and TIER 1 manufacturers. This has made it even more important to strengthen the company's equity with funds that we generate ourselves.

Outlook for the PWO Group

The following statements on the outlook for the PWO Group generally also apply to Progress-Werk Oberkirch AG. The site in Oberkirch – by far the Group's largest production site – forms part of this company.

We generate most of our growth from successfully acquiring new orders for series productions. Orders have an average term of five to seven years, and every year we replace 15% to 20% of our revenue volume with new series start-ups and ramp-ups.

Fluctuating acquisition volumes or time lapses between completions and ramp-ups can therefore influence the Group's development in the short to medium term to a larger degree than market developments.

We are only expecting moderately increasing sales in the automotive sector in the market segments relevant to us for the coming years, due to the continuing uncertainties in the overall economic environment.

Our planning is primarily based on the anticipated development of our series production ramp-ups.

Our books already include extensive orders for the next three to six years, since lead times in our industry are long. We have calculated their volumes on the basis of current sales expectations and adjusted our planning accordingly.

In 2010, extensive series productions for module carriers, vehicle body and seat components are set to start up with an anticipated lifetime revenue of around EUR 345 million.

Further start-ups for module carriers, chassis and steering column components are scheduled for 2011 with anticipated lifetime revenue of around EUR 150 million. Ramp-ups are set to continue into 2012. In addition, new series from previous years will then have achieved a sustainable level.

We are therefore again facing a period of strong growth. We expect revenue to rise by around 15% in 2010 alone, and growth over the coming years is likely to remain at that level.

We are aiming to clearly break the EUR 300 million barrier by 2012, and increase our revenue by more than 50% compared to 2007/2008.

In parallel, our aim is to restore the Group's profitability to previous years' levels, and improve on these.

Apart from the positive effects from rising capacity utilisation, we also no longer need to invest large amounts in developing and extending our foreign sites and production start-ups.

As these sites grow and their processes become more stable, they will gradually contribute positively to the Group's earnings.

In 2008 and 2009, we considerably lowered our cost basis and significantly reduced our break-even point. Many of these cost reductions will remain in effect during the upturn.

Overall, we are aiming by 2012 to return to our profitability level from before the crisis, and prior to beginning our strategic foreign expansion, as well as to again generate an EBIT margin in the upper single-digit range.

In terms of EBITDA, this corresponds to an increase of more than 300%.

We therefore have every reason to be optimistic about the future. We will direct our entire energy towards seizing the opportunities available to us in order to consistently strengthen our company.

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Management Report for Progress-Werk Oberkirch AG

Progress-Werk Oberkirch AG (the "parent company") prepares its financial statements in accordance with the accounting standards set out in the German Commercial Code (HGB), whereas the Group's financial statements are drawn up under IFRS. The accounting standards applied to the parent company's 2009 financial statements are unchanged from the previous year.

The parent company is headquartered in Oberkirch, Baden-Württemberg, which also acts as the headquarters of the Group. It is the largest production site and a competence centre for technology, manufacturing and the PWO Production System. It also coordinates central functions such as Marketing and Sales, Finances, Controlling and Personnel.

PWO Group has been pursuing an international expansion strategy for a number of years and has taken over or set up three additional production facilities abroad in order to do so. In line with this development, Group functions and structures are being established in Oberkirch step by step.

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

The general statements made in this combined management report for the PWO Group and PWO AG apply equally to PWO AG, especially where they relate to market trends, strategy and business control as well as operating risks and opportunities. Changes in staffing are set out in a separate section on page 51.

As in the Group, the parent company's revenue and total output, amounting to EUR 164.7 million and EUR 162.5 million respectively, fell considerably short of the previous year's levels as a result of the global recession and its serious effects on the international automotive sector.

By responding rapidly and by insourcing all third party services, it was possible to realise an above-average reduction in material input. In addition, the high costs of the previous year in connection with development cooperations in the tool engineering sector were no longer incurred in 2009. The materials expenses ratio dropped to 53.6% in 2009 (previous year: 55.3%).

Although staff expenses were also reduced, the staff expenses ratio rose significantly from 27.6% to 34.0%. It was essential to retain the core workforce due to the strategic importance of the Oberkirch site as the Group's competence centre and the additional collective labour agreement concluded for the site.

Other operating expenses, on the other hand, fell considerably. The corresponding expenses ratio was reduced by more than one percentage point to 7.9%.

Depreciation and amortisation decreased slightly in the year under review. Despite the lower volume of all expense items, the 22.4% slump in total output proved unavoidable. In the year under review, EBIT for PWO AG came to EUR 1.0 million, after being reported at EUR 10.1 million in the previous year.

Increased interest charges resulting from higher bank borrowings had a negative effect on the financial result. In addition, an impairment loss needed to be applied to the carrying amount of the stake in PWO de México. As an impairment to financial assets, this reduced the financial result by EUR 3.4 million.

The total net financial result amounted to EUR -6.4 million (previous year: EUR -2.5 million). The result from ordinary activities for the year under review therefore totalled EUR -5.4 million (previous year: EUR 7.6 million).

In the 2009 financial year, tax income amounted to just EUR 0.2 million (previous year: tax expenses of EUR 2.0 million). PWO AG therefore reported a net loss of EUR 5.2 million (previous year: net profit of EUR 5.6 million).

The balance sheet profit amounted to EUR 10 thousand (previous year: EUR 2.9 million). The reported balance sheet profit was offset against the retained profit carried forward from 2008 of EUR 1.5 million, and EUR 3.7 million was withdrawn from other revenue reserves.

PWO AG's total assets increased by 3.0% to EUR 154.0 million in the year under review. The main reason for this was the rise in financial assets by a good 24% as a result of the continued strategic development of the new foreign sites in 2009.

Non-current assets therefore rose by 7.3% to EUR 83.8 million, and its share in total assets went up to 54.4% (previous year: 52.3%).

The corresponding fall in current assets is mainly due to the inventories item, which decreased by almost 15%. The optimised materials management in the purchasing department had a particularly positive effect in this respect. Receivables were up only slightly, and cash on hand was increased to account for potential risks.

Bank borrowings rose by 53.4% to EUR 44.5 million (previous year: EUR 29.0 million), mainly due to our sales markets being affected by the crisis. As planned, a small portion of these liabilities was used to finance investments.

After growing in the previous year, trade payables dropped by 28.9% to EUR 9.5 million. Total liabilities in the year under review were up by 28.3% to EUR 57.2 million.

Equity was down to EUR 66.9 million. As of the balance sheet date on December 31, 2009, the equity ratio therefore amounted to 43.4%, compared to 49.1% in 2008.