



THE HUMAN TOUCH OF AUTOMOTIVE TECHNOLOGY
INTERIM REPORT FOR THE SECOND QUARTER AND FIRST
HALF-YEAR

2008

Progress-Werk Oberkirch AG
Industriestraße 8 • 77704 Oberkirch
P. O. Box 13 44 • 77697 Oberkirch
Phone: +49 (0) 78 02 / 84-347
Fax +49 (0) 78 02 / 84-789
ir@progress-werk.de
www.progress-werk.de

PWO

00 CONTENTS

01	LETTER TO SHAREHOLDERS	3		
02	PWO SHARES	4		
03	THE COMPANY	5		
04	INTERIM MANAGEMENT REPORT	6		
05	INTERIM FINANCIAL STATEMENTS	15		
	Group Income Statement	15		
	Group Balance Sheet	17		
	Group Statement of Changes in Equity	18		
	Group Cash Flow Statement	19		
06	NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS	20		
	BASIS OF PREPARATION OF INTERIM FINANCIAL STATEMENTS	20 SCOPE OF CONSOLIDATION	20	
	FOREIGN CURRENCY TRANSLATION	20 CORPORATE ACQUISITION	21 SEGMENT REPORTING	21
	SIGNIFICANT EVENTS AFTER THE REPORTING DATE	22		
07	RESPONSIBILITY STATEMENT	23		
08	FINANCIAL CALENDAR BOARD MEMBERS CONTACT	24		

01 LETTER TO SHAREHOLDERS

Dear Shareholders and Business Associates,

The second quarter of 2008 saw continued strong growth within the PWO Group, allowing us to increase revenue by a total of 8.5 per cent and total output by an even greater margin of 14.0 per cent over the first half-year period. This positive development can be traced back to the ramping up of serial production orders from the preceding year and a number of new production start-ups during the first six months of 2008.

It also reflects the success of our business model, with PWO achieving growth whenever new vehicle models come on to the market. We have already received a large number of orders for the second half of 2008 and beyond.

This means we have laid the foundation for a further improvement in earnings. We are working hard to bring this about, although in the second quarter profits at our production sites in the Czech Republic and Mexico were affected by delays in the scaling back of pre-production costs.

In addition, with EBIT for the second quarter of 2007 already at a very high level, EBIT for the first half of 2008 fell back to EUR 8.2 million compared to EUR 8.9 million in the previous year.

Nevertheless, we have already introduced further measures aimed at achieving a reduction in costs and faster process stabilisation in the ramp-up of new production series. We have considerably speeded up action to implement PWO standards at our site in Puebla (Mexico) to ensure that it is better positioned in relation to the early award of a range of new projects. At both international sites, the measures we have taken are being implemented with a greater level of support from Oberkirch and do not therefore involve any significant additional costs to the Group.

Against this albeit temporary background of higher costs in the second quarter, our forecast of an increase in EBIT for 2008 matching growth in revenue is admittedly very ambitious but remains achievable.

We are confident that our measures will have the desired effect and that productivity, especially at our sites in the Czech Republic and Mexico, will rise accordingly in the second half-year.

While it is possible that the risks to which our business is typically exposed, such as a downturn in order volumes, rises in the price of raw materials and /or unfavourable currency movements, could have a greater than expected impact, we nevertheless believe that we can achieve a tangible increase in earnings. Overall, therefore, we believe the risk to our earnings forecast is not excessive. It is worth noting in this context that in the second quarter of 2008 we were able to boost EBIT to EUR 4.4 million (Q1 2008: EUR 3.8 million) despite the absence of contributions to earnings from our international operations.

The current earnings situation in Eastern Europe and Mexico is the result of a temporary development during the expansion of these relatively new sites. Given the level of orders on our books, we expect to see substantial growth in earnings here, too, over the next few years.

Oberkirch, 6 August 2008
The Management Board

02 PWO SHARES

PWO SHARES OUTPERFORM THE SECTOR AND THE MARKET

During the first six months of 2008, PWO stock clearly outperformed the SDAX index and the DAX automobile sector index. Reflecting the correction suffered by the market as a whole, PWO stock also fell back in the first few weeks of the new year, although it recovered significantly later in the month within just a few days of trading.

Subsequently, up to the middle of June, the stock remained fairly stable with just minor fluctuations. Not only was it able to resist the second widespread correction from mid-May onwards as a result of the renewed crisis in the financial markets; it even went on to gain some ground in absolute terms against the market trend.

In contrast with the 18.7 per cent fall in the SDAX price index in the first half-year of 2008 and the even

greater 21.0 per cent drop experienced by the DAX automobile sector index since the beginning of the year, PWO shares ended the period only 5.6 per cent down.

It is our belief that this relatively strong performance of PWO stock reflects both the increasing awareness among market players of our successful growth strategy and the major improvements we have made in terms of our communications with the capital markets. The first half of 2008 saw extended research coverage of our stock and – following a number of presentations by the Management Board – growing interest among institutional investors.

