COMBINED GROUP MANAGEMENT REPORT AND MANAGEMENT REPORT OF PWO AG

The combined management report for the January 1 through December 31, 2020 fiscal year contains the reports for Progress-Werk Oberkirch Aktiengesellschaft, Oberkirch, ("PWO," "PWO AG," the "Company") and the PWO Group ("Group"). The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), as applicable in the European Union, and the supplementary provisions of the German Commercial Code (HGB). PWO AG conducts its accounting according to the provisions of the HGB in its currently valid version and the supplementary provisions of the German Stock Corporation Act (AktG).

The composition of the scope of consolidation is described in detail in the notes to the consolidated financial statements. The scope of consolidation did not change in the reporting year.

GROUP PRINCIPLES

BUSINESS MODEL

ORGANIZATIONAL STRUCTURE OF THE GROUP

The PWO Group manufactures components made of steel and aluminum sheets for the international automotive industry at 5 production sites. We also have 4 assembly locations with additional space that we can use for projects when needed.

PWO AG, headquartered in Oberkirch, Germany, is the Group's main location. The management of the Group is carried out from this head office. Most of the Company's international locations are direct subsidiaries. In China, PWO has established an intermediate holding company based in Hong Kong. This holding company continues to be a non-operating company.

PWO AG is led by an Executive Board consisting of 3 members. In the reporting year, the positions of chief executive officer (CEO) and chief financial officer (CFO) were reappointed with two new members. Temporarily, therefore, the Executive Board consisted of 4 persons.

A six-member Supervisory Board forms the supervisory body. The Supervisory Board has delegated some of its tasks to committees. These tasks are described in detail in the Report of the Supervisory Board.

SALES MARKETS, LOCATIONS, AND SEGMENTS

To deliver to our customers worldwide, we use a combination of production and assembly locations. The Group is represented worldwide by the following production locations: in Europe, one location in Oberkirch, Germany, and one in Valašské Meziříčí, Czechia; in Canada with one location in Kitchener; in Mexico with one location in Puebla; and in China with one location in Suzhou.

We also operate additional assembly sites in Mexico and Czechia located near our production areas. We are reducing the distance to our customers in China for large-volume instrument panel carriers with our assembly location in Shenyang. Assembly locations are always separate facilities belonging to our subsidiaries in the respective countries.

We pool our forming capacities at our capital-intensive production sites, in order to focus the know-how of our employees necessary for ongoing process innovation. Individual components are assembled together into subsystems at our assembly locations.

Each of the five Group production locations are responsible for their own business and operational management within the framework of the Group's overall strategy. Because they do not refinance themselves independently but rely on refinancing from the Group, the decisions on the allocation of the capital expenditure required for their growth are made by PWO AG's Executive Board. The five business segments — Germany, Czechia, Canada, Mexico, and China — are defined along this dominant internal organizational structure and correlate to the sales markets in which our locations operate.

POSITIONING, EXPERTISE AND PROCESSES

PWO IN THE INTERNATIONAL AUTOMOTIVE MARKET

We manufacture tailor-made solutions for our customers — international automotive manufacturers and Tier 1 suppliers — for large series with unit volumes that sometimes stretch into the millions. In doing so, we cover the value chain from development and tool design to series production. We concentrate on the cold formation of steels, including high-strength lightweight steels, and to a lesser extent stainless steel and aluminum. We assemble the individual manufactured components into subsystems. Our focus is on providing solutions for automotive safety and comfort.

The Group's revenue in the past fiscal year is broken down into our three strategic product areas:

The first, mechanical components for electrical/electronic applications, accounted for 22 percent of revenue, followed by safety components for airbags, seats and steering with 30 percent, and structural components and subsystems for body and chassis with 48 percent.

The components from the first two areas are supplied primarily to international Tier 1 suppliers, who in turn supply them to various automakers as components of their own systems for numerous vehicle models. The components from the third area, in contrast, are largely manufactured directly on behalf of the vehicle manufacturers on a model-specific basis. Here, too, the range of applications is expanding continuously due to the increasing number of platform concepts on which the different car models of the manufacturer are based.

DEVELOPMENT

We develop our components and subsystems for customers primarily on an individual basis. Consequently, the majority of expenses for product and process development are incurred within the scope of customer projects. PWO's internal development activities, as well as the utilization of third-party services for these purposes, amounted to approximately 3 percent of revenue in the reporting year, of which EUR 1.0 million (p/y: EUR 1.3 million) were capitalized as development costs. We do not conduct any research.

EXTERNAL FACTORS AFFECTING OPERATIONS

Some of the key external factors influencing PWO's operations in the near term include changes in the political, macroeconomic and industry-specific environments. These factors are discussed in the chapters "Macroeconomic Environment" and "The International Automotive Industry Environment."

Other external influential factors and their impact, such as the industry's ongoing price pressure, fluctuations in customer call-orders, the automotive industry's supply chain risks, changes in material prices and exchange rates, as well as the outlook for long-term demand resulting from regulatory changes, are presented in the risk report.

MANAGEMENT SYSTEM

Only financial indicators have been defined as the Group's overriding key performance indicators in the management system. Non-financial performance indicators are therefore not essential for an understanding of the Group's business performance and situation in the reporting year, although there are currently indications that these types of performance indicators may become more important in the future.

The key financial performance indicators are primarily revenue, EBIT (earnings before interest and taxes) before currency effects, free cash flow, the equity ratio, dynamic leverage and capital expenditure. The definition of these indicators is presented in the chapters "Results of operations, net assets and financial position". For the management of the segments, we focus in particular on revenue and EBIT before currency effects.

Our mid-term plans are managed by the financial indicator new business, which consists of the lifetime volume of newly acquired orders over their entire term, based on the orders' contractual agreements and past experience.

New business volume should offset the yearly volume of phased-out series productions and provide additional room for revenue growth. Volumes may, however, fluctuate greatly from year to year because customers make decisions on awarding orders at different times, and large orders are not always awarded every year in our market segment.

We aim to steadily increase revenue and, at the same time, continually improve our EBIT margin. We also strive to achieve positive free cash flow. The management of our capital expenditure takes both these goals into account, as well as the Group's growth targets. Through the combination of different key performance indicators, we intend to reduce the dynamic leverage ratio and improve our equity ratio.

However, this does not mean that all of these targets will be achieved every year. For example, winning major orders may temporarily require a higher level of capital expenditure at a particular location. The current transformation process in the automotive industry requires us to critically review the positioning of our locations on an ongoing basis. Adjustments to their capacity or regional positioning may temporarily impact their profitability.

Furthermore, in our business, there is typically a time lag between the start of an order and its phasing-out. This can lead to fluctuations in revenue. It is often not possible or economically viable to reduce these fluctuations with additional orders.

REPORT ON BUSINESS DEVELOPMENT

MACROECONOMIC ENVIRONMENT

In the wake of the global COVID-19 pandemic ("corona pandemic" or "pandemic"), the global economy slipped into a severe recession in 2020, according to the International Monetary Fund (IMF). Based on the IMF's preliminary estimate in January 2021, global economic output weakened by 3.5 percent in real terms, following growth of 2.8 percent in the previous year. Only China was able to achieve growth of 2.3 percent for the year as a whole, following a significant decline in the first quarter, compared with 6.0 percent in the previous year. In addition to some developing countries such as Mexico (-8.5 percent), the industrialized nations in particular recorded declines that were in some cases significantly higher than the global average. Such declines were also seen throughout the euro region, which the IMF expects to record a decline of -7.2 percent. Among the major EU countries, France and Italy had significantly weaker performance, with declines of 8.3 and 9.2 percent, respectively. The downturn in the UK was even double-digit at 10.0 percent. In the USA, the economic slump was limited to a decline of 3.5 percent.

The pandemic also left deep scars on German economic performance. Almost all sectors of the economy were affected, particularly the contact-intensive industries in the service sector and, especially in the first lockdown in the spring, also the industrial sector. As a result of the easing starting in the second quarter and extensive financial support from the public sector (including short-time work schemes and suspension of bankruptcy regulations), employment remained high. The German industry, on the whole, experienced a strong recovery from the second quarter onwards, which was also largely driven by a further significant increase in exports. According to calculations by the German Federal Statistical Office on January 29, 2021, real GDP fell by 5.0 percent year-on-year in 2020. The decline almost reached the dimension of 2009, when economic output fell by 5.7 percent in the wake of the global financial and economic crisis. However, similar to other countries, the decline in 2020 was noticeably less in Germany than originally feared.

THE INTERNATIONAL AUTOMOTIVE INDUSTRY ENVIRONMENT

In the wake of the corona pandemic, the global automotive sector was among the most hardest hit industrial sectors in 2020. Sales fell in almost all countries of the world, and in some cases dramatically. Of the three major sales regions, Europe recorded the strongest decline, with a drop of around 24 percent. Registrations fell by 3.8 million units to just under 12.0 million. The five largest European markets all recorded declines, in some cases in the high double-digit range. In France, new registrations fell by a quarter, in Italy by 28 percent, in the United Kingdom by 29 percent and in Spain by 32 percent. All countries belonging to the European market closed 2020 with a negative year-oy-year comparison.

In Germany, new registrations fell by almost one-fifth (-19 percent) to 2.9 million units, with new commercial registrations slumping by 22.4 percent. This was a much sharper decline than consumer registrations at 13.0 percent due to the general reluctance to invest in the economy. Notwithstanding this dramatic overall decline in the new car business, the very positive trend in EVs continued at an accelerated pace. In 2020 as a whole, they achieved a market share of 13.5 percent; new registrations of EVs totaled 394,943 EVs. This represents a year-on-year increase of 263 percent. In December, the market share of EVs actually exceeded that of diesel cars for the first time. With a 26.6 percent share of the total market, EVs not only reached a new high but slightly surpassed diesel combustion engines (including mild hybrids), which came to 26.2 percent in the final month of 2020. German manufacturers were able to gain further market share in the domestic electric passenger car market in 2020. In 2020 as a whole, German group brands achieved a market share of 67 percent.

German manufacturers have massively expanded their production capacities for electric vehicles. In 2020, more than a quarter of all electric vehicles produced worldwide came from German manufacturers. German OEMs overall doubled their global production to 866,000 electric vehicles (up 112 percent). At 428,000 units (up 121 percent), around half of these were produced in Germany, of which 62 percent were exported. For pure battery electric vehicles (BEV), the export ratio was as high as 68 percent.

In the USA, sales in 2020 were 14.7 percent lower overall than in the previous year. The light vehicle market (passenger cars and light trucks) closed 2020 with just under 14.5 million vehicles sold. Passenger cars were particularly hard hit, falling by 28 percent, while in the light truck segment, which now accounts for 76 percent of the light vehicle market, sales declined comparatively moderately by "only" 10 percent.

China largely moved on and escaped the severe consequences for automotive sales caused by the corona pandemic in the course of 2020. Thanks to its rapid recovery, the decline in 2020 was limited to 6 percent. As a

result of this much smaller decline by international standards, the gap between the world's largest automotive market and the rest of the world has widened significantly.

NEW REGISTRATIONS/SALES OF PASSENGER VEHICLES IN UNITS

Sources: German Automotive Industry Association, German Federal Motor Transport Authority

REGION	Full-year 2020	Change vs. 2019 (%)
Germany	2,917,678	-19.1
Western Europe (EU14 + EFTA + UK)[1]	10,804,200	-24.5
New EU countries (EU13)[1]	1,157,000	-23.0
Europe (EU27 + EFTA + UK)[1]	11,961,200	-24.3
USA[2]	14,463,900	-14.7
China	19,790,000	-6.1

1 Excluding Malta
2 Light Vehicles

BUSINESS DEVELOPMENT

ORDER SITUATION

After a gratifying start to the year followed by a weak second quarter due to the corona pandemic, a whole series of contracts were awarded by our customers in the second half of the reporting year. Overall, we were able to win a lifetime volume of around EUR 400 million (p/y: EUR 510 million), including associated tool volumes of around EUR 30 million.

In addition to Mexico and China, our Czech location was particularly successful and won a lifetime volume in the reporting year of more than double its total revenue. It once again impressed our customers with its special expertise in the area of seating. As a result, we will indirectly supply the new German plant of an American pioneer of electromobility in the future. We will also add instrument panel carriers as another key product line to be manufactured at this location in the future.

In addition to the seat components mentioned above, larger volumes were also acquired for chassis, steering components and electronic braking systems. In the future, we will supply air spring components for a premium platform for electric cars of a renowned German manufacturer, among others. We are also pleased to have received new orders for instrument panel carriers, including for a platform of a German premium automaker, who we are supplying for the first time in this area.

