FINANCIAL STATEMENTS
2017

MEGATREND DIGITIZATION

2017 FINANCIAL STATEMENTS OF PWO AG

The management report of PWO AG and the group management report for the 2017 fiscal year have been combined in accordance with section 315 (5) HGB together with section 298 (2) HGB and are published in the 2017 annual report.

For the 2017 fiscal year, the financial statements of PWO AG and the management report, which is combined with the group management report, will be submitted to the administrator of the Federal Gazette and announced in that publication.

The financial statements of PWO AG and the 2017 annual report are also available online at www.progress-werk.de/en/investors-press/news-publications/reports/ and as of the convening of the 2018 Annual General Meeting at www.progress-werk.de/en/investors-press/annual-general-meeting/.

CONTENT

BALANCE SHEET PWO AG

ASSETS

EURk

Note no.		31/12/2017	31/12/2016
	Contract and customer-related development services	3,426	3,323
	Acquired industrial property rights and similar rights	2,431	2,291
	Intangible assets	**5,857**	**5,614**
	Land and buildings	34,192	33,924
	Technical equipment and machinery	23,720	23,697
	Other equipment, operating and office equipment	6,117	6,124
	Prepayments and assets under construction	4,009	5,569
	Property, plant and equipment	**68,038**	**69,314**
	Investments in affiliated companies	35,850	35,850
	Loans to affiliated companies	68,058	66,022
	Financial assets	**103,908**	**101,872**
2	**NON-CURRENT ASSETS**	**177,803**	**176,800**
	Raw materials and supplies	9,864	10,076
	Work-in-progress	37,326	22,725
	Finished goods and merchandise	14,674	14,563
3	**Inventories**	**61,864**	**47,364**
	Trade receivables	14,788	12,801
	Receivables from affiliated companies	40,394	43,887
	Other assets	5,429	5,130
4	**Receivables and other assets**	**60,611**	**61,818**
	Cash on hand, bank deposits	2,980	197
	CURRENT ASSETS	**125,455**	**109,379**
5	**Prepayments and accrued income**	**586**	**692**
9	**Deferred tax assets**	**2,156**	**1,519**
	TOTAL ASSETS	**306,000**	**288,390**

EQUITY AND LIABILITIES

EURk

Note no.		31/12/2017	31/12/2016
	Subscribed capital	9,375	9,375
	Capital reserves	38,690	38,690
	Statutory reserves	204	204
	Other retained earnings	65,600	65,600
	Retained earnings	**65,804**	**65,804**
	Unappropriated retained earnings	5,235	5,001
6	**EQUITY**	**119,104**	**118,870**
	Provisions for pensions and other employee benefits	37,516	34,956
	Tax provisions	332	1,138
	Other provisions	10,771	13,293
7	**PROVISIONS**	**48,619**	**49,387**
	Bank borrowings	95,803	92,024
	Advance payments received on account of orders	9,436	585
	Trade payables	16,501	15,597
	Liabilities to affiliated companies	1,271	1,016
	Other liabilities	15,266	10,911
8	**LIABILITIES**	**138,277**	**120,133**
	TOTAL EQUITY AND LIABILITIES	**306,000**	**288,390**

INCOME STATEMENT PWO AG

EURk

Note no.		**2017**	**2016**
15	Revenue	280,170	247,015
	Change in finished goods and work-in-progress	14,712	7,891
16	Other own work capitalized	1,176	715
	TOTAL OUTPUT	**296,058**	**255,621**
17	Other operating income	9,757	4,089
	Cost of raw materials and supplies and merchandise purchased	-110,048	-89,622
	Cost of purchased services	-52,683	-38,688
	Cost of materials	**-162,731**	**-128,310**
	Wages and salaries	-69,082	-66,063
	Social security and post-employment costs	-14,624	-10,716
18	**Staff costs**	**-83,706**	**-76,779**
	Amortization of intangible non-current assets and depreciation of property, plant, and equipment	-11,547	-11,816
19	Other operating expenses	-38,790	-31,331
20	Income from investments, of which from affiliated companies EURk 2,327 (p/y: EURk 9,299)	2,327	9,299
21	Income from loans of financial fixed assets, of which from affiliated companies EURk 1,939 (p/y: EURk 2,083)	1,939	2,083
22	Other interest and similar income, of which from affiliated companies EURk 1,630 (p/y: EURk 1,333)	1,800	1,416
23	Impairments of financial assets	0	-6,915
24	Interest and similar expenses	-4,909	-4,714
	Financial result	**1,157**	**1,169**
	EARNINGS BEFORE TAXES	**10,198**	**12,643**
25	Income taxes	-4,402	-4,075
	EARNINGS AFTER TAXES	**5,796**	**8,568**
	Other taxes	-562	-175
	NET INCOME	**5,234**	**8,393**
	Profit carried forward from previous year	1	8
	Transfer to other retained earnings	0	-3,400
	UNAPPROPRIATED RETAINED EARNINGS	**5,235**	**5,001**