Our list of investors now includes Delta Lloyd in the Netherlands, which notified us of a 3.05 per cent interest on July 21, 2008.

Other information

Number of shares issued at end of reporting period	2,500,000
Number of treasury shares held as at June 30, 2008	0
Dividend per share (in EUR) for FY 2007	1.30
Shareholder structure	
Consult Invest Beteiligungsberatungs-GmbH, Böblingen	55.282%
Free float	44.718%
- of which Delta Lloyd, Amsterdam	3.050%

03 THE COMPANY | Business model

INNOVATIVE PRODUCT SOLUTIONS ON DEMAND / TOP PRECISION AND EFFICIENCY IN BATCH PRODUCTION

PWO is one of the world's foremost developers and manufacturers of high-end metal components and sub-systems in the field of vehicle safety and comfort. We specialise in the large-volume series production of high-tech steel, stainless steel and aluminium components.

Our business model depends crucially on the expertise we have gained over many decades in the behaviour of metals at the limits of metal forming and in the application of high-quality joining and assembly technologies. It is this know-how that allows us to develop innovative product solutions and efficient processes for our customers' production systems. In doing so, we make full use of the latest technology and have positioned ourselves as suppliers at the top end of the market.

One of our key USPs is the fact that we make our own tools. It is only through the use of intelligent and extremely precise tool solutions that PWO has been able to achieve its current level of parts quality and production speed.

We put our expertise across a wide range of products at the disposal of our customers and develop individual solutions to meet their specific requirements.

The calculation of batch production orders is based on customers' assumptions concerning the number of parts they will need within certain parameters. Both PWO as the supplier and its customers are bound by these assumptions for the duration of a batch production agreement. PWO produces only the volume of parts called by customers under such stand-by agreements and delivers them to the desired location on a just-in-time basis.

As a result, we are able to limit our exposure to the risk of failure of a particular vehicle model or indeed to any downturn in the overall performance of the automobile sector.

To a large extent, our future growth can also be structured so as to be relatively independent of economic conditions, since whenever new vehicle models come on to the market and orders are placed with suppliers, there are opportunities for us to grow.

This growth is generated by adding even greater value to our products and by increasing our share of the components and modules that we supply to existing customers for new vehicle platforms and models. Of course, we are also able to attract orders from new customers. In all these areas, growth is crucially supported by our coverage of a broad range of applications.

Vehicle manufacturers plan their new model production in well-defined cycles that correspond to their marketing strategies and are therefore largely independent of economic trends at any particular time.

Thanks to our significantly expanded international presence, we are now in a position to benefit increasingly from opportunities in fast-growing markets and from the potential created by the manufacturers and Tier 1 suppliers themselves establishing production sites in markets such as Eastern Europe, Mexico and China.

It is our firm belief that we can continue to achieve sustained organic growth in the years ahead.



04 INTERIM MANAGEMENT REPORT | Business environment

GENERAL BUSINESS CLIMATE

The Germany economy is showing clear signs of weakening, an assessment that is supported by the ifo business climate index and the ZEW's (Centre for European Economic Research) economic barometer. A flurry of negative data ranging from higher oil prices, the strong euro and the international crisis on the financial markets to faster inflation and weak consumer demand is holding back the German economy and depressing orders.

Both the federal government and the German central bank anticipate a slowdown in the second quarter already. On average, forecasts for the current year are still above two per cent in real terms thanks to unexpectedly strong growth in the first quarter, although for 2009 they are significantly lower.

There are doubts, too, over the expected future performance of the global economy. Growth forecasts for the eurozone and the US have recently been downgraded on several occasions. Above all, the real estate crisis (and the associated banking crisis) is increasing the risk of recession in the United States, and European countries such as the United Kingdom and Spain face similar problems.

While it is true that forecasts for the developing countries are also being scaled down, they remain at a relatively high level.

SECTOR TRENDS

According to statistics from the VDA (Germany's automobile industry association), the German automobile industry has been able to expand over the first half-year despite these difficult conditions. Domestic new registrations were up nearly 4 per cent to 1.63 million, while sales grew by 56,000 units. Domestic orders rose 4 per cent in the same period, and the order book figure of 392,000 units is 12 per cent above that for 2007.

In July, the VDA confirmed its forecast of 3.2 million new car registrations in Germany for the current year.

The volume of exports attributable to German manufacturers ended the first half-year up 2 per cent at almost 2.3 million units. Thanks to strong export performance – German car makers successfully increased their market share nearly everywhere – domestic production rose by 2 per cent to over three million cars.

According to the VDA, once again around 5.7 million cars are likely to be produced in Germany in 2008, thus maintaining the high level of the previous year, with over 4 million again destined for export.

Statistics from the European Automobile Manufacturers' Association (ACEA) show that new registrations in Europe as a whole fell back 2 per cent in the first half-year of 2008 to just under 8.4 million units. Relatively strong increases in France and Germany of 3.6 and 4.5 per cent respectively and in the UK of 1.6 per cent contrasted with sharp downturns in Spain and Italy of -17.6 and -11.5 per cent.