Most of the production starts-ups are scheduled for the 2022 fiscal year. However, the focus is increasingly shifting to the following year. The lifetimes of the new series are largely within the typical range for our business of 5 to 8 years on average. However, to the extent that production platforms are supplied to auto manufacturers or non-model-specific components are manufactured for suppliers, in some cases, the duration may be significantly longer.

FINANCIAL SITUATION

GENERAL STATEMENT OF BUSINESS PERFORMANCE AND GROUP'S POSITION

The corona pandemic is placing an unprecedented burden on the economies and populations of all countries worldwide. Following the outbreak of the pandemic, we expanded our ongoing cost reduction and process improvement programs early on and intensified our liquidity management. This enabled us to limit the impact on the Group. A major contribution to this was made by the fact that our supply chain held up in full throughout the reporting year — not least thanks to our efficient planning — so that we were able to deliver throughout the year.

The effectiveness of our measures is underscored by the positive results already achieved by our international locations in the mere moderate market recovery in the second half of 2020. At the Oberkirch location, we initiated far-reaching changes during the past fiscal year and have already implemented a significant part of them so that this site is once again positioned competitively. We are very confident overall that taking these actions will enable us to successfully meet the further challenges in 2021.

COMPARISON OF FORECAST TO ACTUAL BUSINESS RESULTS

	Actual results 2020	New 2020 forecast (published Nov. 9, 2020)	2020 forecast (published Feb. 25, 2020)	Actual results according to 2019 Annual Report
Revenue	EUR 371.2 million	Approx. EUR 350 million	Approx. EUR 450 million	EUR 458.6 million
EBIT before currency effects	EUR -8.1 million	Negative	EUR 19 – 20 million	EUR 22.2 million
Free cash flow	EUR 29.1 million	Visibly lower y-o-y	Clearly positive	EUR 15.0 million
Equity ratio	28.7 percent	Visibly lower y-o-y	Improved	30.1 percent
Dynamic leverage ratio (financial liabilities less cash and cash equivalents in relation to EBITDA)	4.8 years	Significantly higher y-o-y	Improved	2.9 years
Capital expenditures according to segment report	EUR 13.8 million	Visibly lower y-o-y	Almost EUR 30 million	EUR 33.9 million
Lifetime volume of new business (series and tool orders)	Approx. EUR 400 million	Unclear if forecast in annual report can be achieved	More than EUR 500 million	Approx. EUR 510 million

In response to the outbreak of the pandemic, we withdrew our full-year forecast for 2020 on March 20, 2020, which we had published in February 2020 with the release of the preliminary figures for the 2019 fiscal year. It was not possible to issue a new forecast until the publication of the quarterly statement for the third quarter and first nine months of 2020.

Based on these revised expectations, we significantly exceeded the forecast for revenue. We assume that, in view of the ongoing pandemic and due to Brexit, customers filled their warehouses in the final weeks of the past fiscal year in order to prevent a possible interruption of their supply chains in the first quarter of 2021.

The new qualitative forecast for EBIT before currency effects, the equity ratio, and dynamic leverage ratio were confirmed with the results achieved in 2020. Nevertheless, on December 29, 2020, we announced further adjustments to our staff numbers at the Oberkirch location. The associated expenses were naturally not yet included in the quantitative key performance indicators communicated at the beginning of November. The free cash flow forecast was significantly exceeded, as a greater-than-expected share of the payments for the headcount adjustments will not occur until fiscal year 2021.

We confirmed the new forecast for capital expenditure. New business did not reach the targeted volume because customers did not make decisions on a number of orders in the past fiscal year that had backed this forecast. We believe we are well-positioned for these orders. For the future development of the Group's business, it is irrelevant whether an award is made at the end of one fiscal year or the beginning of the next.

RESULTS OF OPERATIONS

INCOME STATEMENT

Selected information (EURk)

	2020	in % of total output	2019 adjusted[1]	in % of total output
Revenue[1,2]	371,154	99.7	458,541	99.7
Total output	372,156	100.0	459,845	100.0
Cost of materials	191,559	51.5	246,969	53.7
Staff costs	107,282	28.8	128,464	27.9
Other operating expenses	61,997	16.7	46,751	10.2
EBITDA	21,169	5.7	45,893	10.0
Depreciation/amortization	31,268	8.4	26,047	5.7
EBIT before currency effects[2]	-8,123	-2.2	22,122	4.8
Currency effects according to the P&L	-1,976	-0.5	-2,276	-0.5
EBIT including currency effects	-10,099	-2.7	19,846	4.3
Net income/loss for the period[3]	-11,662	-3.1	9,051	2.0
No. of employees as of Dec. 31, including temporary employees	3,093	—	3,208	—

[1] Prior year adjusted due to change in accounting (see Note 5, chapter "Contract assets")
[2] Group key performance indicator
[3] Net income/loss for the period is attributable in full to the shareholders of PWO AG

EBIT development was impacted by currency effects, similar to prior years. Currency effects are included in other operating income and expenses and reported as a separate line item in the notes to the consolidated financial statements. In the following explanations, we refer to EBIT before currency effects, as this figure most clearly reflects our operating performance.

At the beginning of the reporting year, we had already expected lackluster performance in the automotive industry in the 2020 fiscal year. Following the outbreak of the pandemic, economic output in our industry fell dramatically in the second quarter, as it did in most other sectors. Even the recovery in the second half of the year was not enough to offset that decline. In addition, beyond the lower call-orders for series production, tool revenue was down year-on-year, as expected. Overall, the revenue in fiscal year 2020 was significantly lower than in the previous year.

We responded quickly and systematically to the massive drop in revenue in the second quarter with cost reductions and process improvements. This helped us to succeed in achieving a significant increase in the Group's EBIT margin in the second half of the year before charges for extraordinary items.

The extraordinary items, which mainly related to the Oberkirch location, had a significant impact on earnings. We expect the long-term capacity utilization at this site to be significantly lower in the future than in the past. We therefore completed an initial program to adjust the workforce by 200 employees. A further program to adjust the workforce by around 120 to 150 employees was agreed to shortly before the end of the fiscal year. For certain areas, the reduction of 85 employees from this total has already been specified. The measures currently being implemented resulted in combined expenses totaling EUR 18.4 million in the reporting year, which were included in other operating expenses. This item also includes additions to provisions for onerous orders in the amount of EUR 3.1 million.

The lower capacity utilization in Oberkirch, which is expected to continue in the future, and therefore the limited earnings perspective for this location also necessitated adjustments to the carrying amounts of non-current assets. In addition, the adjustment of goodwill for our Canadian subsidiary also had a negative impact, albeit to a lesser extent. In total, these charges amounted to EUR 5.6 million. EBIT therefore came under pressure from extraordinary items totaling EUR 27.1 million. At the same time, our Chinese location recorded positive operating effects from, among others, contractual negotiations with customers and postponements of wage and salary negotiations amounting to EUR 3.1 million, which cannot be extrapolated into the future. The net result is an extraordinary effect of EUR 24.0 million in the reporting year. Before extraordinary items, EBIT amounted to EUR 15.9 million.

The Group's earnings situation in the reporting year was thus characterized by a significantly negative EBIT at the Oberkirch location on the one hand and distinctly positive EBIT contributions from the international locations in Czechia, Mexico and China on the other.

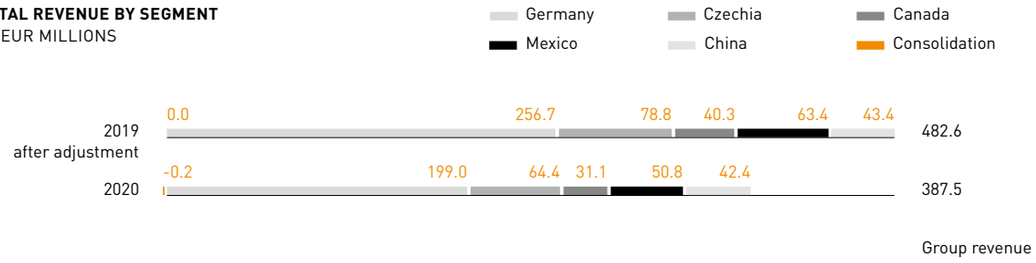
In detail, the Group's cost of materials ratio declined due to a change in the product mix triggered by new orders for instrument panel carriers that are starting up. We achieved considerable savings in other operating expenses — excluding expenses for currency translation and personnel adjustments — but were unable to fully compensate for the substantial decline in total output. The most significant reduction was in expenses for temporary employees, whose number correlates closely with the number of call-orders for series production and the volume of business. For the same reason, expenses for outgoing freight were down on the previous year. However, almost all other items under other operating expenses were lower than in the previous year and, in some cases, significantly so.

The staff costs ratio, in contrast, increased. The change in the product mix and the additional payments for short-time work schedule also contributed to this. In principle, we aim to retain the qualified employees we need for the long-term development of the Group, even in periods of market weakness. We did already adjust the number of employees at the Oberkirch location in the course of the year. However, a supplementary collective agreement there had ruled out compulsory redundancies until December 31, 2020.

Despite the reduction in net debt, the negative balance of the financial result of EUR 6.0 million (p/y: EUR 6.9 million) was only reduced to a limited extent. As part of the agreement on a covenant holiday period, which we were able to reach with our financing partners for the syndicated loan due to the pandemic, the interest rates for this loan increased. Income tax benefits amounted to EUR 4.4 million (p/y: tax expense of EUR 3.9 million), as we benefited in particular at the Oberkirch site from the option to carry forward and carry back losses created by the German government to provide relief for companies as part of the corona measures. Overall, net income for the period decreased to EUR -11.7 million (p/y: EUR 9.1 million) and earnings per share to EUR -3.73 (p/y: EUR 2.90). Despite the exceptional challenges and the high volume of extraordinary items, the net assets, financial position and results of operations were satisfactory in the reporting year. The favorable development of our international locations made a major contribution to this performance.

SEGMENTS

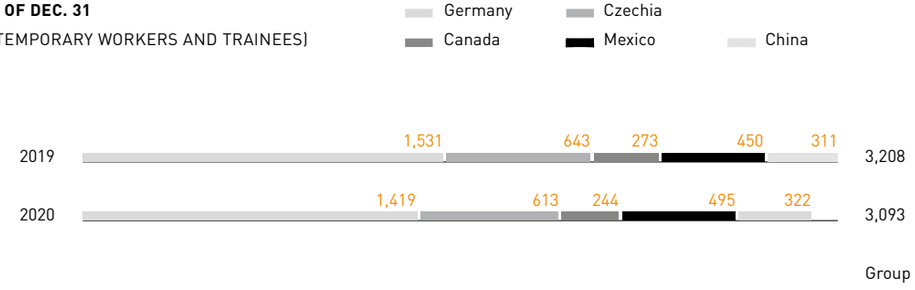
TOTAL REVENUE BY SEGMENT
IN EUR MILLIONS



In line with the Group's internal management system, our five production sites form the basis for segment reporting. The segments are defined according to the locations of the Group's assets, which is also the basis for the allocation of the Group's revenue. The former segment "Rest of Europe" has been renamed "Czechia" and the former segment "Asia" has been renamed "China". The two sites in Mexico and Canada, which were previously combined in the North America segment, are now reported in two separate segments — the Canadian site as the Canada segment and the Mexican site as the Mexico segment. Intercompany revenue between the individual sites concerns mainly deliveries of series parts and tools.

The Group's three assembly sites are separate operating facilities from the production sites. They are therefore addressed below as parts of the production locations. In the tables that follow, we present selected information on segment development. The indicators we use to manage the Group are labeled accordingly.

NUMBER OF EMPLOYEES BY LOCATION AS OF DEC. 31
(INCLUDING TEMPORARY WORKERS AND TRAINEES)



SELECTED INFORMATION

SEGMENT GERMANY

EURk

	2020	in % of total output	2019	in % of total output
Total revenue [1]	199,046	99.5	256,704	99.5
External revenue	186,942	93.4	242,259	93.9
Total output	200,048	100.0	257,994	100.0
EBIT before currency effects [1]	-22,639	-11.3	9,624	3.7
EBIT including currency effects	-24,116	-12.1	7,592	2.9
No. of employees on Dec. 31, incl. temporary employees	1,419	—	1,531	—

[1] Key performance indicator for Group and segment

At our home location in Oberkirch, which forms the Germany segment, total revenue weakened to a similar extent as in the Group as a whole. Lower tool revenue also contributed to this.