NOTES TO THE FINANCIAL STATEMENTS OF PWO AG

GENERAL INFORMATION

Progress-Werk Oberkirch AG is a listed stock corporation headquartered in 77704 Oberkirch, Industriestraße 8, Germany. The Company is recorded and registered under HRB 490007 in the commercial register of the District Court of Freiburg.

The annual financial statements have been prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB) as amended by the Accounting Directives Implementation Act (Bilanzrichtlinie-Umsetzungsgesetz [BilRUG]) for large stock corporations and the provisions of the German Stock Corporation Act (Aktiengesetz – AktG). The provisions of the Articles of Association govern the distribution of profits.

The income statement has been prepared using the nature of cost method. The financial statements are presented in thousands of euros.

The Company's fiscal year corresponds to the calendar year.

ACCOUNTING POLICIES

1 SUMMARY OF KEY ACCOUNTING POLICIES

NON-CURRENT ASSETS

Acquired intangible assets and property, plant and equipment are measured at acquisition or production cost. In determining the production cost of own work capitalized, both directly attributable material and production costs and the necessary material and production overhead costs, including reasonable amounts of depreciation, were taking into account.

The capitalization option under Section 248 (2) HGB was utilized for self-generated intangible assets.

Depreciation of property, plant and equipment is calculated using the straight line and diminishing balance methods. Certain machinery items and order-related tools are depreciated based on the number of units produced in the reporting year in relation to the total number of items specified or planned in the order. Financial assets are carried at the lower of acquisition costs or fair value.

Low-value assets with individual net values of up to EUR 150,00 are fully depreciated and expensed in the year of acquisition, assuming they are retired immediately from the balance sheet. A collective item was formed for assets with individual net values exceeding EUR 150,00 up to EUR 1,000,00. Of the collective items whose total amounts are of lesser significance, an amount of 20 percent is depreciated on a lump-sum basis in the year they are formed and the four years thereafter.

Investments in affiliated companies and other investments are carried at the lower of acquisition cost or fair value. Loans are carried at their nominal value. If required and permissible, impairment losses on investments are recognized. The determination of impairment losses required on investments in affiliated companies is derived from annual impairment tests that are based on discounted earnings models. These models are based on the respective company's mid-term planning and assume a sustainable level of income (terminal value) after the last year of the planning period. If the resulting discounted earnings value is below the carrying amount, an impairment loss is required.

If the reasons for the impairment no longer exist, the impairment is reversed up to the maximum of amortized acquisition or production costs.

CURRENT ASSETS

Inventories of raw materials and supplies are recognized at the lower of the average cost or current value. Write-downs were made to unsalable or obsolete materials. Work-in-progress and finished goods are measured at the lower of production cost or fair value on the basis of item-by-item calculations according to current operational accounting. General administration expenses and borrowing costs are not capitalized. The measurement was free of loss.

Tooling and development contracts are measured at acquisition or production costs. In this context, a loss-free valuation is performed in such a way that maximum acquisition and production cost is equivalent to the selling price plus revenue generated by series production.

In most cases, customers acquire the economic ownership of tools. Tools are recognized as inventory until the economic ownership has been transferred to the customer.

Receivables and other assets are carried at their nominal values. Non-interest-bearing receivables with a term of more than one year have been discounted. Foreign currency items are measured on a loss-free basis. Appropriate and specific provisions are taken into account for all items that carry risk. General credit risk is reflected in a lump-sum discount. The discount shown under prepayments and accrued income was amortized on a scheduled basis over the term of the loan.