With a few exceptions, the new EU member states in Eastern Europe are still seen as fast-growing regions, with new registrations up 6.9 per cent in the first half-year of 2008.

Total vehicle sales in the United States were down 1.5 per cent over the same period. There is a noticeable trend towards smaller models which showed a rise of 10.6 per cent compared to a fall of 14.9 per cent in large limousines.

Sales in the light truck category suffered particularly badly. The traditional pick-up was down 23.0 per cent, minivans 19.1 per cent and SUVs between 26.3 and 33.6 per cent, depending on the class. The luxury segment also recorded a marked downturn with 12.5 per cent fewer sales.



04 INTERIM MANAGEMENT REPORT | Earnings report

STRONG GROWTH IN REVENUE AND OUTPUT CONTINUES EBIT BELOW HIGH LEVEL OF PREVIOUS YEAR

PWO recorded continued growth in the second quarter and first half of 2008. Revenue for the quarter under review rose 7.2 per cent to EUR 71.7 million. This included a planned decrease in revenues from tooling operations to EUR 6.2 million (2007: EUR 6.8 million).

Total output rose by as much as 11.8 per cent to EUR 72.1 million, following a reduction of inventories in the previous year and very little change in their level over the reporting quarter.

During the first half-year of 2008, we achieved revenue growth of 8.5 per cent to EUR 138.6 million, with EUR 9 million attributable to tooling operations (previous year: EUR 9.8 million). As a result of a rise in inventories in the first quarter of 2008, output increased at a substantially higher rate of 14.0 per cent to EUR 145.1 million. Arithmetically, as in the first quarter, the faster growth in output compared to revenue produces a temporarily reduced margin, since the value allocated to as yet uninvoiced increases in inventories lies below the future contribution to revenue of this output.

In the second quarter of 2008, we were able to raise EBIT to EUR 4.4 million following the EUR 3.8 million achieved in the first quarter of the current year. However, measured against the very high figure of EUR 5.0 million for the second quarter of 2007, EBIT for the first half-year of 2008 ended down on the equivalent period for the previous year at EUR 8.2 million (2007: EUR 8.9 million).

To date, therefore, the trend for earnings in 2008 is still below expectations. This is primarily due to a lower than anticipated increase in productivity at our site in the Czech Republic, where pre-production costs have not yet fallen to planned levels, as well as to a number of exceptional cost items at our Mexico site aimed at speeding up the introduction of PWO standards.

Accordingly, the first half of 2008 saw a particular rise in the cost of materials ratio (in preparation for the start-up of batch production) and in other operating costs.

We have now introduced further measures aimed at stabilising our processes during the ramp-up of new production series more rapidly and reducing overall costs in order to provide a sustained boost to productivity for the rest of the year, particularly at our international sites in the Czech Republic and Mexico. These measures are being implemented with active support and management from Oberkirch, thus avoiding any significant additional costs to the Group.

We are confident that this will enable us to increase Group earnings by a substantial margin in the second half of 2008.

The rise in financing costs in the second quarter and first half of 2008 remained within planned levels and is the result of consistently high capital expenditure at our production sites in the fast-growing markets.

The Group's tax rate improved as a consequence of the reform of German corporation tax. Overall, consolidated net profit for the second quarter attributable to PWO shareholders stood at EUR 2.3 million (Q2 2007: EUR 2.6 million). Earnings per shares were EUR 0.92, compared to EUR 1.06.

The consolidated net profit for the first half-year of 2008 attributable to shareholders stood at EUR 4.3 million (2007: EUR 4.5 million). Earnings per share over the same period were EUR 1.71 (2007: EUR 1.77).

04 INTERIM MANAGEMENT REPORT | Segment reporting

DOUBLE-FIGURE GROWTH CONTINUES AT OBERKIRCH EBIT HELD BACK BY DELAYED PRODUCTIVITY GAINS AT INTERNATIONAL SITES

Output and revenue at PWO's Oberkirch site remained very positive in the second quarter and thus in the first half of 2008. With revenue again up in double figures by 10.9 per cent to EUR 113.1 million, output also recorded above-average growth, as in the first quarter of 2008, to reach EUR 118.4 million, equivalent to an increase of 16.5 per cent. EBIT for the first half-year rose to EUR 8.3 million (previous year: EUR 7.7 million).

Our Czech site, which makes up the Rest of Europe segment, maintained and even improved on its already strong record of revenue and output growth. In the second quarter of the current year, it not only exceeded the figures for Q2 2007 but also those for the first quarter of 2008. As a result, revenue for the first half-year of 2008 shot up by 84.6 per cent to EUR 7.2 million, with output climbing 77.3 per cent to EUR 7.8 million.

EBIT improved from EUR -0.2 million in the first quarter of 2008 to EUR 0.3 million in the second. This demonstrates that the site has now begun to operate more profitably, as we anticipated, although the as yet relatively low level of earnings is reflected in the Group's half-yearly results.