Due to the lower level of customer call-orders, production was reduced temporarily by up to 80 percent. Short-time work schedules were therefore put in place on a percentage-adjusted scale in the direct and indirect areas in March 2020. Meanwhile, the second and third shifts have been suspended.

We also compensated for the negative impact of lower revenue by cutting short-term costs. The measures implemented, however, are not enough to make the location competitive in the long term. Staff costs in Germany, as an industrial hub, have risen sharply in recent years. As a result, our customers are relocating production to Eastern Europe, and it is necessary for us to follow suit.

For this reason, we decided in the reporting year to adjust the capacity at the Oberkirch location to match the lasting expected lower level of revenue. In October, a program to reduce the number of employees by around 200 was initially adopted and has since been successfully implemented. The reported reduction in the number

of employees in the reporting year was mainly due to the expiry of fixed-term contracts and a small number of temporary workers. This will continue in 2021. In addition, 74 employees were carried over into a transfer company on January 1, 2021; a further 24 will follow in the course of the year once the processes in their respective areas have been reorganized.

We also decided and made the announcement at the end of December 2020, that we would further reduce the workforce in Oberkirch, mainly permanent employees in the production area. For certain areas, the reduction of 85 employees has already been determined. This reduction is connected to the placement of an ongoing series production at our site in Czechia. Negotiations on this matter with employee representatives began after the end of the reporting year.

These measures, as well as the other extraordinary items presented in the explanation of the Group's results of operations, had a significant negative impact on the EBIT of the Germany segment in the reporting year.

SEGMENT CZECHIA

EURk

	2020	in % of total output	2019 adjusted	in % of total output
Total revenue[1,2]	64,420	100.0	78,125	100.0
External revenue	62,706	97.3	75,546	96.7
Total output	64,420	100.0	78,137	100.0
EBIT before currency effects[2]	4,549	7.1	6,893	8.8
EBIT including currency effects	4,515	7.0	6,847	8.8
No. of employees on Dec. 31, incl. temporary employees	613	—	643	—

[1] Prior year adjusted due to change in accounting (see Note 5, chapter "Contract assets")
[2] Key performance indicator for Group and segment

In the Czechia segment, total revenue in the reporting year was also significantly lower than a year earlier. Individual lines and customer-specific facilities were shut down in April. By mid-May, almost all of the employees working in series production had been affected. Tool design employees were also partially affected.

There is no instrument in Czechia similar to the German instrument of short-time work schedules. We paid 75 percent of the wages of the employees who stayed at home for "operational reasons". A total of 60 percent of the wage costs were reimbursed to the Czech site through a state subsidy program. In order to limit the corona-related burdens, we had to adjust the number of our employees in the course of the year. Overall, we succeeded in achieving a satisfying positive EBIT, even in the 2020 corona year.

SEGMENT CANADA

EURk

	2020	in % of total output	2019 adjusted	in % of total output
Total revenue[1,2]	31,080	100.0	39,910	100.0
External revenue	30,941	99.6	39,891	99.9
Total output	31,080	100.0	39,911	100.0
EBIT before currency effects[2]	-151	-0.5	14	0.0
EBIT including currency effects	-237	-0.8	-19	0.0
No. of employees on Dec. 31, incl. temporary employees	244	—	273	—

[1] Prior year adjusted due to change in accounting (see Note 5, chapter "Contract assets")
[2] Key performance indicator for Group and segment

Total revenue in the Canada segment was also down significantly. In addition to lower series call-orders, declining tool revenue also contributed. Despite these considerable burdens, our consistent management approach succeeded in limiting the decline in EBIT and achieving earnings close to break-even. To accomplish this, the number of employees had to be reduced significantly on a temporary basis in the course of the year as, under local law, employees are only entitled to state support if they are laid off. In April and May 2020, the US automotive

industry suspended vehicle production in a coordinated manner. We scaled back our production accordingly, and from mid-June, we were able to return again to operating three shifts.

SEGMENT MEXICO

EURk

	2020	in % of total output	2019	in % of total output
Total revenue [1]	50,797	100.0	62,561	100.0
External revenue	50,737	99.9	62,491	99.9
Total output	50,797	100.0	62,561	100.0
EBIT before currency effects [1]	2,757	5.4	2,410	3.9
EBIT including currency effects	2,646	5.2	2,375	3.8
No. of employees on Dec. 31, incl. temporary employees	495	—	450	—

[1] Key performance indicator for Group and segment

The lower total revenue in the Mexico segment in the reporting year remained below the previous year's level due to corona and lower tool revenue. The site is continuously improving the stability of its processes and increasing its technological capabilities. This, together with cost savings, contributed to an increase in EBIT and a satisfactory EBIT margin despite the negative impact.

In Mexico, there was no government aid provided to companies. In looking ahead to the upcoming start-ups and ramp-ups of new series productions, we retained most of our well-trained team there during the lockdown and even increased the number of employees in the second half of the year. In spring 2020, the automotive industry was initially classified as not relevant to the system, with the result that a shutdown was ordered for our plant from early April to mid-May. Since the end of May, we have been allowed to work again in compliance with hygiene requirements, but only with our shifts running at 30 percent occupancy.

SEGMENT CHINA

EURk

	2020	in % of total output	2019 adjusted	in % of total output
Total revenue [1,2]	42,370	100.0	43,299	100.0
External revenue	40,026	94.5	38,354	88.6
Total output	42,370	100.0	43,300	100.0
EBIT before currency effects [2]	7,721	18.2	3,181	7.3
EBIT including currency effects	7,452	17.6	3,051	7.0
No. of employees on Dec. 31, incl. temporary employees	322	—	311	—

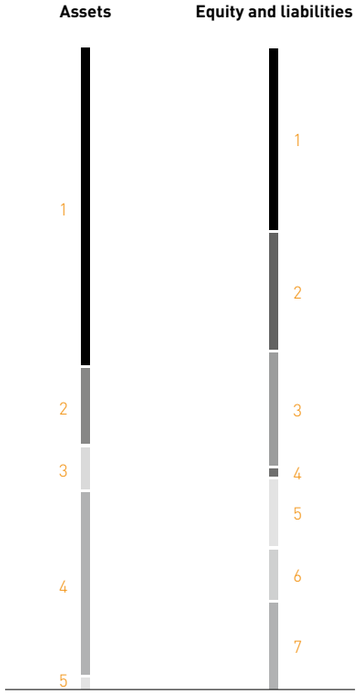
[1] Prior year adjusted due to change in accounting (see Note 5, chapter "Contract assets")
[2] Key performance indicator for Group and segment

The least noticeable impact of the pandemic was felt in the China segment. Although the pandemic originated in China and is the reason operations there were temporarily closed or shifts reduced very early in the year, particularly in February and March, total revenue in the reporting year almost reached the previous year's level.

This location also worked intensely on further stabilizing and improving its processes, with the result that EBIT more than doubled in the reporting year. However, as already mentioned, this was also due to positive operating effects which cannot be extrapolated to the future. We therefore regard the current margin level as a temporary situation that cannot be sustained.

NET ASSETS

BALANCE SHEET STRUCTURE AS OF DECEMBER 31, 2020
TOTAL ASSETS: EUR 363,6 MILLION
IN EUR MILLIONS



1 Property, plant and equipment **181.1**
2 Other non-current assets **44.5**
3 Inventories **25.6**
4 Receivables and other current assets **106.2**
5 Cash and cash equivalents **6.2**

1 Equity **104.5**
2 Non-current financial liabilities **67.8**
3 Non-current provisions for pensions **65.5**
4 Other non-current liabilities **6.7**
5 Trade payables **40.8**
6 Other current liabilities **30.1**
7 Other current liabilities **48.2**

DEVELOPMENT OF EQUITY RATIO AND DYNAMIC LEVERAGE RATIO

EURk

	2020	2019 adjusted[1]
Equity	104,464	119,529
Total assets	363,654	393,306
EQUITY RATIO = EQUITY IN % OF TOTAL ASSETS	**28.7**	**30.4**
Non-current financial liabilities	67,800	89,633
Current financial liabilities	40,845	44,207
Cash and cash equivalents	-6,161	-1,367
NET DEBT	**102,484**	**132,473**
EBITDA	**21,169**	**45,893**
DYNAMIC LEVERAGE RATIO IN YEARS = NET DEBT/EBITDA[2]	**4.8**	**2.9**

[1] Prior year adjusted due to change in accounting (see Note 5, chapter "Contract assets")
[2] Group key performance indicator

In the 2020 fiscal year, total assets decreased to EUR 363.6 million (p/y: EUR 393.3 million). This was due in particular to the decline in property, plant and equipment as a result of our lower level of capital expenditure to safeguard the Group's liquidity. Significant capital expenditure volumes related to our locations in Germany, Canada, Mexico and Czechia. The main areas of capital expenditure are explained in detail in the chapter "Financial position".

Receivables and other assets also decreased significantly in line with the lower volume of business. This resulted in particular from lower contract assets in the run-up to new large-volume series orders, particularly for instrument panel carriers, where the tools necessary were accepted by the customer and invoiced by us.

Due to our consistent liquidity management, we succeeded in significantly reducing our net debt by EUR 30.0 million in the reporting year. We also visibly reduced trade payables. Lower capital market interest rates, however, resulted in higher allocations to pension provisions. Together with equity, these three items represent the Group's main sources of financing.

Under current liabilities, other liabilities and other current provisions in particular increased significantly. This was mainly a result of obligations arising from staff adjustments at the Oberkirch location.

The net loss the period and the higher allocation to pension provisions contributed significantly to the decline in equity to EUR 104.5 million (p/y: EUR 119.5 million). As a result, the equity ratio fell to 28.7 percent (p/y: 30.4 percent) and the dynamic leverage ratio increased visibly to 4.8 years (p/y: 2.9 years).

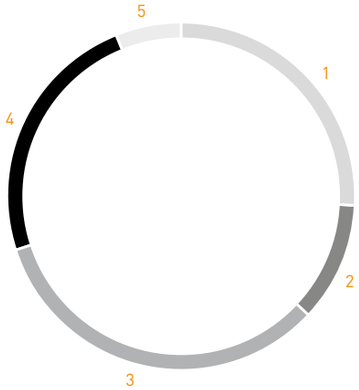
The structure of financial liabilities, which were assumed at interest rates of between 0.85 percent and 7.13 percent (current) and 1.35 percent and 7.00 percent (non-current), did not change substantially in the past year. As of the reporting date, these consisted primarily of a syndicated loan and a promissory note made up of several tranches. The previous syndicated loan of EUR 110 million remains unchanged, and the commitment remains until mid-2023. The covenants associated with this loan have been adjusted to reflect the change in conditions caused by the pandemic.

In addition, there are still a number of higher-interest bilateral loans whose fixed interest rates will not expire for another few years. The higher interest rates in the above range are primarily on subordinated local financing of individual subsidiaries. The Group's unused lines of credit, including cash and cash equivalents, totaled EUR 116.9 million as of the reporting date (p/y: EUR 94.4 million).

After the end of the fiscal year, we were able to expand our scope of liquidity with financing from the corona aid program "KfW-Unternehmerkredit 037" from the Kreditanstalt für Wiederaufbau in the amount of EUR 30 million. This loan is subject to a distribution restriction. It matures on December 30, 2023 but can be terminated prematurely at any time.

As a result, we continue to be well-positioned on the refinancing side. We periodically review our options to extend our existing agreements and plan the Group's medium-term financing in close cooperation with our financing partners.

CAPITAL EXPENDITURE IN 2020 BY SEGMENT
100 % = EUR 13.8 MILLION



1 Germany **26 %**
2 Czechia **11 %**
3 Canada **33 %**
4 Mexico **24 %**
5 China **6 %**

FINANCIAL POSITION

Cash flow from operating activities improved to EUR 49.2 million in the reporting period (p/y: EUR 47.9 million).

The decline in business volume had a significant negative impact on cash flow from operating activities, while — in contrast to the prior year — we were able to significantly reduce capital employed in current assets. This affected contract assets in particular. Non-cash expenses and income include the expense of EUR 18.4 million presented in the chapter "Results of operations."

Cash inflow from operating activities was accompanied by significantly lower cash flow from investing activities of EUR -13.5 million (p/y: EUR -27.8 million). The capital expenditures made in the reporting period are explained in the following chapter. Free cash flow after interest paid and received amounted to EUR 29.1 million in the reporting period (p/y: EUR 15.0 million).