Cash and cash equivalents are carried at nominal value.

Payments carried out prior to the reporting date are recognized as prepayments and accrued income when they represent an expense for a specific period after the reporting date.

EQUITY

Subscribed capital is carried at nominal value.

PROVISIONS AND LIABILITIES

Pension obligations are measured according to actuarial principles under the projected unit credit method. The Heubeck mortality tables 2005 G were used as a biometric actuarial base. The average market interest rate of the past 10 years for assumed maturities of 15 years was applied as the discount rate. Additionally, future salary and pension increases and probabilities for staff turnover are taken into account.

The measurement of provisions for phased retirement is based on an average discount rate, salary trend and the Heubeck mortality tables 2005 G under actuarial provisions. Provisions for phased retirement obligations are recognized in accordance with the "block model." Provisions for phased retirement were recognized for phased retirement agreements concluded as of the reporting date and future potential agreements. The provisions include top-up amounts and obligations accrued by the Company as of the reporting date.

The calculation of provisions for anniversary bonuses is carried out according to actuarial provisions under the projected unit credit method taking into account average discount rates and the Heubeck mortality tables 2005 G. The provisions also consider factors such as salary and career trends, inflation rates, staff turnover rates and increases in the assessment ceiling of the statutory pension and health insurance.

Tax and other provisions take into account all uncertain obligations and contingent losses from pending transactions. They are carried in amounts deemed necessary by reasonable commercial assessment, i.e., including future cost and price increases.

Provisions with a residual term of more than one year are measured at present value pursuant to legal requirements.

Liabilities are recognized at their repayment amount.

DEFERRED TAXES

Deferred taxes on temporary and quasi-permanent differences between the carrying amounts of assets, liabilities, and prepayments in the commercial accounts and the tax carrying amounts are recognized using a tax rate 28.43% (p/y: 28.43%). If applicable, deferred taxes are also recognized for tax loss carryforwards. Deferred tax assets and liabilities are offset with one another. Any resulting net deferred tax assets are recognized utilizing the option provided under Section 274 (1) sentence 2 HGB.

Deferred taxes are calculated based on an effective tax rate of 28.43% (p/y: 28.43%). This tax rate consists of the corporate tax rate, including solidarity surcharge, of 15.83% (p/y: 15.83%) and a trade tax rate of 12.60% (p/y: 12.60%) expected at the time the temporary differences are settled. The tax rate for trade taxes is derived from an average trade tax multiplier of 360% (p/y: 360%).

FOREIGN CURRENCY ITEMS AND TRANSLATION

Assets and liabilities denominated in foreign currencies are generally measured on the basis of the exchange rate prevailing as of the reporting date. If the maturity exceeds one year, the realization principle (Section 252 [1] no. 4 [second indent] HGB) and the historical cost principle (Section 253 [1]) no. 1 HGB are considered.

To the extent that valuation units were created in accordance with Section 254 HGB, the following accounting and valuation principles are applied: Economic hedging relationships are reflected in the accounting by the formation of valuation units. If both, the net hedge presentation method and the gross hedge presentation method, can be applied, the gross hedge presentation method is selected. According to the net hedge presentation method, unrealized gains and losses of the hedged risk are offset against each other and are not accounted for. According to the gross hedge presentation method, both the value of the underlying and related hedge instruments are accounted for. The offsetting positive and negative valuation changes are both reflected in profit or loss on a gross basis.

NOTES TO THE BALANCE SHEET

2 NON-CURRENT ASSETS

The development of non-current assets is shown in the following table:

EURk

	Contract and customer-related development services	Acquired industrial property rights and similar rights	**Intangible assets**	Land and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Pre-payments and assets under construction	**Property, plant and equipment**	Invest-ments in affiliated companies	Loans to affiliated companies	**Financial assets**
ACQUISITION AND PRODUCTION COSTS											
As of Jan. 1, 2016	4,394	14,183	18,577	48,359	148,478	25,765	6,483	229,085	48,700	72,782	121,482
Additions	667	1,185	1,852	7,099	3,043	1,415	5,242	16,799	0	23,390	23,390
Disposals	0	-1,664	-1,664	-106	-10,456	-1,349	0	-11,911	0	-16,335	-16,335
Reclassifications	0	14	14	3,889	2,252	0	-6,156	-15	0	0	0
AS OF DEC. 31, 2016	**5,061**	**13,718**	**18,779**	**59,241**	**143,317**	**25,831**	**5,569**	**233,958**	**48,700**	**79,837**	**128,537**
Additions	1,141	879	2,020	1,765	2,801	1,850	3,502	9,918	0	2,962	2,962
Disposals	-558	-78	-636	-1,155	-2,302	-2,750	0	-6,207	0	-926	-926
Reclassifications	0	0	0	194	4,756	112	-5,062	0	0	0	0
AS OF DEC. 31, 2017	**5,644**	**14,519**	**20,163**	**60,045**	**148,572**	**25,043**	**4,009**	**237,669**	**48,700**	**81,873**	**130,573**
DEPRECIATION AND AMORTIZATION											
As of Jan. 1, 2016	1,078	12,369	13,447	23,995	122,926	19,161	0	166,082	9,600	10,150	19,750
Additions	660	722	1,382	1,420	7,150	1,864	0	10,434	3,250	3,665	6,915
Disposals	0	-1,664	-1,664	-98	-10,456	-1,318	0	-11,872	0	0	0
AS OF DEC. 31, 2016	**1,738**	**11,427**	**13,165**	**25,317**	**119,620**	**19,707**	**0**	**164,644**	**12,850**	**13,815**	**26,665**
Additions	587	739	1,326	1,691	6,573	1,957	0	10,221	0	0	0
Disposals	-107	-78	-185	-1,155	-1,341	-2,738	0	-5,234	0	0	0
AS OF DEC. 31, 2017	**2,218**	**12,088**	**14,306**	**25,853**	**124,852**	**18,926**	**0**	**169,631**	**12,850**	**13,815**	**26,665**
CARRYING AMOUNTS											
As of Dec. 31, 2016	3,323	2,291	5,614	33,924	23,697	6,124	5,569	69,314	35,850	66,022	101,872
As of Dec. 31, 2017	3,426	2,431	5,857	34,192	23,720	6,117	4,009	68,038	35,850	68,058	103,908

The useful life of software is between 3-5 years, of buildings 25-50 years, of technical equipment and machinery 2-10 years, of operating and office equipment 3-14 years, and of IT hardware between 3-5 years.

Unscheduled depreciation for impaired property, plant and equipment pursuant to Section 277 (3) sentence 1 HGB amounted to EURk 0 (p/y: EURk 0).

3 INVENTORY

The level of inventory was largely determined by inventory sampling and system-based stocktaking. In addition, the quantities were determined by physical stocktaking conducted as per the closing date.

4 RECEIVABLES AND OTHER ASSETS

Receivables from affiliated companies consist of trade receivables of EURk 7,178 (p/y: EURk 6,125), current loans of EURk 31,005 (p/y: EURk 28,678), and a pending dividend payment from PWO Canada of EURk 2,211. The prior year contained dividends from PWO Canada and PWO Czech Republic of EURk 4,084 and EURk 5,000, respectively.

EURk

	2017	of which remaining term › 1 year	2016	of which remaining term › 1 year
Trade receivables	14,788	0	12,801	0
Receivables from affiliated companies	40,394	0	43,887	0
Other assets	5,429	0	5,130	0
TOTAL	**60,611**	**0**	**61,818**	**0**

5 PREPAYMENTS AND ACCRUED INCOME

Prepayments and accrued income include EURk 1 (p/y: EURk 4) in discounts related to the assumption of financial liabilities and the deferral of the interest rate floor from the syndicated loan of EURk 585 (p/y: EURk 688).