Our production sites in Canada and Mexico together make up PWO's NAFTA region. Business at our Canadian plant remains sluggish, with fewer standby orders from North American customers. No new series production (of a volume that might compensate for this downturn) is expected until next year.

Thanks to a series of prompt and decisive measures to adjust our costs accordingly, the site remained profitable in the first half-year of 2008 and even showed a modest increase in Q2 on the first quarter. Overall, EBIT for the first six months reached our target level, with revenue lagging behind our forecasts only on account of currency factors. Measured in local currency, revenue was also on target.

Results from our site in Puebla (Mexico) were held back, especially in the first quarter, by the ramping up of a new batch production order. In the second quarter, the additional costs incurred, in particular in relation to the accelerated introduction of PWO production standards, meant that it was not possible, despite our earlier hopes, to make any significant improvement to the earnings situation. As a consequence, we were unable to reach break-even in the first half-year.

As a whole, the NAFTA region achieved first half-year revenue of EUR 20.5 million (2007: EUR 23.3 million) and output of EUR 20.6 million (2007: EUR 23.5 million). EBIT for the same period stood at EUR 0.2 million (2007: EUR 1.2 million).

Both revenue and output at our Chinese joint venture remained insignificant in the first half-year of 2008. Progress towards the establishment of our own subsidiary is on schedule. EBIT in the Asia segment for the same period stood at EUR -0.3 million and was thus within planned limits and at the same level as 2007.

04 INTERIM MANAGEMENT REPORT | Financial position and cash flows

BALANCE SHEET AND CASH FLOW MARKED BY GROUP EXPANSION

By the end of the reporting period, the balance sheet total had risen 8.2 per cent from its 2007 year-end level to reach EUR 207.7 million, with the increase recorded in the first quarter continuing at a similar rate in the second.

As a result of a high level of capital expenditure in the second quarter of 2008, the figure for property, plant and equipment climbed back above the 2007 year-end level. Trade receivables and other assets rose gradually over the half-year. This is a typical mid-year build-up and (as can be seen from the cash flow statement) one that also occurred last year. Inventories, too, ended well above the year-end level, although in this case the increase can be traced back to the first quarter, with the volume of inventories in the second quarter remaining stable despite Group expansion.

On the liabilities side, the figure for equity ended the six-month period down following the distribution of last year's dividend and the acquisition of minority shares in Mexican firm Cartec S.A. de C.V. Accordingly, the equity ratio fell back to 36.0 per cent compared to 40.1 per cent at the end of FY 2007.

Gearing (net debt as a percentage of equity) rose to 78 per cent from the year-end figure of 65 per cent, since the increase in the balance sheet total on the liabilities side largely reflects a rise in short-term borrowings. Trade payables also ended up over the period.

The higher figure for gearing and reduction in the equity ratio in the first half of 2008 are primarily due to the reporting-date increase in current assets, the outflow of dividends and the second-quarter share purchase. Equity is also still marked by an absence of contributions to earnings.

We do not expect this trend to continue in the second half of the year and therefore anticipate a return to an equity ratio of around 40% by the end of this financial year, with gearing as planned at the upper end of our medium-term range of 50-80 per cent, although we still intend to make a number of substantial investments over the next six months.

At EUR 11.7 million, cash flow from operating activities ended the half-year period well above the previous year's figure of EUR 3.8 million. With net profit for the period only slightly below that for 2007, a particularly useful contribution was made by an even smaller rise in current assets than last year, even though the Group has since expanded considerably. Trade payables also rose at a faster rate than in the same period for the previous year.

In the first half-year, cash flow was again used to cover capital expenditure of EUR 6.2 million at our sites in Germany and Canada and interest payments of EUR 1.5 million. Free cash flow before capital expenditure in our high-growth markets stood at EUR 4.0 million. In the previous year, free cash flow after capital expenditure of EUR 4.3 million in Germany and Canada and interest payments of EUR 1.1 million was EUR -1.6 million.

During the half-year period under review, we were able to finance a substantial proportion of our investments totalling EUR 5.9 million in the high-growth markets of Eastern Europe, Mexico and China from the free cash flow generated. The first half-year also saw a cash outflow of EUR 2.6 million to acquire the minority shares. By comparison, last year's capital expenditure in the high-growth markets stood at EUR 1.7 million. In 2007, there was also a cash outflow of EUR 4.5 million for the acquisition of our 60% interest in Cartec.

If we include cash flows for payment of last year's dividend and the net increase in borrowings, which together stood at EUR 5.8 million, the change in cash and cash equivalents is EUR 1.3 million. In the previous year, cash flows from the dividend payment and net additional borrowings balanced each other out, so the change in cash and cash equivalents was EUR -7.8 million.

04 INTERIM MANAGEMENT REPORT | New business

NEW BUSINESS REMAINS BUOYANT

Strong growth in the first half-year of 2008 was driven by the ramping up of new series production orders dating from the previous year both in Oberkirch and at our sites in the Czech Republic and Mexico.

