

---

# CORPORATE GOVERNANCE REPORT 2017

Our corporate mission is rooted in our sense of responsibility. We believe it is our duty to deal faithfully with all stakeholders and deliver long-term and sustainable value appreciation. These principles are the foundation of good corporate governance not only at Progress-Werk Oberkirch Aktiengesellschaft (the "Company" or "AG") but also its Group companies (together, the "Group" or "PWO").

To maintain and strengthen the confidence in the Company's and the Group's management from the shareholders, employees, customers, suppliers and the general public, all executives involved in the Company's management and control have made a commitment to complying with these principles. In implementing these principles, the AG follows the relevant statutory regulations and the standards of good corporate governance commonly used by German businesses. The Management Board and the Supervisory Board work together closely, effectively and faithfully. New material information is communicated in a transparent and timely manner, both internally and externally.

## STATEMENT ON CORPORATE GOVERNANCE PURSUANT TO SECTIONS 289F AND 315D HGB

The parent company's statement on Corporate Governance for the Company and the Group contains the Declaration of Conformity of the Management Board and the Supervisory Board pursuant to Section 161 AktG. It also includes information on the corporate governance practices applied beyond the legal requirements, a description of the working practices of the Management Board and the Supervisory Board, including the composition and practices of the committees established by the Supervisory Board, and other information about the key corporate governance structures.

## DECLARATION OF CONFORMITY PURSUANT TO SECTION 161 AKTG

In December 2017, the Management Board and the Supervisory Board issued the following Declaration of Conformity according to Section 161 AktG:

The Management Board and Supervisory Board of Progress-Werk Oberkirch AG declare that the Company will comply with the recommendations of the Government Commission on the German Corporate Governance Code as published on February 7, 2017 with the following exceptions:

### **CODE ITEM 3.8 | D&O INSURANCE**

For the Supervisory Board, the Articles of Association stipulate a deductible equal to half of the fixed annual remuneration of the Supervisory Board member. In the opinion of the Company, this is an adequate arrangement.

### **CODE ITEM 4.1.3 | PROTECTED REPORTING OF LEGAL VIOLATIONS AT THE COMPANY**

Employees should be given the opportunity to report legal violations at the Company in a protected manner. For purely practical reasons, the Company will not be able to implement this recommendation until 2018.

### **CODE ITEM 4.2.3 | CONTRACTS WITH MANAGEMENT BOARD MEMBERS**

Previously concluded management contracts provide a cap on the variable remuneration components. A further cap on remuneration overall would cause considerable practical difficulties due to fluctuations in the allocations to pension provisions. Therefore, the Supervisory Board has refrained from establishing a cap on overall remuneration.

**CODE ITEM 5.3.3 | NOMINATION COMMITTEE**

The Supervisory Board believes it is unnecessary to form a Nomination Committee. As the Supervisory Board consists of only six members, it considers it appropriate for the entire Supervisory Board to be involved with the nomination of Supervisory Board candidates.

**CODE ITEM 5.4.1 | COMPOSITION OF THE SUPERVISORY BOARD**

The Supervisory Board strives to bring various types of professional knowledge, expertise and experience to the Supervisory Board, especially in the areas of the automotive sector, finance and commercial law. The low number of Supervisory Board members comprising the Board makes it impractical to include other aspects in the Board's composition. In this respect, there are deviations from the requirements of Item 5.4.1., particularly concerning the current lack of an age limit and limit on the length of membership set for members of the Supervisory Board. The Supervisory Board is of the opinion that an age limit would generally restrict the choice of qualified candidates and the Company should also have available the expertise of experienced Supervisory Board members. The Supervisory Board does not deem it appropriate to exclude candidates based on age alone or to limit the maximum number of years a member can serve on the Supervisory Board.

The Supervisory Board has refrained from setting a specific number of "independent" board members as referred to in Item 5.4.1 (2), because, in practice, there is no uniform definition for interpreting the term "independent." Based on the current assessment of the Supervisory Board, all Supervisory Board members including the employee representatives are to be regarded as "independent" for the purposes of Item 5.4.2.