6 EQUITY

EURk

	Subscribed capital	Capital reserves	Statutory reserve	Other retained earnings	Unappropriated retained earnings	**Equity PWO AG**
AS OF JAN. 1, 2017	**9,375**	**38,690**	**204**	**65,600**	**5,001**	**118,870**
Capital increase	--	--	--	--	--	0
Dividend payment	--	--	--	--	-5,000	-5,000
Net income	--	--	--	--	5,234	5,234
Appropriation to other retained earnings	--	--	--	--	--	0
AS OF DEC. 31, 2017	**9,375**	**38,690**	**204**	**65,600**	**5,235**	**119,104**

SUBSCRIBED CAPITAL

Progress-Werk Oberkirch AG's subscribed capital amounted to EUR 9,375,000,00 (p/y: EUR 9,375,000,00) as of December 31, 2017 and continues to be divided into 3,125,000 no-par value bearer shares, each granting one vote. The subscribed capital is fully paid in. The notional interest of each no-par value share in the subscribed capital is EUR 3.00. The distribution of profits is governed by Section 60 AktG in conjunction with Section 18 of the Articles of Association.

AUTHORIZED CAPITAL

Subject to the consent of the Supervisory Board, the Management Board is authorized by resolution of the Annual General Meeting on May 19, 2015 to increase the Company's share capital once or several times by up to a total of EUR 4,687,500,00 (Authorized Capital 2015) by issuing new non-par value bearer shares against payment in cash and/or in kind until and including the date of May 18, 2020.

The Management Board has not yet utilized this authorization.

RETAINED EARNINGS AND OTHER EQUITY

Of the EURk 5,234 in net income earned in the 2017 fiscal year, EURk 0 was allocated to other retained earnings.

The unappropriated retained earnings of EURk 5,235 in the 2017 fiscal year include profit carried forward of EURk 1 from the prior fiscal year.

NOTIFICATIONS PURSUANT TO SECTION 33 WPHG (UNTIL JANUARY 2, 2018: SECTION 21 WPHG)

As of the balance sheet date December 31, 2017, the Company has received the following notifications concerning shareholdings in Progress-Werk Oberkirch AG. When shareholdings repeatedly exceeded or fell below reporting thresholds, only the most recent release of the person required to notify is listed. Changes in the voting rights not required to be reported to the Company may have occurred after the dates indicated.

On August 1, 2016, we were notified by Delta Lloyd N.V., Amsterdam, Netherlands, that its voting rights in Progress-Werk Oberkirch AG, Oberkirch, Germany, had fallen below the 3% threshold and amounted to 2.88% (89,877 voting rights) on July 27, 2016.

On July 8, 2016, we were notified by Delta Lloyd Europees Deelnemingen, Amsterdam, Netherlands, that its voting rights in Progress-Werk Oberkirch AG, Oberkirch, Germany, had fallen below the 3% threshold and amounted to 2.96% (92,444 voting rights) on July 5, 2016.

On June 2, 2016, we were notified by Delta Lloyd N.V., Amsterdam, Netherlands, that its voting rights in Progress-Werk Oberkirch AG, Oberkirch, Germany, had fallen below the 5% threshold and amounted to 4.97% (155,337 voting rights) on May 30, 2016.

On February 19, 2016, we were notified by Delta Lloyd Europees Deelnemingen, Amsterdam, Netherlands, that its voting rights in Progress-Werk Oberkirch AG, Oberkirch, Germany, had fallen below the 5% threshold and amounted to 4.97% (155,452 voting rights) on February 17, 2016.

On February 4, 2016, we were notified by Delta Lloyd L SICAV, Luxembourg, Grand Duchy of Luxembourg, that its voting rights in Progress-Werk Oberkirch AG, Oberkirch, Germany, had fallen below the 3% threshold and amounted to 2.99% (93,525 voting rights) on February 2, 2016.

On May 23, 2012, we were notified by Consult Invest Beteiligungsberatungs GmbH, Böblingen, Germany, that its voting rights in Progress-Werk Oberkirch AG, Oberkirch, Germany, had fallen below the 50% threshold and amounted to 46,65% (1,458,048 voting rights) on May 18, 2012.

On May 21, 2012, we were notified by Sparkasse Offenburg/Ortenau, Offenburg, Germany, that its voting rights in Progress-Werk Oberkirch AG, Oberkirch, Germany, exceeded the 5% threshold and amounted to 5.88% (183,667 voting rights) on May 18, 2012.

7 PROVISIONS

PENSION PROVISIONS

Provisions for defined benefit plans were calculated under the projected unit credit method on the basis of the Heubeck mortality tables 2005 G. The transitional amount of EURk 6,669 according to the Accounting Modernization Act (BilMoG) is spread over 15 years. A total of EURk 3,112 (p/y: EURk 3,557) of this amount has not been recognized to date. For discounting, a flat rate is applied that represents the average market interest rate for securities with a remaining duration of 15 years in accordance with the German Regulation on the Discounting of Provisions (Rückstellungsabzinsungsverordnung).