Ensuring sufficient liquidity for the PWO Group is the focus of our financial management at all times. We strive to maintain a liquidity reserve above and beyond current payment obligations while limiting the utilization of short-term credit lines as much as possible and therefore balance these with surplus liquidity. In the reporting year, the Group was solvent at all times. In view of the Group's high level of available credit lines, we are

convinced that we have taken sufficient precautions to ensure solvency at all times in the future. For further information on the principles and objectives of financial and cash management, please refer to the notes to the consolidated financial statements.

Capital expenditure in the 2020 fiscal year amounted to EUR 13.8 million (p/y: EUR 39.3 million). The difference between this amount and the aforementioned cash flow from investing activities is due to new lease financing arrangements concluded in the reporting year. In almost all our segments, we significantly reduced capital expenditure in the short term. In order to safeguard the Group's liquidity during the pandemic, we concentrated exclusively on product-related projects, while the structural expansion of our locations was second priority.

In the Germany segment, capital expenditure of EUR 3.6 million (p/y: EUR 14.5 million) related specifically to equipment in the area of housings production, control and warehousing technology, and a welding system. In the Czechia segment, capital expenditure amounted to EUR 1.5 million (p/y: EUR 12.4 million) and were allocated to various smaller measures.

The two segments Canada and Mexico accounted for significant capital expenditure in the reporting year of EUR 4.6 million (p/y: EUR 2.2 million) and EUR 3.4 million (p/y: EUR 6.8 million), respectively. These two locations are being prepared for the upcoming large-volume start-ups and ramp-ups of new instrument panel carrier production. Additional production equipment was also installed, specifically for this purpose. In addition, one additional forming press each was purchased for future growth.

In the China segment, capital expenditure of EUR 0.8 million (p/y: EUR 3.5 million) were incurred primarily for production equipment for instrument panel carriers.

REPORT ON RISKS, OPPORTUNITIES AND FORECASTS

REPORT ON RISKS AND OPPORTUNITIES

RISK PHILOSOPHY AND RISK POLICY

For PWO, risk management is a central component of corporate management. The focus of risk management is derived from the corporate goals and corporate strategy. Risk management is designed to support full compliance with the legal rules and regulations relevant to PWO. It is also used as a control instrument. PWO's risk management activities continue to focus on balancing the Group's opportunities and risks and, where possible, on reducing risk costs. This focus includes, above all, the avoidance of risks that could endanger the company's existence, as well as the limitation and management of strategic and operational risks while taking advantage of the available opportunities. Operating currency risks are mainly hedged by forward exchange contracts. The hedges always relate to an underlying transaction.

PWO'S RISK MANAGEMENT SYSTEM

ORGANIZATION OF THE PWO GROUP'S RISK MANAGEMENT SYSTEM

The organization and reporting lines of PWO's risk management system correspond to the internationally accepted "Three Lines of Defense Model" recommended for stock corporations and required as a basic element by the European Confederation of Institutes of Internal Auditing (ECIIA).

It includes operational checks by risk owners, the review and monitoring of the control standards by independent units such as risk management and risk hedging by the Corporate Audit department (formerly Internal Audit). These three monitoring and control bodies report to the Executive Board, who in turn, reports to the Supervisory Board and its Audit Committee. The risk management system is also subject to external auditing.

STATUS AND DEVELOPMENT OF THE RISK MANAGEMENT SYSTEM

Opportunities and risks are generally defined as uncertain events that can lead to a deviation from the plan. Opportunities can lead to a positive deviation, risks to a negative one. All opportunities and risks are clearly assigned to owners and are evaluated using scenario distributions with regard to their amount and probability of occurrence.

Risk management at PWO is developed and refined on a continual basis. In fiscal year 2020, we made an organizational change to the governance functions and integrated risk management into the Controlling & Risk Management unit. Corporate Audit remains an independent functional unit.

COMPLIANCE MANAGEMENT AND CORPORATE AUDIT

PWO has established a Group-wide Compliance Management System (CMS) and its own binding Code of Conduct.

Compliance management is another area that is being continuously expanded. In the spring of 2020, we strengthened this area with additional personnel. In addition, we plan to successively advance our e-learning courses. The first module on corruption, antitrust and competition law, conflicts of interest and data protection was successfully completed by an initial group of participants selected with a risk-oriented approach in fiscal year 2020. Until the outbreak of the pandemic, trainees and students received classroom instruction at the German location but, since the pandemic, further classroom training has been omitted.

In addition, the CMS has been enhanced with newly drafted fundamental documentation and guidelines. The Group-wide presentation and introduction of these additions, including accompanying communications and short training courses, is scheduled for the current fiscal year.

The preparations were also made for the establishment of a new Compliance Committee, whose purpose will be to advise on current issues and submit department-specific topics from the PWO organization. The committee will commence its activities in the 2021 fiscal year.

The Internal Audit department was reorganized effective January 1, 2020, and in the course of this reorganization renamed Corporate Audit. In organizational terms, it continues to be assigned to the chief financial officer as a staff unit.

Corporate Audit monitors proper compliance with laws and directives in accordance with a risk-oriented audit plan. Going forward this unit will be conducting even more forward-looking, needs-based and efficient audits and providing advice to process owners to increase the effectiveness and efficiency of the internal control system. Regular cooperation will also take place with external consultants to supplement internal process expertise with benchmark experience.

CONTROL AND RISK MANAGEMENT IN THE FINANCIAL REPORTING PROCESS

The control and risk management in the financial reporting process constitute an integral part of group risk management in that all operating units are integrated by a precisely defined management and reporting structure. This structure relies on a clear separation of duties and the principle of double-checking.

Controlling and risk management are based on written principles, procedures, regulations and actions that were explicitly introduced for those purposes. Their compliance and proper implementation are reviewed by Corporate Audit as part of its risk-based audit plan.

The policies, procedures, regulations and actions are geared towards the following objectives:

- Securing the effectiveness and efficiency of business activities, including the protection of assets
- Ensuring the accuracy and reliability of internal and external accounting
- Complying with applicable legal regulations, in particular, the compliance of the consolidated financial statements and the group management report with the respective standards

The consolidated financial statements are prepared in a multi-step process. The PWO Group's IFRS accounting policies form the foundation of the accounting and measurement standards for the entities included in the consolidated financial statements. Underlying these internal policies is a uniform Group-wide system of accounts. The operating units' business transactions are recorded in a uniform manner in an SAP-based booking system. The access rights for this system are clearly defined.

DEVELOPMENT OF THE OVERALL RISK POSITION

The overall risk situation of the PWO Group increased in the reporting year, particularly as a result of the pandemic. Whereas during the course of the year there was initially hope that the number of infections could be contained relatively quickly, at the turn of the year, a renewed extended and tightened lockdown had to be imposed in many European countries. The emergence of new, highly infectious virus mutations is also increasing the risk. Initial studies however indicate that the recently approved vaccines are effective against these mutations. This is fueling the hope that the pandemic will be effectively brought under control in the course of 2021.

Changes in the political framework also increased risk. It was possible to avoid a hard, no-deal Brexit but, as early as the beginning of January 2021, it was clear that the new framework conditions now in force would lead to greater trade barriers than some market participants had anticipated. As a result, uncertainties in the markets remain extremely high, and the development of revenue in fiscal year 2021 is very difficult to estimate.

The changes in the ranking of the individual risk categories in comparison to the prior year's annual report are clearly and conveniently shown in the table below. A higher assessment of risk categories compared with the previous year can not only be the result of an increase in the risks summarized in those categories but can also reflect the sharper decline in the risks in the other categories.

The Executive Board is convinced overall that all of the necessary measures have been initiated to continue to manage the Group's risks. In the view of the Executive Board, there is no threat to the Group's continued existence.

The following report contains our statements concerning the Group's individual medium-term risks and opportunities.

PRESENTATION OF RISKS AND OPPORTUNITIES HAVING PREDOMINANTLY A SHORT-TERM EFFECT

The following presents the major risks and opportunities for our 2021 operating planning based on the scenario assessment and taking into account any risk mitigating measures. We continue to classify risk in the following risk categories: financial, performance, market, regulatory and other risks and opportunities. The order of the

risk categories and the order of the highest respective individual risks within each category presented below reflect our current assessment of the relative level of risk in descending order.

Our business is characterized by long-term contracts. New orders sometimes require lead times of several years. During the series lifetime of 5 to 8 years, customers usually stay with the same supplier. On the one hand, this aspect of our business contributes to our planning certainty; on the other hand, it limits our short-term opportunities. Therefore, in terms of our operational planning for the year 2020, the risks outweigh the opportunities.

All individual risks and opportunities are evaluated according to their impact (amount of loss in relation to EBIT) and their likelihood of occurrence during the planning period. The sum of the net expected values of the individual risks and opportunities of a particular category yields their net expected value. Portfolio and correlation effects are not taken into account. The risk significance of the individual categories is defined in the table below:

DEFINITION OF RISK SIGNIFICANCE

Description	Net expected value Risk category
Low	≤ EUR 1.0 million
Moderate	› EUR 1.0 million ‹ EUR 3.0 million
High	≥ EUR 3.0 million

OVERVIEW OF RISK SIGNIFICANCE FOR THE RISK CATEGORIES

Risk	Risk significance (Net expected value)	Y-o-Y change in the risk ranking
Market risk	High	Increased
Financial risk	Moderate	Decreased
Other risk	Low	Increased
Performance risk	Low	Increased
Regulatory risk	Low	Decreased

MARKET RISKS AND OPPORTUNITIES

Sales Volume Fluctuations

Fluctuations in sales volumes can give rise to capacity utilization risks. In the case of existing orders, fluctuations may result from declines in demand from end customers. An additional burden came from supply bottlenecks for computer chips after the end of the reporting year, which slowed down production at manufacturers. Politicians have now intervened however and are helping to mitigate the consequences at the highest level. There were also burdens on the supply chains in the reporting year and at the beginning of the 2021 fiscal year as a result of corona protection measures. In the case of new orders in our business, we also have to reckon with repeated start-up delays on the part of vehicle manufacturers.

At the time of preparing the planning, we anticipated and took into account corona risks based on the knowledge available and the assessments derived from this knowledge. Given the uncertainties and unpredictability of the pandemic development, it is uncertain whether this assessment adequately anticipates future developments. The assessment of this risk is therefore subject to higher uncertainty. This is accompanied by an increased risk of not achieving the planned revenue but, at the same time, the chance that the forecast figures will be exceeded if the pandemic progresses favorably.

Due to the long-term nature of our business, we can only compensate for reductions in capacity utilization by making adjustments in our cost base. However, as a responsible employer and in our economic interest, we try to retain our highly qualified employees in temporary periods of weakness. Government aid programs launched in various countries as a result of the pandemic can have a supporting effect. The regulations on short-time work

in Germany are particularly important to mention. We have also identified additional savings opportunities, for example, in the areas of special transport and overhead materials.

Dependence on Suppliers
The risk of a strategic supplier defaulting due to financial difficulties has recently increased as a result of the current market weakness. We manage this risk by regularly obtaining credit information and making visits to suppliers and other partners. Should we identify substantial risks, we would establish targeted business relationships with new suppliers.

Raw Materials
The raw materials required for our production processes include, first and foremost, steel and, to a much lesser extent, aluminum and stainless steel. Where temporary shortages of raw materials have occurred in the past, we have always been able to successfully manage them. Although procurement risks have also recently increased, we still expect to be able to continue to manage them successfully.

In our business, we are generally exposed to earnings risks from changes in raw material prices. When prices increase, as is currently the case, there is a risk that this increase cannot be passed on to customers. When prices fall, there is a risk that customers will demand higher or faster throughput than stipulated in our purchasing agreements. In the past, we have always been able to negotiate acceptable solutions with our customers, and we are confident that we will be able to continue to do this in the future. Our success in the negotiations however will also depend on how great the pressure on market participants will turn out to be during the course of the pandemic.

Sales Price Reductions
A permanent increase in competitive and price pressures is one of the typical risks faced by the automotive supply industry and fundamentally impacts the profitability of the PWO Group. When auto manufacturers are in phases of weaker profitability — as is currently the case — price pressure increases as customers seek to pass some of their margin pressure on to the supply chain. We therefore focus on maintaining the highest delivery quality and reliability over the entire contract term in order to have a strong starting position in the usual negotiations with our customers.

FINANCIAL RISKS AND OPPORTUNITIES
Impairment Risk
The risk of impairment of non-current assets exists particularly when plan targets have not been achieved, the earnings outlook deteriorates, the market environment develops negatively, or the discount rate applied to future expected cash flows increases.

This risk relates in particular to our sites in Germany and Canada. In Germany, we are working to improve the Company's profitability in order to counter the risk of a further impairment of fixed assets. In Canada, we aim to secure the long-term capacity utilization of the site through additional new business. In our view, all of the risks are controlled by the measures we have introduced.