The Company has complied with the recommendations of the Government Commission on the German Corporate Governance Code in the versions of February 7, 2017 and May 5, 2015 since the submission of the last declaration in accordance with Section 161 AktG in December 2016 with the exception of the items described.

Oberkirch, December 2017

**Progress-Werk Oberkirch AG**

The Supervisory Board                      The Management Board

The relevant, valid Declaration of Conformity under Section 161 AktG is available on the Company's website in the Group section under "Corporate Governance."

**RELEVANT INFORMATION ON CORPORATE GOVERNANCE PRACTICES**

At PW0, corporate actions are based on principles and values defined and good corporate governance as a matter of course. With regard to corporate management, the AG and the Group are basically treated equally. There are therefore no material differences between their corporate governance structures.

**CORPORATE VALUES**

With our three key corporate principles "customer orientation, employee orientation, and the pursuit of success," we strive to set the highest standards. These give rise to the corporate values that form the cornerstone of PW0's management culture and serve as a model of corporate governance for our daily activities:

**CUSTOMERS, PRODUCTS AND GLOBAL PRESENCE**

Perpetually satisfied customers are the focus of all that we do. We are there worldwide, where our customers need us. We offer innovative solutions to meet their requirements. This allows us to enter new markets early on.

**EMPLOYEES**

Our employees ensure our success. This is why we make sustainable investments in their skills and motivation and offer the best employment conditions possible so that they can perform at their utmost best with enthusiasm and enjoyment. We ensure that they share in the Company's success and that they receive performance-based compensation and have a balanced remuneration structure throughout the corporate hierarchy.

**INVESTORS, SUPPLIERS AND THE GENERAL PUBLIC**

We want to see the value of our Company grow for the long-term and, therefore, focus our interests on our investors and the general public. We are fair to our suppliers. Our long-term strategic vision strengthens our market position. We are actively shaping the future worldwide. Our business approach secures our profits. Our Company is a part of society. This is the reason we act socially, economically and environmentally responsible at all times.

**GOVERNANCE PRINCIPLES**

Our management culture is based on the personal responsibility and initiative of our executives. Our governance principles are built upon this premise. These principles are an expression of our core values and give our managers a policy framework for their daily interactions with employees.

We believe that the trustworthy cooperation of managers and employees is based on a cooperative attitude, the ability to coordinate and an informative and delegatory management style.

### **TRANSPARENCY**

The Management Board is committed to meeting the legal requirements and stock exchange standards for timely reporting and ensuring the equal treatment of all shareholders (annual and half-year reports; quarterly statements, ad-hoc announcements; managers' transactions and voting rights notifications made aware to the Company) and to transparent communication with the public.

The management regularly participates in capital market conferences and roadshows where it addresses the questions of analysts, investors and media representatives. Important information that could influence the opinion of the Group's outlook is made publically available as promptly as possible. All reports and announcements, as well as the presentations used at conferences and roadshows, and all other information including information about the Annual General Meeting, Articles of Association, and the professional activities and other mandates of the members of the Supervisory Board, can be found on our website at [www.progress-werk.de/en/investors-press/](http://www.progress-werk.de/en/investors-press/).

### **RISK MANAGEMENT**

Good corporate governance includes the reasonable limitation and responsible handling of all risks associated with business decisions. The Company has introduced a modern and effective risk management system. This system is regularly reviewed for its effectiveness and is continuously developed, particularly in view of changes in the relevant national statutory requirements, both at home and internationally.

### **EQUAL PARTICIPATION OF MEN AND WOMEN IN MANAGEMENT AND INFORMATION ABOUT THE DIVERSITY CONCEPT**

We firmly believe that professional expertise and leadership skills should be the sole deciding criteria for filling management positions. In this context and with respect to the relevant legal requirements, the Supervisory Board set a target ratio of zero percent in September 2015 for the proportion of women on the Management and Supervisory Boards, which was to be achieved by June 30, 2017. Also in September 2015, the Management Board set the target ratio for women for the first level of management below the Management Board at zero percent and the target for

the second level at 12.5 percent – both of which was to be achieved by June 30, 2017.