In addition, the first six months of the current financial year also saw batch production start-ups, especially in Oberkirch, for several major new orders worth around EUR 10 million. These include components for successful high-volume models such as the Mercedes C class and the Audi A4.

New business in the second half-year will be marked primarily by initial production and ramp-ups for batch orders relating to safety components for the Ford Fiesta and the Audi Q5. We shall also be commencing production of cross members for a French customer.

During the first half-year of 2008 we won a number of new orders that will help to boost growth beyond the current year. In total, this new series production business represents a lifetime revenue of around EUR 80 million. This means we have been able to almost match the pro-rata equivalent EUR 90 million of orders achieved in the first half of 2007 once that figure is adjusted for the major order announced in spring of last year.

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

04 INTERIM MANAGEMENT REPORT | Capital expenditure

CAPITAL EXPENDITURE INCREASED IN LINE WITH TARGETS

PWO Group plans to invest around EUR 30 million over the current financial year. Of this, around EUR 17 million has been earmarked for the strengthening of our high-tech production site in Oberkirch, with around EUR 13 million destined for the high-growth markets (EUR 8 million for expansion in the Czech Republic and EUR 5 million to establish our own subsidiary in China).

As is usual, capital expenditure in the first quarter was relatively low at EUR 3.6 million. By contrast, second-quarter investment rose to EUR 8.5 million as planned.

The EUR 4.4 million we spent on our Oberkirch production site was used primarily to construct a new logistics facility (as part of the comprehensive restructuring measures being carried out there), to purchase a range of welding and assembly equipment and to fund the SAP conversion completed in May.

At just EUR 0.1 million, there was again no significant capital expenditure in the second quarter in Canada. The total figure for capital expenditure in Germany and Canada for the quarter under review was therefore EUR 4.5 million.

We invested EUR 4.0 million at our production sites in the high-growth markets. As planned, at EUR 2.3 million, the largest share of this went to expansion in the Czech Republic. In Mexico, EUR 0.8 million were invested to improve operating processes. We also spent EUR 0.9 million on our new site in China, which should be ready to start production by the beginning of next year.

Across the entire Group, total capital expenditure for the first half-year of 2008 stood at EUR 12.1 million. Of this sum, EUR 6.2 million were used at our sites in Germany and Canada and EUR 5.9 million were allocated to sites in the high-growth markets.



04 INTERIM MANAGEMENT REPORT | Employees

MODEST RISE IN STAFFING LEVELS

The biggest share in the expansion of staffing numbers required to achieve our 2008 output targets was attributable to the second half of 2007 and the first quarter of 2008. Consequently, the average number of employees at our production sites grew by only a small margin during the quarter under review.

In total, the average Group headcount for the second quarter was 1,878 compared with 1,731 in the previous year. Of the additional 38 staff recruited in the second quarter, 31 took up posts at our existing production sites, while 7 were employed at our new subsidiary, where they will prepare for and manage the commencement and expansion of production.

In Germany, the average headcount for the second quarter was 1,104 (2007: 1,033) – up 15 on the end of the first quarter. In Canada we are making further adjustments to staffing numbers in response to lower standby production calls and reduced the headcount over the last quarter by 3 to 117 (2007: 145).

At our Czech site, nine new posts were created over the last quarter to bring the number of employees to 259. In the previous year – before production commenced using our fourth forming press – the headcount here was 207.

In Mexico, the average number of employees for the second quarter of 2008 rose by 10 to 382 compared to an average figure of 338 for the equivalent period in 2007.

At our joint venture in China, the headcount for the quarter under review remained unchanged from Q2 2007 and from the first quarter of this year at nine. Taken together with the seven employees working at our own subsidiary, the average headcount for the Group in China for the second quarter of 2008 stood at 16.



04 INTERIM MANAGEMENT REPORT | Forecast

OPPORTUNITIES AND RISKS

The future business activities of the PWO Group remain subject to the same opportunities and risks as those laid out in the annual report for 2007.

The likelihood of new opportunities presenting themselves during the course of 2008 is small. Current growth in revenue and output is attributable to the ramping up of new batch orders from the previous year alongside new batch production orders in the current year and is at present at a satisfactory high level.

We do not anticipate additional series production beyond those start-ups already planned for the second half-year since all such large-scale batch orders take over a year to reach the production stage in our industry.

The principal risks faced by the Group include rising prices for our raw materials against a background of price increases on world markets for steel, stainless steel, aluminium and crude oil. Any weakening in the general economic situation or specifically in the performance of the automobile industry can lead to greater pressure on prices and fewer standby calls from our customers under series production agreements. These risks have recently increased.

At present, the short- and medium-term production calls we have received from customers do not yet point to a general weakening. Furthermore, we are in a position to generate growth from additional new series production orders, so that we are less dependent on the success of existing series. In this context, we constantly strive to increase the flexibility of our processes, so that in the short term we can respond to any downturn in production calls by adjusting our

costs. Customer pressure on prices is one of the defining features of business in our sector.