Financing and Interest Rate Risk
As explained in the chapter "Net assets," we have extensive credit lines available. The funds required to finance our ongoing business and planned capital expenditure are therefore more than covered by committed financial resources. We mitigate interest rate risks by having a balanced mix of long-term and short-term financing resources.

Following an adjustment in the covenant structure of the syndicated loan due to the changes in the macroeconomic environment caused by corona, there is currently no significant risk of interest rate increases. However, a further reduction in capital market interest rates could lead to a higher valuation of the pension provisions and thus impact the equity ratio. We are countering these risks through our efforts to secure and increase the profitability of our locations and limiting capital expenditure.

Currency Risk
All of the PWO Group's locations are subject to currency risk in terms of translation risk (translating the subsidiaries financial statements in euro) and transaction risk (sales and procurement). The Group's main currencies are the euro, Canadian dollar, US dollar, the Czech koruna, the Mexican peso and the Chinese renminbi.

We use hedging to avoid these risks with the aim of securing currency parities when receiving orders and thereby the expected contribution margins. We have been able to significantly reduce previous translation risks arising from loans granted by the parent company to the international locations by having the loans denominated in the local currencies of those locations and hedged in Germany. For a further explanation of the risks arising from the use of financial instruments, please refer to the notes to the consolidated financial statements.

OTHER RISKS AND OPPORTUNITIES

Personnel Risks

The timely availability of staff in sufficient numbers and with the right qualifications continues to pose a particular risk. This applies in particular to our sites in Czechia and Mexico to secure the planned series start-ups and new business.

At our German location, we plan to hire only selectively in 2021 due to the weakness in the market and in accordance with our cost-savings programs. However, employees are less willing to change jobs, which means that it may take a longer period of time to fill individual specialist positions or find potential replacements in the event of staff leaving. At the Oberkirch site, we are also planning to implement short-time work schedules in the indirect area in fiscal year 2021, albeit to a lesser extent than in the reporting year. The existing capacities in this area are geared towards the previous higher volume of business at that location, which means they are now also underutilized. Because it is not yet certain whether this target can be achieved, we are also focusing systematically on central operating processes and further improvements in workflows.

One of the ways to reduce personnel risk is to plan and manage the need for skilled workers as early on as possible and on a long-term basis through education and extensive continued training, employee qualification and other initiatives. Risk throughout the Group is also managed by means of broad-based personnel recruitment and employee retention concepts, which are developed on an ongoing basis.

IT Risk

Open IT structures, which make processes available worldwide and, at the same time, always guarantee the confidentiality of information and data security, are among the basic requirements for sustainable corporate success today. For years, we have been focusing on consolidating all IT services in a PWO Private Cloud. All employees who work remotely also have access to their working environment via these services. As a result, no additional security risks arose in the Group in the reporting year as a result of increased in remote working during the pandemic. We also continuously expand our certified information security management system (IMS) at the Oberkirch site. The processes and structures established in this context are implemented in the subsidiaries as required. Based on these activities, we remain confident that we are well-positioned in this area.

PERFORMANCE RISKS AND OPPORTUNITIES

Business Interruption in Production

Business interruption risk can result primarily from damage to or failure of production equipment or tools. Depending on the extent of the damage and the duration of the outage, this can impair the timely delivery of goods to customers. The risk of the failure of an entire location however can be virtually ruled out. Business interruption risks have declined further as a result of market weakness, as this frees up capacity on the forming presses.

Quality Risks/Product Liability and Recall Risks

Customers in the automotive industry traditionally have very high quality requirements. Product liability risks and risks resulting from product recalls have increased steadily in the past several years.

We limit these risks with our quality management system, which has been established and certified for many years and also takes into account the IATF 16949 standard, which includes fundamental requirements for quality management systems for volume and spare parts production in the automotive industry.

In addition, we are continuously expanding the scope of testing for our components — not least as part of various digitization projects — and documenting their zero-defect quality before they leave our premises. We do this to ensure that defective components are detected even earlier in the production process than before. We also want to achieve complete traceability of each individual component so that any defects can be assigned not only at the level of individual batches but also at the level of containers. This enables us to limit the total amount of damage in the event of a potential recall. In addition, we have taken out insurance policies for corresponding liability risks.

Start-up and Ramp-up Risks

The start-up and ramp-up of new series productions involve a number of risks. First, we have to make up-front investments, for example, by providing suitable capacities. This results in capacity utilization risks. In addition, the tools required for production have to be developed, manufactured and run in. This results in cost risks. And finally, production runs through a so-called learning curve during start-up and ramp-up until the expected profitability is achieved. In the planning period, this risk relates in particular to the Mexico site, where large-volume series start-ups are imminent.

To limit the resulting scheduling and economic risks, we have set up dedicated start-up teams made up of experienced specialists. They accompany the start-ups and ramp-ups beyond the usual coordination of the locations.

REGULATORY RISKS AND OPPORTUNITIES

Compliance Risk

We counter compliance risks with our compliance management system described at the beginning of this risk report. We closely manage the risk of potential patent infringements through the many years of product and industry expertise of our employees and through cooperation with an external patent attorney. At present, there

are still no disputes. We are carefully monitoring the further development of the requirements of the EU General Data Protection Regulation in practice.

Contract-Related Risk
Risks from unfavorable contractual arrangements include, specifically, timing differences between contractually agreed material and production releases and the lead times of actual procurement and production. This can give rise to significant risks in the event of sharp short-term declines in demand. We are therefore working both on appropriate contractual adjustments and on optimizing our planning processes.

Tax and Political Risks
The PWO Group operates in countries on three continents with very different tax environments. In some cases, this results in extensive requirements, the complexity of which is also tending to increase.

The political risks for the global economy have increased continuously in recent years, as perceived or actual short-term advantages increasingly influence the political actions of individual governments worldwide. This results not only in concrete economic risks from possible trade wars but also in an overall increase in uncertainty that paralyzes global economic development. The election of Joe Biden as the new President of the United States of America and his first official acts after taking office are giving rise to the hope that at least the leading Western power will return to a more reliable and predictable negotiating style.

In addition, following the UK's exit from the European Union, the further development of bilateral trade is unclear. As of January 1, 2021, the UK is no longer part of the EU customs union. A free trade agreement has been concluded so that the levying of customs duties has largely been avoided. However, customs formalities often have to be observed and documentation prepared, which delays and increases the cost of trade. For German automakers, the United Kingdom represented the world's largest export market in 2019. The German automotive industry has more than 100 production facilities in the United Kingdom. Sometimes automotive parts cross the channel several times before the vehicle is completed. Effects on the industry as a whole can therefore still not be ruled out, even though PWO itself only maintains relationships with customers in Great Britain to a limited extent.

PRESENTATION OF RISKS AND OPPORTUNITIES HAVING A PREDOMINANTLY MEDIUM- OR LONG-TERM EFFECT
The following provides an overview of the Group's strategic risks and opportunities over the medium term, which is defined as a period of at least three years. In the following section, these risks and opportunities are discussed in accordance with our momentary assessment of their relative importance for the PWO Group.

IMPROVING COMPETITIVENESS THROUGH ADAPTATION OF INTERNAL PROCESSES
Price and performance pressure on automotive suppliers are continuously increasing and requires us to continually adapt our structures and internal processes to ensure our current orders are profitable and that we stay competitive when bidding for new orders. Accomplishing this requires adapting the Group's organizational structures and the stability and efficiency of the production processes. The current market weakness has once again increased the pressure to take action. If the sales figures of the automotive industry do not significantly recover, then this poses a considerable risk to the Group's profitability.

Consequently, we have greatly increased our efforts during the past fiscal year to adjust our personnel and cost structures to the current market environment. The success of measures already introduced is monitored promptly and systematically. More effort is continuously being demanded of the respective departments and especially across departments within the process chain.

The focus here is particularly on the German location in Oberkirch. In addition to the ongoing cost reductions and the implemented or still planned adjustments in the number of employees by a total of 320 to 350 people, we are currently developing and evaluating various scenarios to sustainably increase the location's profitability and secure its future viability.

To accomplish this, we will focus the Oberkirch location even more on its core competencies and, at the same time, exploit the opportunities emerging from the fourth industrial revolution, which offers new possibilities. By introducing modern, data-driven manufacturing methods, we aim to continuously reduce the use of resources and, at the same time, further improve process efficiency and production quality, which is ultimately the prerequisite for future growth.

We are therefore confident that we will be able to not only secure the PWO Group's profitability over the next few years despite the growing challenges but to be able to increase it significantly.

EXTERNAL TOOL SOURCING
Over the last few years, we have been purchasing a steadily increasing volume of tools externally and have meanwhile established relationships with efficient suppliers for a wide range of requirements. The objective is to purchase low-cost, high- quality services externally on the market in the future. In addition, we intend to increase the automation of our internal processes and make them more efficient. We plan to continue to follow this strategy in the future and are confident this approach will make it possible for us to cut costs and reduce capacity utilization risks compared with our previous proprietary toolmaking operations. Irrespective of this, we

will continue to maintain in-house competence for the development and manufacture of highly complex, highly specialized tool components.

REGIONAL EXPANSION
With our five production sites, we are positioned in all of our relevant markets. Our locations in China and Mexico, however, are still relatively small in relation to the market volumes in those markets. In addition, we see above-average growth opportunities in Eastern Europe. We therefore continually look for opportunities to tap further market potential. In all three regions, we can envisage the establishment of new assembly and production locations as soon as market developments indicate that this would be economically viable.

DEVELOPMENT OF HIGHLY EFFICIENT PRODUCTION PROCESSES
Permanent product and process innovation is the key factor in securing and expanding our competitive position in the industry. Our customers need product solutions with persuasive technology to be able to comply with the ever-growing regulatory requirements to reduce the environmental impact caused by vehicles.

From the Executive Board's point of view, PWO wins over customers first and foremost with its innovative solutions that can be manufactured economically in efficient processes. Based on the highest delivery quality over many years of series production, we can make commitments that last over a complete development and production cycle. We are convinced that this is what underlies our long-term success.

DEVELOPMENT OF LONG-TERM DEMAND
With our product and service portfolio, our innovative strength, and our global presence, we are well-positioned to take advantage of multiple demand trends in the automotive industry at the same time.

Energy-Saving Mobility and Electromobility
One of the essential challenges to today's automotive industry is reducing the weight of the vehicle's components to lower fuel consumption. We will continue to take advantage of emerging opportunities, especially those in lightweight construction. We expect the share of weight-reduced parts and components to continue to grow significantly over the next few years, which will present us with opportunities to grow our market share.

Currently, we are not faced with any material risks to our production range from increased electromobility or the potential full conversion to this type of drive system as only very few of our solutions can be used exclusively for vehicles with internal combustion engines. Lower vehicle weight is also relevant for electric vehicles, for example, to increase their range.

More Automotive Comfort and Safety
Increasing comfort and higher safety in the automobile are key requirements for vehicle buyers. Our product solutions are concentrated mainly in these two areas.

The trend towards partially or fully autonomous driving also means additional degrees of freedom for drivers and passengers. This will further increase the demands on vehicle equipment leading to the development of new concepts for the interiors of the future. As a result, the requirements for the necessary components and subsystems will become even more complex. We are convinced that we are well-positioned to benefit from this trend in the future. As part of this development, the electrification of vehicles will continue to increase. We already have the components needed for this in our product portfolio and continuously look for opportunities to expand our range.

Development of Customers and the Competitive Environment
The high capital intensity of the automotive industry, coupled with the ever-increasing competition in global markets and continuously rising demands for CO2 reduction, are placing considerable burdens on global automobile manufacturers. Consequently, we expect manufacturers to source additional significant sections of their value chain from suppliers in the future. We are confident that we will benefit from this trend more than our competitors given our innovative strength, recognized delivery quality and reliability, and our global delivery capabilities.

This trend could be muted by a stronger tendency towards insourcing if jobs are lost to a greater extent from the digitization of manufacturers' production facilities or a faster than expected switch to electric drives in their engine plants. This would also however require a significant amount of capital expenditure to shape capacities and the specific skills of employees.

REPORT ON FORECASTS AND OUTLOOK

EXPECTED GENERAL ECONOMIC AND INDUSTRY DEVELOPMENT
Against the backdrop of the ongoing corona pandemic, forecasts for global economic development in 2021 continue to be characterized by major uncertainty. In view of the renewed increase in infections in late 2020 and the rapid spread of new, highly contagious virus mutations, as well as the reintroduction of lockdowns, forecasters were forced to question their cautiously optimistic expectations early on in the current fiscal year.