The aforementioned targets for the ratio of women on the Supervisory and Management Boards and the two levels of management below the Management Board were all achieved during the reporting period.

Taking into account the requirement that the targets for the proportion of women must not fall below the levels achieved, effective as of July 1, 2017, the two bodies once again set targets for the proportion of women that correspond to the current ratio of women.

Effective as of July 1, 2017, the Supervisory Board set the target at zero percent for the ratio of women on the Management and Supervisory Boards, which must be achieved by June 30, 2022. This target takes into consideration that the main criteria when filling management positions should be professional expertise and leadership skills and that meeting these criteria makes it difficult to increase the proportion of women in the Management and Supervisory Boards due to the nature of the industry in which the Company operates.

Effective as of July 1, 2017, the Management Board also set the target ratio for women at the two management levels below the Management Board to be achieved by June 30, 2022. The target ratio for the first level of management was set at zero percent and the ratio for the second level was set at 12.5 percent. The share of women in the Company's workforce is very low overall, which is inevitably reflected also in their representation in management positions.

In considering the expertise and qualifications of the relevant candidates when filling management positions, the Management Board also pays attention to diversity and, in particular, strives to ensure that women are given appropriate consideration. Traditionally, however, PWO AG's employee fluctuation has been very low, meaning that it will only be possible to increase the proportion of women over a longer period of time.

### **DIVERSITY IN THE MANAGEMENT AND SUPERVISORY BOARDS**

The Supervisory Board pays appropriate attention to diversity when appointing members to the Management Board. The Supervisory Board also embraces the desire of the German Corporate Governance Code to have the criterion of diversity considered in composing the Supervisory Board and feels fundamentally committed to this concern.

For the reasons stated in the Declaration of Conformity in deviation to Item 5.4.1 of the German Corporate Governance Code, however, the Supervisory Board considers the addition of further criteria for its composition, such as age, gender or nationality, inappropriate.

For these reasons, the Supervisory Board has not yet established a formal diversity concept that it pursues with respect to the composition of the Management and Supervisory Boards. Nevertheless, the Supervisory Board has spent the past year thoroughly examining the form in which diversity should be taken into account in the two Boards in the future and will take the related aspects into account when making any future changes to the Boards' members if possible.

#### **CODE OF CONDUCT AND BUSINESS PARTNER CODE OF CONDUCT**

Assuring the legally compliant and ethical behavior of our employees is a central concern. For this purpose, we have combined our guidelines for compliant behavior into a Code of Conduct whose contents can be viewed at any time during normal business hours at our offices. A summary of the Code's key contents is available on our website.

We also believe it is important to comply with specified minimum standards for human rights, working conditions, corruption prevention and environmental protection along the entire value chain. Accordingly, we ask our business partners for their express commitment to our sustainability strategy.

In the 2016 fiscal year, we summarized our requirements for the behavior of our business partners in a Business Partner Code of Conduct. This Code is available on our website and applies Group-wide. The Code also outlines our expectation that business partners consider and communicate our principles and requirements when selecting their subcontractors. Compliance with the Code is monitored in the context of our business partner due diligence.

The suppliers to the entire PWO Group are also required to accept and comply with purchasing conditions that, among others, address regional and international regulations regarding quality, environmental, documentation and labeling requirements. Suppliers also need to comply with the relevant regulations concerning environmentally friendly packaging, as well as safety regulations for the transport of the delivered products and the provisions for accident prevention.

## THE WORKING PRACTICES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

As a stock corporation under German law, Progress-Werk Oberkirch AG is subject to the relevant statutory provisions regarding management and supervision. Its dual management and control structure consists of a Management Board and a Supervisory Board. The Management Board and the Supervisory Board base their management and monitoring of the Company on the German Corporate Governance Code in its relevant current version.