For some years, too, increases in the price of raw materials have been a major factor in our business. Although the products we make form part of our customer's value chain, we nevertheless manufacture solely on demand in response to their specific requirements. In the past, we have always been able to reach agreement with our customers following such rises in the price of raw materials.

At PWO, we strive to act as a global strategic partner to our customers, thereby strengthening our position in the value chain. It is our belief that we can continue to achieve a consensus with our customers on the contractual framework to this partnership.

The growing internationalisation of the Group in recent years has also changed the structure of the risks to which the Group is exposed, with additional risks being created especially by the establishment of new production sites in the Czech Republic, in Mexico and in China.

New large-volume series production is currently being ramped up at both sites, and it is clear from the second quarter of 2008 that further productivity improvements are still needed. However, these problems can be solved internally through the optimisation of process control. To this end, more comprehensive support will be provided from our Oberkirch site.

The second quarter of 2008 also saw the commencement of work to establish our own site in China. The associated costs are already included in the overall budget for the financial year 2008.



04 INTERIM MANAGEMENT REPORT | Forecast

ANTICIPATED EARNINGS TREND FOR FY 2008

With revenue up 8.5 per cent and output up 14.0 per cent, we are well on course to meet our forecast of high single-figure growth in revenue.

This is a prerequisite for meeting our forecast of an equivalent rise in EBIT. With anticipated productivity gains in Mexico and the Czech Republic behind schedule, this target may appear very ambitious, although we believe it remains achievable. We are working hard to ensure that these sites keep within their tar-

get ranges during the second half of the year and are confident of achieving this goal.

Should we encounter other setbacks during the course of the year or should other risks materialise to a greater degree than expected, we nevertheless anticipate a tangible increase in earnings. We therefore see the overall risk to our earnings forecast as limited.

OUTLOOK FOR SUBSEQUENT YEARS

Substantial future growth in revenue is already achievable on the basis of existing orders. At our sites in Germany and the Czech Republic alone, in the next two years the volume of new batch production orders will be more than double the volume of discontinuing orders.

We therefore anticipate a further increase in revenue for 2009 to around EUR 300 million and for 2010 to around EUR 350 million.

This expected growth in Group revenue should also generate substantial increases in profit. In the coming years, the earnings power of our new international sites will receive a significant boost through the introduction of our tried-and-tested production processes from Oberkirch. In China we expect to gradually scale back budgeted pre-production costs and achieve break-even in 2010.

As a result, within the next two years we anticipate a sustained increase in EBIT to over EUR 25 million in 2010.

The risks to future business during the remainder of 2008, as outlined above, apply equally to the following years. Signs of a general weakening of the economy have recently increased. However, we do not expect all these risks to materialise simultaneously and therefore do not anticipate a more serious decline.

05 INTERIM FINANCIAL STATEMENTS | Group Income Statement

	Q2 2008		Q2 2007	
	EUR m	% share	EUR m	% share
Revenue	71.7	99.4	66.9	103.7
Changes in inventories / Work performed by the enterprise	0.4	0.6	-2.4	-3.7
Total output	72.1	100.0	64.5	100.0
Other operating income	1.6	2.2	0.9	1.4
Cost of materials	39.4	54.6	33.6	52.1
Staff costs	19.0	26.4	17.1	26.5
Depreciation and amortisation	4.0	5.5	3.8	5.9
Other operating expenses	6.9	9.6	5.9	9.1
EBIT	4.4	6.1	5.0	7.8
Finance cost	1.1	1.5	0.9	1.4
EBT	3.3	4.6	4.1	6.4
Taxes on income	1.1	1.5	1.5	2.4
Net profit for the period	2.2	3.1	2.6	4.0
of which attributable to share- holders of PWO AG	2.3	—	2.6	—
of which attributable to minority interest	-0.1	—	—	—
Earnings per share in EUR, related to net profit for the year (share- holders of PWO AG)	0.92	—	1.06	—

05 INTERIM FINANCIAL STATEMENTS | Group Income Statement

	H1 2008		H1 2007	
	EUR m	% share	EUR m	% share
Revenue	138.6	95.5	127.8	100.4
Changes in inventories / Work performed by the enterprise	6.5	4.5	-0.5	-0.4
Total output	145.1	100.0	127.3	100.0
Other operating income	2.5	1.7	1.4	1.1
Cost of materials	80.2	55.3	66.4	52.2
Staff costs	37.6	25.9	34.4	27.0
Depreciation and amortisation	8.2	5.7	7.8	6.1
Other operating expenses	13.4	9.2	11.2	8.8
EBIT	8.2	5.6	8.9	7.0
Finance costs	2.2	1.5	1.8	1.4
EBT	6.0	4.1	7.1	5.6
Taxes on income	1.9	1.3	2.6	2.1
Net profit for the period	4.1	2.8	4.5	3.5
of which attributable to share- holders of PWO AG	4.3	—	4.5	—
of which attributable to minority interest	-0.2	—	—	—
Earnings per share in EUR, related to net profit for the year (shareholders of PWO AG)	1.71	—	1.77	—