The International Monetary Fund (IMF) raised its forecast for the global economy slightly in January, partly due to the approval of several vaccines and the launch of large-scale vaccination campaigns, which had raised hopes

of an end to the pandemic. Numerous fiscal programs had also brought about a growth effect. At the same time, however, the IMF warned of possible setbacks as a result of the above-mentioned factors. It also pointed to the marked differences in development in the individual regions. While positive impetus is expected for the USA and Japan in 2021 due to better-than-forecast economic developments in the second half of 2020, the IMF sees the development in Europe as the exact opposite. Accordingly, the forecasts for the eurozone and the United Kingdom have been lowered and, in some cases, significantly.

In its annual economic report of January 2021, the German government also expects German real GDP to increase by only 3.0 percent (IMF: 3.5 percent, down from 4.2 percent). This is also a much lower rate than the Council of Economic Experts had forecast in its November projection (+3.7 percent). The background to the more cautious estimate is the lockdown, which has been tightened again since November 2020 and has continued in the new year. This is also where the German government sees the main risk to its projection, should the course of the pandemic necessitate more far-reaching containment measures. According to the German government, growth is to be driven mainly by domestic demand and particularly by private consumption.

At its annual press conference on January 26, 2021, the German Association of the Automotive Industry (VDA) emphasized that the year 2021 will be the year that decides the future of the industry in Germany and Europe. It sees this year as a turning point that will set the direction for the decades that follow. In the view of the VDA, the entire German automotive industry continues to follow the corona development with great concern. Overall, the situation is expected to improve in the second half of 2021 but only on the condition that progress in vaccination is great enough to be able to noticeably contain the pandemic in everyday life.

At the same time, the transformation of the industry is being driven fiercely forward despite corona. By 2025, the German automotive industry will have invested a total of EUR 150 billion in future technologies, especially electromobility and digitization. The German automotive industry is realizing "the new mobility that everyone is talking about". However, the association also points out that the location conditions in Germany urgently need to be improved. Labor costs and income tax burdens are above average in Germany, it says. The German automotive industry is better equipped for the future than Germany as a business location. Policymakers should therefore take the necessary steps to retain and strengthen production and employment in Germany.

The VDA expects the German market to grow by around 8 percent year-on-year to 3.15 million cars in 2021, albeit from a very low base in the prior year of 2.9 million cars. This growth would not make up for the declines in 2020, and the domestic passenger car market in 2021 would therefore still be well below the roughly 3.5 million new registrations in the years 2017 to 2019.

These expectations were confirmed by the first figures for the current 2021 fiscal year. According to the VDA, in January, 169,800 new cars were registered in Germany, 31 percent fewer than in the same month of the prior year. Reasons for this included car dealerships being closed due to the pandemic and the VAT rate, which after being reduced for a period of six months was raised again to 19 percent at the turn of the year. The latter led to a pull-forward effect and an associated high level of new registrations in December. New registrations of electric passenger cars rose by 129 percent in January to 36,900 units. This gave EVs a 21.7 percent share of the overall market.

In January, German car manufacturers received 39 percent fewer orders from the domestic market. Business outside Germany fared much better, with orders up 1 percent. Overall, orders received in January 2021 were just under 5 percent below the previous year's figure.

German production fell by 23 percent in January to 262,800 cars. In addition to the lower number of working days, supply bottlenecks for semiconductors played a major role in the decline. Exports developed similarly to production, with 19 percent fewer cars shipped abroad in January.

According to the VDA, vehicle sales in the respective markets — with the exception of China — will only slowly approach their respective pre-crisis levels. For Europe, the association expects a 12 percent increase to 13.4 million cars in 2021. In the USA, sales are expected to increase by 9 percent to 15.8 million light vehicles in 2021. The Chinese passenger car market will already exceed pre-corona levels again, with 21.4 million units (+8 percent). The global passenger car market is thus expected to grow by 9 percent to 73.9 million new vehicles in 2021, following a 15 percent slump last year. This sales volume would still be well below the pre-corona level.

BUSINESS DEVELOPMENT AND FUTURE DIRECTION

DEVELOPMENT OF THE PWO GROUP

	2021 forecast	2020 actual results
Revenue	Approx. EUR 380 million	EUR 371.2 million
EBIT before currency effects	Positive in low double-digit millions	EUR -8.1 million
Free cash flow	Negative in low double-digit millions	EUR 29.1 million
Equity ratio	Flat	28.7 percent
Dynamic leverage ratio (financial liabilities less cash and cash equivalents in relation to EBITDA)	Less than 4 years	4.8 years
Capital expenditure according to segment report	Over EUR 20 million	EUR 13.8 million
Lifetime volume of new business (series and tool orders)	Towards EUR 500 million	Approx. EUR 400 million

Our planning for 2021 is based on the assumption that the Group's scope of consolidation will remain unchanged. It is also based on detailed individual estimates of the volumes of the series productions currently underway, as well as on the upcoming start-ups and ramp-ups and phase-outs. In the following comments, we focus on our key performance indicator EBIT before currency effects.

Due to the ongoing corona pandemic, the forecast for the just-started 2021 fiscal year is subject to increased uncertainty. However, we consider it necessary to prepare ourselves for the possibility of successfully managing the Group through a longer period of macroeconomic weakness. In particular, the intensification of the pandemic in many countries around the world at the beginning of 2021, the emergence of new highly contagious virus mutations and the assessment by some economic researchers that it will take several years before the economic performance of 2019 is expected to be achieved again prompt us to do so.

FORECAST OF THE RESULTS OF OPERATIONS

Against the backdrop of these risks, we expect the Group's revenue to grow to around EUR 380 million in the 2021 fiscal year. This expectation means that cost increases will largely be reflected in EBIT. This relates in particular to the Oberkirch site with the upcoming annual wage increases and the expected lower relief from short-time working than in 2020. At the same time, the savings from the adjustments to the number of employees will only gradually take effect in the course of the year.

We therefore expect a significant improvement in Group EBIT in 2021 compared with the reported figure for 2020. However, as described in the section "Results of operations", the prior-year figure was impacted by extraordinary items of EUR 24.0 million. In the 2021 fiscal year, the Group's EBIT is not expected to reach the prior-year's level before extraordinary items of EUR 15.9 million.

In the Germany segment, we expect revenue to move sideways for the reasons outlined above. EBIT is expected to be slightly positive. The Czech site should be able to increase its revenue by a good 5 percent, although expenses for the expansion of the site will have a temporary negative impact, so EBIT could be significantly below the previous year's level.

In the Canada segment, new ramp-ups of series production, among other things, are expected to lead to growth in revenue to more than EUR 35 million, but EBIT is likely to remain at around EUR 1 million due to the associated start-up costs. For the same reasons, we are forecasting a similar development for the Mexico segment: an increase in revenue to around EUR 55 million with an improvement in EBIT to around EUR 3 million.

In the China segment, we expect revenue to move sideways on the basis of the planned series phase-outs and start-ups. EBIT is therefore expected to weaken beyond the positive one-time effects of EUR 3.1 million presented in the "Results of operations" section and reach around EUR 3.5 million.

FORECAST FOR CAPITAL EXPENDITURE, FINANCIAL POSITION AND NET ASSETS

To safeguard liquidity, we limited or postponed capital expenditure where possible in the reporting year. For the 2021 fiscal year, we are again planning a significantly higher volume of more than EUR 20 million as part of our long-term growth strategy. In addition to the Germany segment, significant amounts will be spent, in particular, in the Czechia segment for expansion there and in the Mexico segment, for which we expect high growth in subsequent years.

Rising capital expenditure and cash outflows for personnel adjustments at the Oberkirch site are expected to result in temporary, significantly negative free cash flow and, consequently, a sideways development of the equity

ratio. The dynamic leverage ratio should nevertheless improve visibly, as EBITDA is expected to be significantly better than in the reporting year for the same reasons as EBIT.

FORECAST FOR THE ORDER SITUATION
In the reporting year, customers no longer completed some orders and postponed them to 2021. We are currently working on a large number of development projects and customer inquiries in which we believe we are well-positioned. We therefore expect a strong increase in the volume of new business (lifetime volumes) in the direction of EUR 500 million in fiscal year 2021.

GENERAL STATEMENT ON FUTURE DEVELOPMENT
We expect the 2021 fiscal year to continue to present considerable challenges for the companies and their employees. However, during the past fiscal year, we were able to once again demonstrate that we can consistently and successfully adapt to very unusual developments and manage the Group safely and with an eye to the future, even under such conditions. We are therefore cautiously optimistic about the fiscal year ahead. This is not only due to the fact that we have now implemented mature and resilient processes to enable us to implement necessary adjustments quickly in all areas of the Group. Above all, it is crucial that our entire workforce is highly committed and motivated to ensure that our customers are always served with the highest delivery quality and reliability, even in challenging times.

DEPENDENCY REPORT

With respect to the legal transactions and measures described in the section on related parties and based on the circumstances known at the time the transactions were executed and measures taken or not taken, our Company received appropriate compensation for every transaction and was not disadvantaged by any of the measures taken or not taken.

TAKEOVER-RELATED DISCLOSURES PURSUANT TO SECTIONS 289 A (1) AND 315 A (1) HGB

The information required under Sections 289 a (1) and 315 a (1) HGB is detailed and explained below.

The share capital of PWO AG is EUR 9,375,000.00 and is divided into 3,125,000 no-par value bearer shares. They carry identical rights and convey one vote each at the Annual General Meeting. Reference is made to the provisions of the German Stock Corporation Act regarding the rights and obligations related to the holding of shares.

There are no restrictions on the voting rights or the transfer of shares, and the Executive Board is not aware of any such arrangements agreed between shareholders. There is no participation of employees who do not exercise their control rights directly.

Consult Invest Beteiligungsberatungs-GmbH, Böblingen, Germany, has notified us of its interest exceeding 10 percent of the voting rights in PWO. As of December 31, 2020, it held 46.73 percent (p/y: 46.62 percent) of the voting rights and is the main shareholder.

The appointment and dismissal of the members of the Executive Board are governed in accordance with Sections 84 and 85 AktG in conjunction with Section 6 of PWO's Articles of Association.

Pursuant to Section 179 (1) and Section 119 (1), No. 5 AktG, each amendment to the Articles of Association requires a shareholder resolution of the Annual General Meeting. In deviation from Section 179 (2), sentence 1 AktG, Section 15 of the Articles of Association provides the adoption of resolutions on amendments to the Articles of Association by the Annual General Meeting by a simple majority of the voting capital if a larger majority is not legally required. The Supervisory Board is authorized to adopt amendments to the Articles of Association that relate only to their wording.

Subject to the consent of the Supervisory Board, the Executive Board is authorized to increase the Company's share capital once or several times by up to a total of EUR 4,687,500.00 (Authorized Capital 2020) by issuing new no-par bearer shares against contribution in cash and/or in kind until and including the date of July 27, 2025. Generally, subscription rights must be granted to shareholders. Further details of the authorization are contained in the resolution of the Annual General Meeting of July 28, 2020.

In the case of a change in control resulting from a takeover offer, no other agreements have been made except for the usual extraordinary rights of termination contained in credit agreements and agreements with customers. Compensation agreements that favor the Executive Board or employees do not exist.

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

The Corporate Governance Statement of PWO AG is published on the Company's website under https://www.progress-werk.de/en/group/corporate-governance. The corporate governance statement is an unaudited segment of the management report.

NON-FINANCIAL GROUP STATEMENT PURSUANT TO SECTIONS 289 B, 315 B-C HGB

The non-financial group statement was published in the form of a separate non-financial group report at https://www.progress-werk.de/en/group/corporate-governance/. The non-financial Group statement is an unaudited segment of the management report.

REMUNERATION REPORT

The remuneration report presents the Executive and Supervisory Boards' remuneration pursuant to the provisions of the German Commercial Code (HGB) and the German Accounting Standards (GAS 17). The remuneration report also continues to contain the sample tables recommended by the German Corporate Governance Code in the version dated February 7, 2017 ("GCGC 2017") on Section 4.2.5 (3) — this notwithstanding the fact that the recommendation on the sample tables has been dropped by the German Corporate Governance Code in its now applicable version dated December 16, 2019, which was published in the Federal Gazette on March 20, 2020 ("GCGC 2020"). For reasons of consistency and transparency, the model tables are to be continued until the changeover to the new remuneration report within the meaning of Section 162 of the German Stock Corporation Act (AktG), which was introduced by the Act Implementing the Second Shareholders' Rights Directive (ARUG II) of December 12, 2019 and is applicable for Progress-Werk Oberkirch AG for the first time for the fiscal year beginning on January 1, 2021.