#### **MANAGEMENT BOARD**

The Management Board of Progress-Werk Oberkirch AG currently consists of three members and takes sole responsibility for the Company's operational management and strategic development. The principles of cooperation are summarized in the Board's Rules of Procedure, and the assignment of duties within the Board is documented in the Schedule of Responsibilities.

The Management Board conducts the business of the Company and bears the overall responsibility for its common goals, plans and policies. Irrespective of the overall responsibility of the Management Board, each member acts on his own responsibility in his own field but is advised to keep departmental-related interests subordinate to the overall interests of the Company. When the activities and transactions of one board member's responsibility coincide with that of one or more of the other board members, the responsible board member must attain the agreement from the other board members involved in advance. If an agreement is not reached, then each participating board member is obliged to bring a resolution to the entire Board.

Each board member is also obliged to bring a resolution to the entire Management Board when the activities under another board member's responsibility cause reason for concern and these concerns cannot be resolved by discussion with the responsible board member. Irrespective of these principles, the consent of the entire Board is required for measures and transactions that are conducted by the Company or the Group and are either of particular importance or pose an extraordinary economic risk.

The CEO coordinates the management of the Company via the entire Board. The board members are obliged to regularly inform the CEO of any major transactions and on the progress of business in their respective departments. Board meetings should take place at regular intervals and,

if possible, at least bi-weekly and on dates established far in advance.

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

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

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

### **SUPERVISORY BOARD**

The Supervisory Board monitors and advises the Management Board in the management of the Company. Duties and responsibilities are derived from legal requirements and the Company's Articles of Association as well as the Supervisory Board's Rules of Procedure. The decisions of the Supervisory Board are passed by a simple majority of votes unless the law requires otherwise. In the event of a tied vote, the vote of the chairperson decides.

The Supervisory Board of Progress-Werk Oberkirch AG consists of six members. Two-thirds of the Supervisory Board is comprised of shareholder representatives, and one-third is comprised of employee representatives. Mr. Ulrich Ruetz is a financial expert as defined in Section 100 (5) AktG.

The goals for the composition of the Board and fulfilling the competency profile within the entire Supervisory Board are taken into account in the Supervisory Board's proposals to the Annual General Meeting for the election of Supervisory Board members. The current composition

of the Supervisory Board complies with these target and profile requirements; particularly with respect to all members of the Supervisory Board being acquainted with the automotive supply industry that is relevant for the Company and the Group, with at least one Supervisory Board member possessing expertise in the areas of accounting or auditing. The requirements for the Supervisory Board as a whole, which include targets for its composition and a competency profile, are published on our website.

The members of the Management Board generally participate in Supervisory Board meetings unless the Supervisory Board makes an alternative arrangement.

The Supervisory Board's Rules of Procedure stipulate the formation of committees and governs their powers. There are currently two committees: the Personnel Committee and the Audit Committee.

The Personnel Committee prepares the Supervisory Board's personnel and compensation decisions. When making compensation decisions, the Committee consults with outside consultants, if necessary. Its members include the chairperson of the Supervisory Board, the chairperson's deputy, and a further member of the Supervisory Board who is nominated for election by the Supervisory Board's shareholder representatives. The Personnel Committee is chaired by the Supervisory Board's chairperson.

The Audit Committee rather than the Supervisory Board conducts the preliminary examination of the financial statements, the management report and the auditor's audit report. The Audit Committee also conducts the preliminary review of the consolidated financial statements and group management report and assumes the other assigned duties laid out in the German Corporate Governance Code. The Committee consists of the Supervisory Board's chairperson, one shareholder representative and a Supervisory Board employee representative. The Supervisory Board may also appoint other Supervisory Board members to the Audit Committee. During the reporting year, separate rules of procedure were resolved for the Audit Committee.

The chairman of the Committee should not be held by the chairman of the Supervisory Board. The chairpersons report to the Supervisory Board on the consultation and resolutions of the respective committees. Further details on the composition and working practices of the Supervisory Board and its committees, particularly the number and subject of the meetings in the 2017 fiscal year, may be found in the Report of the Supervisory Board.