05 INTERIM FINANCIAL STATEMENTS | Group Balance Sheet

ASSETS	30/06/2008	31/12/2007
	EUR m	EUR m
Property, plant and equipment	88.4	85.5
Intangible assets	11.8	10.3
Financial assets	0.6	0.6
Deferred tax assets	0.7	0.7
Non-current assets	101.5	97.1
Inventories	50.7	44.0
Receivables and other assets	53.1	48.9
Cash	2.4	1.9
Current assets	106.2	94.8
Total assets	207.7	191.9

LIABILITIES	30/06/2008	31/12/2007
	EUR m	EUR m
Equity	74.7	76.9
Interest-bearing borrowings	25.5	26.5
Pension provisions	23.8	22.9
Other provisions	3.5	3.2
Deferred tax liabilities	1.4	1.7
Non-current liabilities	54.2	54.3
Current portion of pension provisions	1.3	1.3
Trade payables and other liabilities	42.1	34.0
Interest-bearing borrowings	35.4	25.4
Current liabilities	78.8	60.7
Total equity and liabilities	207.7	191.9

05 INTERIM FINANCIAL STATEMENTS | Group Statement of Changes in Equity



	Equity attributable to shareholders of PWO AG						Minority shares up to 15/05/2008	Total Group equity
	Subscribed capital	Capital reserve	Revenue reserve	Currency translation	Cash flow hedge	Total		
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
as at Jan 1, 2008	6,391	17,312	49,630	742	383	74,458	2,465	76,923
Dividend payment	–	–	-3,250	–	–	-3,250	–	-3,250
Net profit for year	–	–	4,263	–	–	4,263	-139	4,124
Cash flow hedge	–	–	–	–	-113	-113	–	-113
Purchase of minority interests	–	–	–	–	–	0	-2,297	-2,297
Set-off of goodwill	–	-299	–	–	–	-299	–	-299
Currency translation	–	–	–	-322	–	-322	-29	-351
as at June 30, 2008	6,391	17,013	50,643	420	270	74,737	0	74,737

	Equity attributable to shareholders of PWO AG						Minority shares	Total Group equity
	Subscribed capital	Capital reserve	Revenue reserve	Currency translation	Cash flow hedge	Total		
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
as at Jan 1, 2007	6,391	17,312	44,782	273	30	68,788	–	68,788
Dividend payment	–	–	-3,000	–	–	-3,000	–	-3,000
Net profit for year	–	–	4,420	–	–	4,420	31	4,451
Cash flow hedge	–	–	–	–	199	199	–	199
Minority interests	–	–	–	–	–	0	2,339	2,339
Currency translation	–	–	60	496	–	556	28	584
as at June 30, 2007	6,391	17,312	46,262	769	229	70,963	2,398	73,361

05 INTERIM FINANCIAL STATEMENTS | Group Cash Flow Statement

	30/06/2008	30/06/2007
	EUR m	EUR m
Net profit for year	4.1	4.4
Depreciation/reversal of write-downs on property, plant and equipment	8.2	7.9
Income tax expense / refund	1.9	2.6
Interest income and expense	2.2	1.8
Change in current assets	-10.9	-13.7
Increase in non-current liabilities (excluding financial credits)	0.5	0.0
Change in current liabilities (excluding financial credits)	8.6	2.8
Income taxes paid	-2.5	-2.1
Other non-cash expenses/income	-0.4	0.1
Cash flow from operating activities	11.7	3.8
Payments for acquisitions (less cash acquired)	0.0	-4.5
Payments for investments in property, plant and equipment	-10.5	-4.8
Payments for investments in intangible assets	-1.6	-1.2
Cash flow from investing activities	-12.1	-10.5
Acquisition of minority interests	-2.6	0.0
Dividend payments	-3.3	-3.0
Interest paid	-1.5	-1.1
Proceeds from borrowings	14.9	7.4
Repayment of loans	-5.8	-4.4
Cash flow from financing activities	1.7	-1.1
Net change in cash and cash equivalents	1.3	-7.8
Cash and cash equivalents at beginning of the period	-5.2	3.8
Cash and cash equivalents at end of the period	-3.9	-4.0
of which cash	2.4	0.9
of which bank borrowings repayable on demand	-6.3	-4.9

06

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

BASIS OF PREPARATION OF INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements for the first half-year of 2008 were prepared in accordance with IAS 34 (Interim financial reporting). They do not contain all the information and disclosures required for the Group's annual financial statements and should therefore be read in conjunction with the annual consolidated financial statements as at December 31, 2007. The Group's interim financial statements and management reports are not subjected to external audit.

The accounting policies used for the annual financial statements as at December 31, 2007, have been applied without change in the preparation of these interim financial statements.

The amendments to IAS/IFRS standards and interpretations introduced on January 1, 2008, have not produced any change in the Group's accounting policies.