REMUNERATION SYSTEM FOR THE EXECUTIVE BOARD

The Supervisory Board determines the remuneration system for the Executive Board, as well as the total remuneration for the individual Executive Board members based on the proposal of the Personnel Committee. The criteria for defining remuneration include the Company's and the Group's financial situation, success and outlook, the duties and personal performance of the individual Board members, the prevailing level of compensation at peer companies and the Company's remuneration structure. In doing so, the Supervisory Board takes into account the relation of the Executive Board's compensation and the remuneration of senior management and the workforce as a whole and with respect to its development over time. The overall remuneration structure is geared toward the Group's sustainable development.

Total remuneration consists of fixed and performance-related components.

The fixed components include the basic annual salary paid in 12 equal monthly payments, non-cash benefits, pension benefits and contributions to build up a private pension.

The performance-related remuneration for the members of the Executive Board is measured against the Group's net income for the period which, in the opinion of the Supervisory Board, reflects the combined performance of the Executive Board and the workforce to secure jobs at the Company and the ability to pay a dividend. The calculation for existing Executive Board contracts is based on 10 percent of the Group's net income for the prior two years, 20 percent of the prior year and 70 percent of the new fiscal year — making 70 percent of this remuneration forward-looking. The proportion of variable remuneration to the Group's net income for the period, as well as the maximum achievable amount, varies among the individual members of the Executive Board and is due for payment upon the adoption of the annual financial statements of the new fiscal year under this calculation basis.

The variable remuneration for the new contracts of the members appointed to the Executive Board in the 2020 fiscal year is calculated on the basis of the period from the beginning of the current fiscal year to the end of the next fiscal year. The calculation is based on the sum of the relevant Group's net income for the period with a weighting of 30 percent for the current fiscal year and 70 percent for the coming fiscal year. In addition to a maximum achievable amount, a minimum amount is now also guaranteed for individual Executive Board members.

Employment contracts also provide for a discretionary bonus, whereby the Supervisory Board may consider extraordinary positive and negative developments at its discretion up to a limited annual maximum amount. The maximum amount for the CEO is different than for the other Executive Board members. The development of free cash flow, the dynamic leverage ratio and net debt over a 3-year period based on the planning from the beginning of the respective fiscal year are deemed to be multi-year assessment components.

Executive Board members do not receive separate remuneration for their work as members of bodies at the Company's subsidiaries.

There are no pension commitments for the Executive Board members Carlo Lazzarini, Dr. Cornelia Ballwießer, Johannes Obrecht or for the Executive Board member Dr. Volker Simon, who retired on September 4, 2020. Instead, the Executive Board contracts stipulate the receipt of a fixed annual allowance (or a monthly allowance in the case of Mr. Lazzarini) to build up a private pension plan, which can be paid directly into a provident fund by the Company at the request of the Executive Board members.

Bernd Bartmann, who retired and left the Executive Board effective December 31, 2020, is entitled to receive retirement, disability and survivor pension. The retirement pension is paid either upon reaching the current retirement age of 65 or through early retirement from the Company at 60 years of age, provided a full retirement pension is being drawn simultaneously from the statutory pension scheme. The monthly amount of the retirement pension for Mr. Bartmann is set out in his retirement contract. When drawing benefits prematurely, this amount is reduced during the length of pension payment by 0.25 percent per month from the start of early retirement until reaching 65 years of age. Future retirement benefits of the present members of the Executive Board are adjusted in line with changes in the cost of living for a four-person household of hourly and salaried workers with an average income as defined by the Federal Statistics Office. Furthermore, Mr. Bartmann receives a fixed annual payment of EURk 20 as a subsidy for the establishment of a private pension, which at the request of Mr. Bartmann, the Company makes directly to a pension trust.

The Company has concluded a financial loss liability insurance policy (D&O insurance) for the members of the Executive Board. This policy has a deductible of 10 percent of the loss up to the amount of one and a half times the Executive Board member's fixed remuneration.

The current Executive Board contracts stipulate that when an Executive Board member's contract is terminated prematurely, any payments to members, including fringe benefits, shall not exceed the value of 2 year's remuneration and shall not be higher than the remuneration for the remaining term of the contract (severance payment cap). In accordance with the Executive Board contracts, the calculation of severance payment caps is based on the total remuneration of the previous fiscal year and, if applicable, also the expected total remuneration for the current fiscal year. If the Executive Board member is responsible for the termination of his contract for good cause as defined by Section 626 of the German Civil Code (BGB), then no payments will be made to the Executive Board member.

NEW REMUNERATION SYSTEM FOR MEMBERS OF THE EXECUTIVE BOARD IN CONSIDERATION OF ARUG II AND GCGC 2020

In consideration of the new Section 87 a AktG introduced by the ARUG II and the new GCGC 2020 and based on the recommendation of its Personnel Committee, the Supervisory Board will resolve a new remuneration system for members of the Executive Board that complies with the new legal requirements and takes into account the new recommendations of letter G of the GCGC 2020.

REMUNERATION OF THE EXECUTIVE BOARD IN ACCORDANCE WITH THE GAS 17 ACCOUNTING STANDARD

Total Executive Board remuneration for the 2020 fiscal year amounted to EURk 1,240 (p/y: EURk 1,600). This includes performance-based remuneration of EURk 343 (p/y: EURk 696). Added to this amount were fringe benefits of EURk 206 (p/y: EURk 202), consisting mainly of company cars, phone bills, insurance premiums, non-cash benefits and contributions to build a private pension plan. The following table shows the individual remuneration of the Executive Board members.

MANAGEMENT BOARD REMUNERATION ACCORDING TO THE GAS 17 ACCOUNTING STANDARD

EURk

	Carlo Lazzarini (CEO) (since Sep. 1, 2020)		Dr. Cornelia Ballwießer (CFO) (since Nov. 1, 2020)		Johannes Obrecht (COO)		Dr. Volker Simon (CEO) (until Sep. 4, 2020)		Bernd Bartmann (CFO) (until Dec. 31, 2020)		Total remuneration	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
FIXED REMUNERATION												
Basic annual salary	100	--	38	--	173	192	169	276	211	234	691	702
Fringe benefits[2]	28	--	9	--	52	57	63	91	54	54	206	202
TOTAL	**128**	**--**	**47**	**--**	**225**	**249**	**232**	**367**	**265**	**288**	**897**	**904**
PERFORMANCE-RELATED REMUNERATION												
Variable remuneration[1]	90	--	20	--	106	185	47	292	80	219	343	696
TOTAL	**90**	**--**	**20**	**--**	**106**	**185**	**47**	**292**	**80**	**219**	**343**	**696**
TOTAL REMUNERATION	**218**	**--**	**67**	**--**	**331**	**434**	**279**	**659**	**345**	**507**	**1,240**	**1,600**

[1] Mr. Bartmann's variable compensation for 2020 in the amount of EURk 80 includes a discretionary bonus of EURk 25.
[1] The variable compensation of Mr. Obrecht for 2020 in the amount of EURk 106 includes a discretionary bonus of EURk 60.
[1] The variable compensation of Mr. Lazzarini and Dr. Ballwießer in the 2020 fiscal year is a contractually agreed guarantee bonus.
[2] The fringe benefits for the fiscal years 2019 and 2020 include, among other things, benefits for building up a private pension.

The Executive Board members receive or have received fixed annual payments (or monthly payments in the case of Mr. Lazzarini) to build up a private pension plan, which can be or have been paid by the Company directly into a provident fund at the request of the Executive Board members: Carlo Lazzarini (EURk 20), Dr. Cornelia Ballwießer (EURk 7), Johannes Obrecht (EURk 40) and the former member Dr. Volker Simon (EURk 45). In the case of former member Bernd Bartmann, in addition to the pension commitment, a fixed annual allowance of EURk 20 was agreed, which can be paid directly into a provident fund if requested.

The Company has recognized pension provisions for the future pension entitlement of Mr. Bartmann. The allocation to pension provisions in the reporting year amounted to a total of EURk 107 (p/y: EURk 94). The allocation amount included what is known as service costs, excluding interest costs.

The table below shows the expenses for pensions.

MANAGEMENT BOARD REMUNERATION ACCORDING TO THE GAS 17 ACCOUNTING STANDARD: PENSION EXPENSES

EURk

	Annual entitlement [1]		Present value of benefit obligations		Allocation to pension provisions	
	2020	2019	2020	2019	2020	2019
Carlo Lazzarini, CEO (since Sep. 1, 2020)	0	0	0	0	0	0
Dr. Cornelia Ballwießer (since Nov. 1, 2020)	0	0	0	0	0	0
Johannes Obrecht	0	0	0	0	0	0
Dr. Volker Simon (until Sep. 4, 2020)	0	0	0	0	0	0
Bernd Bartmann[2] (until Dec. 31, 2020)	72	72	1,996	1,603	107	94
TOTAL	**72**	**72**	**1,996**	**1,603**	**107**	**94**

[1] With the pension event occurring at the age of 65 on the basis of the entitlements acquired up to December 31, 2020.
[2] The allocation to the pension provision for Mr. Bartmann does not include the fixed annual payment of EURk 20 agreed made to a provident fund in addition to the pension commitment.

Former Executive Board members and their surviving dependents received pension payments amounting to EURk 239 (p/y: EURk 236) during the reporting year. The corresponding pension provisions amounted to EURk 4,456 (p/y: EURk 4,391) on December 31, 2020.

In connection with the mutually agreed termination of Dr. Volker Simon's Executive Board activities on September 4, 2020, a severance payment of EURk 1,100 was agreed, which was due on the termination date.

In the event of termination of employment, no other benefits were promised to any member of the Executive Board. In the 2020 fiscal year, no members of the Executive Board had received any payments or promises from a third party in connection with their work as Executive Board members.

REMUNERATION OF THE EXECUTIVE BOARD IN FISCAL YEAR 2020 PURSUANT TO GCGC 2017 (VOLUNTARY DISCLOSURE)

In the table titled "Benefits granted," the amounts budgeted for one- and multiple-year variable remuneration are shown as opposed to GAS 17. The minimum and maximum values that can be achieved are also reported.

The pension expenses shown in the table under "Individual pension expenses" as an allocation to pension provisions is also included in the total remuneration. The fixed annual (or monthly) payments that can be made into a pension trust in addition to the pension commitments are also included.

The total remuneration granted to the Executive Board in accordance with the German Corporate Governance Code reached EURk 1,863 (p/y: EURk 1,844) for the 2020 fiscal year.

BENEFITS GRANTED FOR THE REPORTING YEAR

EURk

	Carlo Lazzarini (CEO) Entry: Sep. 1, 2020				**Dr. Cornelia Ballwießer (CFO)** Entry: Nov. 1, 2020				**Johannes Obrecht (COO)** Entry: Jul. 1, 2016				**Dr. Volker Simon (CEO)** Exit: Sep. 4, 2020				**Bernd Bartmann (CFO)** Exit: Dec. 31, 2020			
	2019	**2020**	**2020** Min.	**2020** Max.	**2019**	**2020**	**2020** Min.	**2020** Max.	**2019**	**2020**	**2020** Min.	**2020** Max.	**2019**	**2020**	**2020** Min.	**2020** Max.	**2019**	**2020**	**2020** Min.	**2020** Max.
Fixed remuneration	--	100	100	100	--	38	38	38	192	173	173	173	276	169	169	169	234	211	211	211
Fringe benefits	--	8	8	8	--	3	3	3	17	12	12	12	25	18	18	18	34	34	34	34
TOTAL	**--**	**108**	**108**	**108**	**--**	**41**	**41**	**41**	**209**	**185**	**185**	**185**	**301**	**187**	**187**	**187**	**268**	**245**	**245**	**245**
Discretionary bonus[1]	--	--	0	100	--	--	0	80	0	60	-80	80	0	0	-100	100	0	25	-80	80
Variable remuneration[3]	--	90	90	90	--	20	20	20	225	237	--	400	355	253	--	339	266	280	--	400
TOTAL	**--**	**90**	**90**	**190**	**--**	**20**	**20**	**100**	**225**	**297**	**-80**	**480**	**355**	**253**	**-100**	**439**	**266**	**305**	**-80**	**480**
Pension expense[2]	--	20	20	20	--	7	7	7	40	40	40	40	66	45	45	45	114	20	20	20
TOTAL REMUNERATION	**--**	**218**	**218**	**318**	**--**	**68**	**68**	**148**	**474**	**522**	**145**	**705**	**722**	**485**	**132**	**671**	**648**	**570**	**185**	**745**

[1] At its own discretion, the Supervisory Board may decide to grant a special remuneration in cases of extraordinary performance or success in the amounts shown above. In turn, in cases of extraordinary developments, the entitlements to variable remuneration may be reduced in the amounts shown above.