## ADDITIONAL CORPORATE GOVERNANCE DISCLOSURES

### SHAREHOLDERS AND THE ANNUAL GENERAL MEETING

The Management Board feels a special obligation toward the shareholders. As owners of Progress-Werk Oberkirch AG, they provide the capital for maintaining and expanding their Company's international market position and take the role of entrepreneur. The most important obligation of the Management Board, therefore, is to secure Progress-Werk Oberkirch AG's viability and permanently strengthen the competitiveness of the Company and its subsidiaries, while at the same time achieving a sustainable and attractive return on the capital provided.

Shareholder interests are taken into consideration, and their rights are fully acknowledged. All shareholders are treated equally. The shareholders of Progress-Werk Oberkirch AG exercise their rights at the Annual General Meeting, which is held at least once annually.

Each shareholder who registers by the deadline is allowed to attend the Annual General Meeting. Shareholders who cannot attend the Annual General Meeting in person can exercise their voting rights through a representative of their choice or a proxy provided by the Company who is bound to the instructions of the respective shareholder. All documents and information regarding the Annual General Meeting are made available on our website.

### MANDATES OF THE MANAGEMENT BOARD

Outside of the PWO Group, Bernd Bartmann serves as the deputy chairman of the Supervisory Board of *avenit* AG, Offenburg. He is also a member of the Advisory Board of the *Wirtschaftsverband Industrieller Unternehmen Baden e. V.* (Chamber of Industry and Commerce in Baden) and a member of the Advisory Board of the *Sparkasse Offenburg/Ortenau*. Dr. Volker Simon and Johannes Obrecht

hold positions at the Offenburg University of Applied Sciences as members of the Board of Trustees and the Founder's Committee.

In the fiscal year under review, there were no conflicts of interest among Management Board members that were required to be disclosed to the Supervisory Board.

### SHAREHOLDINGS OF GOVERNING BODIES

Dr. Georg Hengstberger, who is a member of the Company's Supervisory Board, is a shareholder and the managing director of *Consult Invest Beteiligungsberatungs-GmbH*, Böblingen. As of the end of the 2017 fiscal year, this entity held 46.62 percent of the outstanding shares of Progress-Werk Oberkirch AG.

During the past fiscal year, the Company was made aware of two transactions that were subject to statutory disclosure under Article 19 of the Market Abuse Regulation (MAR). Notifications of managers' transactions and those of closely related persons under Article 19 MAR are available on our website at [www.progress-werk.de/en/investors-press/the-pwo-share/managers-transactions/](http://www.progress-werk.de/en/investors-press/the-pwo-share/managers-transactions/).

### STOCK OPTION PROGRAMS

Stock option programs or similar stock-based incentive systems did not exist in the 2017 fiscal year, and there are currently none in existence.

### ACCOUNTING AND AUDITING

The financial statements for the Group's half-year and fiscal year are prepared in accordance with International Financial Reporting Standards (IFRS) as applicable in the EU. These accounting principles are also applied in full to the Group's quarterly statements. Progress-Werk Oberkirch AG's annual financial statements are prepared in accordance with the provisions of the German Commercial Code.

---

The consolidated financial statements and the financial statements were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, who was elected by the 2017 Annual General Meeting. The Supervisory Board has agreed with the auditor that the Audit Committee chairperson shall be informed immediately of any disqualification or bias issues during the audit that cannot be immediately resolved. The auditor should also promptly report to the Supervisory Board on all important facts and events that arise during the audit and are material for carrying out the tasks of the Supervisory Board.

## REMUNERATION REPORT

The remuneration report explains the principles of the remuneration system for the Management Board and the Supervisory Board and discloses the remuneration of the members of the Management Board and Supervisory Board in the 2017 fiscal year. The remuneration report is part of the management report and is therefore included in the 2017 Annual Report.