SCOPE OF CONSOLIDATION

The Group interim financial statements as at June 30, 2008, include seven foreign companies which are directly or indirectly controlled by PWO AG. By comparison with December 31, 2007, there were no changes to the scope of consolidation with the exception of the first consolidation of our recently established subsidiary PWO High-Tech Metal Components (Suzhou) Co. Ltd., China, on April 30, 2008. Following our acquisition of the remaining interests in Mexican company Cartec S.A. de C.V., our holding increased from 60 per cent to 100 per cent. With effect from May 15, 2008, Cartec's results are included in full in the consolidated group.

CURRENCY TRANSLATION

The functional currency of the PWO Group is the euro. The interim reports of the companies within the consolidated group are drawn up in the relevant foreign currency and translated in accordance with IAS 21. As these subsidiaries conduct their business independently as regards their financial, commercial and organisational structures, the functional currency is equivalent to the local currency in all cases. All balance sheet items of the foreign consolidated entity were translated to euros by applying the relevant mean rate of exchange at the balance sheet date. Expenses and revenue in the Group income statement were translated on the basis of the average exchange rate. The net profit for the year from the translated income statement was taken into the balance sheet. Exchange differences are recognised directly in equity as a currency translation difference.

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

		Closing rate		Average rate	
		30/06/2008	30/06/2007	H1 2008	H1 2007
China	CNY	10.85	10.24	10.80	10.26
Hong Kong	HKD	12.31	10.56	11.94	10.39
Canada	CAD	1.59	1.42	1.54	1.51
Mexico	MXN	16.26	14.58	16.25	14.56
Czech Republic	CZK	23.93	28.66	25.19	28.15

06

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CORPORATE ACQUISITION

As at May 15, 2008, we acquired the remaining 40 per cent interest in the Mexican company Cartec S.A. de C.V. for a total price of EUR 2.6 million. This takes PWO AG's share from 60 per cent to 99 per cent, with PWO Canada Inc. now holding 1 per cent of the voting rights.

SEGMENT REPORTING

The Group's primary reporting format is by geographical segment. These segments are defined on the basis of the location of the assets.

Revenue by region	H1 2008		H1 2007	
	Eur m	%	EUR m	%
Germany	113.1	81.6	102.0	79.8
Rest of Europe	7.2	5.2	3.9	3.1
NAFTA	20.5	14.8	23.3	18.2
Asia	0.1	0.1	0.0	0.0
Consolidation	-2.3	-1.7	-1.4	-1.1
Group	138.6	100.0	127.8	100.0

Total output by region	H1 2008		H1 2007	
	EUR m	%	EUR m	%
Germany	118.4	81.5	101.6	79.8
Rest of Europe	7.8	5.4	4.4	3.4
NAFTA	20.6	14.2	23.5	18.5
Asia	0.1	0.1	0.0	0.0
Consolidation	-1.8	-1.2	-2.2	-1.7
Group	145.1	100.0	127.3	100.0

EBIT by region	H1 2008		H1 2007	
	EUR m	%	EUR m	%
Germany	8.3	101.2	7.7	86.5
Rest of Europe	0.1	1.2	0.3	3.4
NAFTA	0.2	2.4	1.2	13.5
Asia	-0.3	-3.6	-0.3	-3.4
Consolidation	-0.1	-1.2	0.0	0.0
Group	8.2	100.0	8.9	100.0

06 NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

EVENTS AFTER THE REPORTING DATE

No significant events requiring inclusion in this report occurred after the reporting date June 30, 2008.

07 RESPONSIBILITY STATEMENT

"To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the interim management report of the group includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group for the remaining months of the financial year."



08 FINANCIAL CALENDAR | BOARD MEMBERS | CONTACT

FINANCIAL CALENDAR

30/09/2008	Capital Markets Day
05/11/2008	Interim report Q1-Q3 2008
24/02/2009	Announcement of preliminary financial results for 2008 / Analyst and press conference
16/04/2009	Publication of 2008 annual report
05/05/2009	Interim report Q1 2009
26/05/2009	Annual General Meeting 2009

CONTACT

Bernd Bartmann
MoB Finance (CFO)/Administration
Phone: +49 (0) 7802 / 84-347
e-mail: ir@progress-werk.de

Charlotte Frenzel
Investor Relations
Phone: +49 (0) 7802 / 84-844
e-mail: ir@progress-werk.de

Progress-Werk Oberkirch AG
Industriestraße 8
77704 Oberkirch

BOARD MEMBERS

There were no changes to the Management Board and Supervisory Board in the period under review.

Members of the Management Board:
Dipl.-Ing. Karl M. Schmidhuber (Chairman)
Bernd Bartmann
Dr.-Ing. Winfried Blümel

Members of the Supervisory Board:
Dieter Maier (Chairman)
Dr. jur. Klaus-Georg Hengstberger
(Deputy Chairman)
Katja Hertwig *
Herbert König *
Ulrich Ruetz
Dr. Gerhard Wirth

* Employee representatives