[2] Pension expenses include payments to build up a private pension plan (Carlo Lazzarini: EURk 20 / Dr. Cornelia Ballwießer: EURk 7) and payments to a provident fund (Johannes Obrecht: EURk 40 / Dr. Volker Simon: EURk 45 / Bernd Bartmann: EURk 20).

[3] The variable compensation of Mr. Lazzarini and Dr. Ballwießer is a contractually agreed guarantee bonus for the 2020 fiscal year. The variable remuneration (incl. max. limit) for Dr. Volker Simon for the 2020 fiscal year has been calculated on a pro rata basis until September 4, 2020.

The total remuneration paid to the Executive Board pursuant to the German Corporate Governance Code amounted to EURk 1,348 for the 2020 fiscal year (p/y: EURk 1,694).

BENEFITS PAID DURING THE REPORTING YEAR

EURk

	Carlo Lazzarini (CEO) Entry: Sep. 1, 2020		**Dr. Cornelia Ballwießer (CFO)** Entry: Nov. 1, 2020		**Johannes Obrecht (COO)** Entry: Jul. 1, 2016		**Dr. Volker Simon (CEO)** Exit: Sep. 4, 2020		**Bernd Bartmann (CFO)** Exit: Dec. 31, 2020	
	2019	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**
Fixed remuneration	--	100	--	38	192	173	276	169	234	211
Fringe benefits	--	8	--	3	17	12	25	18	34	34
TOTAL	**--**	**108**	**--**	**41**	**209**	**185**	**301**	**187**	**268**	**245**
Discretionary bonus[1]	--	--	--	--	0	60	0	0	0	25
Variable remuneration[3]	--	90	--	20	185	46	292	47	219	55
TOTAL	**--**	**90**	**--**	**20**	**185**	**106**	**292**	**47**	**219**	**80**
Pension expense[2]	--	20	--	7	40	40	66	45	114	127
TOTAL REMUNERATION	**--**	**218**	**--**	**68**	**434**	**331**	**659**	**279**	**601**	**452**

[1] At its own discretion, the Supervisory Board may decide to grant a special remu-neration in cases of extraordinary performance or success in the amounts shown above. In turn, in cases of extraordinary developments, the entitlements to variable remuneration may be reduced in the amounts shown above.

[2] The 2020 pension expenses include payments to build up a private pension plan (Carlo Lazzarini: EURk 20 / Dr. Cornelia Ballwießer: EURk 7) and payments to a provident fund (Johannes Obrecht: EURk 40 / Dr. Volker Simon: EURk 45 / Bernd Bartmann: EURk 20).

[3] The variable compensation of Mr. Lazzarini and Dr. Ballwießer in the 2020 fiscal year is a contractually agreed guarantee bonus.

REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the Supervisory Board members is described in Section 11 of the Company's Articles of Association essentially as follows:

Each Supervisory Board member receives fixed annual remuneration of EURk 25. The Chairman of the Supervisory Board receives double this amount, and the Deputy Chairman receives one and a half times this amount. Each Supervisory Board member receives a 25 percent bonus based on their fixed remuneration for their membership in committees, and the chairperson of the committee receives a bonus of 50 percent. The total annual remuneration of a Supervisory Board member may not exceed twice the member's fixed remuneration or three times the fixed remuneration in the case of the Supervisory Board chairperson.

Members of the Supervisory Board also receive an attendance fee of EUR 500 for each meeting of the Supervisory Board and its committees the members personally attend. This also applies to the participation in telephone or video conferences and the visual and/or acoustic participation in a physical meeting of the Supervisory Board and its committees. This fee is paid only once per meeting day, even if several meetings are attended in the course of one day.

Supervisory Board members, who have been members for only part of the fiscal year, receive one-twelfth of the yearly compensation for the start of each month they were present. The Company also reimburses the Supervisory Board members for their expenses as well as for any value-added tax payable on their remuneration and expenses.

Compensation is payable at the end of the fiscal year.

The members of the Supervisory Board are covered by the Company's existing financial loss liability insurance policy (D&O insurance). The policy's premiums are paid by the Company. A deductible has been agreed that amounts to half of the fixed annual remuneration of the Supervisory Board member.

Also in this reporting year, the Company did not pay any remuneration to Supervisory Board members for activities performed outside of their supervisory role.

The individual remuneration of the Supervisory Board members is shown in the table below.

EURk

	Fixed remuneration		Attendance fees		Total remuneration	
	2020	2019	2020	2019	2020	2019
Karl M. Schmidhuber, Chairman	69	69	9	11	78	79
Dr. Georg Hengstberger, Deputy Chairman	50	50	10	11	60	61
Carsten Claus	38	38	9	10	47	47
Herbert König	31	31	7	9	38	40
Dr. Jochen Ruetz	31	31	9	6	40	37
Gerhard Schrempp	25	25	6	5	31	30
TOTAL	**244**	**244**	**48**	**50**	**292**	**294**

REVIEW OF REMUNERATION ARRANGEMENTS FOR SUPERVISORY BOARD MEMBERS

In consideration of ARUG II, the 2021 Annual General Meeting must also pass a resolution on the remuneration of members of the Supervisory Board pursuant to Section 113 (3) AktG. In this context, an adjustment in the Supervisory Board remuneration, which has remained unchanged since the 2015 fiscal year and is governed by Section 11 of the Articles of Association, is being reviewed.

BUSINESS DEVELOPMENT OF PROGRESS-WERK OBERKIRCH AG

PWO AG is located in Oberkirch, Baden-Württemberg. The parent company forms the Group's headquarters and is its largest production location. To limit risk, the Company also monitors the international locations, particularly in the areas of legal, finance and controlling. The international locations are generally responsible for acquiring their own orders and for their operational management. The Company's annual financial statements are prepared in accordance with the HGB.

The general statements of the combined management report also apply to PWO AG, particularly in the areas of the market, strategy, management and the opportunities and risks inherent in its business activities. The Company is less affected by currency risk than the Group. The risk of impairment mainly applies to the Company's financial assets.

As of the reporting date, the number of employees at the Company, including temporary staff, was 1,419, which was significantly lower than in the previous year (p/y: 1,531). This figure includes 127 (p/y: 139) young trainees who are currently completing their training. We reduced the number of trainees in the reporting year as we will have a lower demand for junior staff in the future than in previous years.

As explained in the Group management report, the automotive industry was hit hard by the pandemic. Structural underutilization of capacity is expected for a longer period in the coming years due to an anticipated slow recovery. Furthermore, our customers are increasingly manufacturing in Eastern Europe. We need to follow this trend if we do not want to lose current series productions and want to continue to win attractive new orders in the future. For this reason, we decided on two workforce adjustment programs in the reporting year. For details, please refer to the comments on the Germany segment in the Group management report.

INCOME STATEMENT
SELECTED INFORMATION

EURk

	2020	in % of total output	2019	in % of total output
Revenue	209,711	103.5	265,149	101.4
Total output	202,628	100.0	261,524	100.0
Cost of materials	97,106	47.9	127,731	48.8
Staff costs	75,531	37.3	90,379	34.6
Depreciation/amortization	10,932	5.4	12,386	4.7
Other operating expenses	51,269	25.3	34,012	13.0
Financial result	453	0.2	4,512	1.7
Earnings before taxes	-24,986	-12.3	6,694	2.6
Net loss (p/y: net income)	-20,247	-10.0	4,746	1.8
Unappropriated retained loss (p/y: unappropriated retained earnings)	-15,469	-7.6	4,778	1.8

The outbreak of the corona pandemic in the spring of 2020 had a tremendous negative impact on global macroeconomic development. This resulted in a significant decline in PWO AG's revenue in fiscal year 2020. Total output was also affected by a somewhat greater reduction in finished goods and work-in-progress than in the previous year. In 2020, we were able to invoice customers for a higher volume of finished tool inventories than in the previous year.

The weakening of business impacted earnings before taxes in the reporting year. The result was also significantly affected by extensive measures to realign PWO AG and to strengthen its competitiveness. The two previously mentioned programs to adjust the number of employees were associated with expenses totaling EUR 18.4 million, which were included in other operating expenses. This item also includes additions to provisions for onerous contracts in the amount of EUR 3.9 million.

In addition to these individual measures, we worked hard in the reporting year to implement further process improvements and cost reductions, for example, in other operating expenses. The largest reduction was in expenses for temporary employees, whose number correlates closely with the number of series call-orders. The cost of materials ratio also remained below the prior-year level due to an improved product mix. By contrast, the staff costs ratio increased. The change in the product mix and additional payments for short-time allowances also contributed to this. Due to a supplementary collective agreement that excluded redundancies for operational reasons until December 31, 2020, we were only able to adjust the number of employees to a limited extent in the reporting year.

In addition to financial expenses, the financial result includes interest income from loans to subsidiaries. It decreased to EUR -0.4 million (p/y: EUR 4.5 million), primarily because no income was distributed from investments. In the previous year, PWO AG had received EUR 5.0 million.

In total, earnings before taxes decreased to EUR -25.0 million (p/y: EUR 6.7 million). Income taxes included benefits from deferred taxes in the amount of EUR 5.4 million (p/y: EUR 1.6 million). This was due, in particular, to the recognition of deferred taxes on loss carryforwards in the reporting year. Overall, the net loss for the period amounted to EUR 20.2 million (p/y: net income of EUR 4.7 million).

Total assets decreased to EUR 280.2 million as of the reporting date (p/y: EUR 304.7 million). This was due both to lower property, plant and equipment as a result of our restrained capital expenditure activity and to reduced loans to affiliated companies. In current assets, almost all line items were lower than in the previous year. The tax effects described above led to an increase in deferred tax assets.

On the liabilities side of the balance sheet, provisions for pensions and similar obligations increased due to valuation effects. Of the aforementioned expense of EUR 18.4 million for staff adjustments, EUR 1.5 million had already been utilized as of the reporting date. The remaining amount of EUR 8.0 million related to other provisions and EUR 8.9 million to other liabilities. As other sub-items in this item decreased significantly, the overall increase was only moderate. We were able to reduce bank borrowings to EUR 69.8 million (p/y: EUR 88.9 million).

Due to the net loss for the period, equity remained below the previous year's level at EUR 100.1 million (p/y: EUR 120.3 million). The equity ratio as of the reporting date was 35.7 percent (p/y: 39.5 percent). All in all, we succeeded in achieving satisfactory net assets, financial position and results of operations in a fiscal year that presented exceptional challenges.

PWO AG is managed using the same key performance indicators as the Group's segments, i.e., total revenue and EBIT before currency effects, and is also based on the figures determined in accordance with IFRS regulations. The reconciliation of these performance indicators from HGB accounting to IFRS accounting is as follows:

RECONCILIATION OF KEY PERFORMANCE INDICATORS

EURk

	2020	2019
Revenue acc. to HGB	209,711	265,149
Reconciliation	-10,665	-8,445
Total revenue acc. to IFRS	199,046	256,704
Earnings before taxes acc. to HGB	-24,986	6,694
Financial result	-453	-4,512
Currency effects	1,477	2,032
EBIT before currency effects acc. to HGB	-23,962	4,214
Reconciliation	1,323	-5,410
EBIT before currency effects acc. to IFRS	-22,639	9,624

In the two reporting years, the reconciliation between the two sets of accounting standards with regard to revenue resulted, above all, from IFRS 15 accounting and internal revenue and, in the case of EBIT before currency effects, mainly from the measurement of pension provisions, non-current assets, leasing and rental expenses, and IFRS 15 accounting.

In the reporting year, the IFRS performance indicators remained below their prior-year values and below the forecasts. In the 2019 Annual Report, we communicated our expectation of a decline in total revenue in the mid-single-digit percentage range and a resulting negative impact on earnings. This forecast was withdrawn on March 20, 2020.

The declines in the reporting year compared to the performance indicators of the previous year and the shortfall compared to the forecasts resulted from the developments described above.

The management of PWO AG corresponds to the management of the Germany segment. With regard to its expected future business development, reference is therefore made to the Group's forecast report.

Oberkirch, March 25, 2021
The Executive Board

Carlo Lazzarini (CEO)	Dr. Cornelia Ballwießer (CFO)	Johannes Obrecht (COO)