The difference between the recognition of pension provisions based on the 7-year and 10-year average interest rate amounts to EURk 6,302. This amount is subject to a distribution restriction under 253 (6) HGB.

The valuation of the defined benefit obligations is subject to the following actuarial assumptions:

	2017	2016
Interest rate	3.68%	4.00%
Staff turnover rate	2.50%	2.50%
Future salary trend ‹ 40 years	3.50%	3.50%
Future salary trend › 40 years	2.50%	2.50%
Future pension adjustments	1.75%	1.75%

OTHER PROVISIONS

Other provisions include required amounts for personnel-related expenses of EURk 8,113 (p/y: EURk 8,376) and other identifiable obligations and risks for which provisions are recognized under commercial law. These mainly include provisions for onerous contracts, profit sharing, phased retirement, holiday and flex-time and anniversary bonuses.

8 LIABILITIES

Of the bank borrowings, EURk 7,581 (p/y: EURk 10,112) are secured by mortgages and EURk 361 (p/y: EURk 2,798) by collateral assignments. In addition, the usual retention of proprietary rights exists for the supply of raw materials, supplies and merchandise.

Liabilities to affiliated companies include trade payables of EURk 1,271 (p/y: EURk 1,016).

EURk

		of which remaining term				of which remaining term		
	2017	**‹ 1 year**	**› 1 year**	**› 5 years**	**2016**	**‹ 1 year**	**› 1 year**	**› 5 years**
Bank borrowings	95,803	19,034	51,470	25,299	92,024	15,816	73,749	2,459
Prepayments on orders	9,436	9,436	0	0	585	585	0	0
Trade payables	16,501	16,501	0	0	15,597	15,597	0	0
Liabilities to affiliated companies	1,271	1,271	0	0	1,016	1,016	0	0
Other liabilities	15,266	15,266	0	0	10,911	9,063	1,022	826
of which from taxes	821	821	0	0	773	773	0	0
of which from social security	1	1	0	0	1	1	0	0
TOTAL	**138,277**	**61,508**	**51,470**	**25,299**	**120,133**	**42,077**	**74,771**	**3,285**

9 DEFERRED TAXES

The domestic income tax rate of 28.43% (p/y: 28.43%) was used as a basis for calculating deferred taxes. Deferred tax assets and deferred tax liabilities for each balance sheet item are shown in the following table:

EURk

	Deferred tax assets		Deferred tax liabilities	
	2017	2016	2017	2016
Intangible assets, property, plant and equipment, financial assets and other assets	0	0	1,329	1,338
Provisions	3,485	2,857	0	0
SUB-TOTAL	**3,485**	**2,857**	**1,329**	**1,338**
Offsetting	-1,329	-1,338	-1,329	-1,338
TOTAL ACCORDING TO BALANCE SHEET	**2,156**	**1,519**	**0**	**0**

The offsetting of deferred tax assets and deferred tax liabilities resulted in net deferred tax assets.

10 CONTINGENT LIABILITIES

Liabilities exist in the amount of EURk 27,764 (p/y: EURk 23,285) that are related to guarantees for borrowings by PWO Canada, PWO Czech Republic, PWO High-Tech Metal Components (Suzhou) and PWO de México. Based on the subsidiaries' current net assets, financial position, results of operations and their forecasts, there currently appears to be no risk of the liabilities being called.

A surety for securing funds for phased retirement plans amounted to EURk 1,400 (p/y: EURk 1,400) as of the reporting date.

11 OFF-BALANCE SHEET TRANSACTIONS

The Company continuously sells trade receivables to generate the liquid assets required to finance the operating business and facilitate better liquidity planning. PWO AG has transferred all of the material risks to the factor. As of December 31, 2017, receivables with a nominal amount of EURk 19,324 (p/y: EURk 17,275) had been sold.

12 RELATED PARTIES

Related parties include Consult Invest Beteiligungsberatungs GmbH, Böblingen, as the Group's ultimate parent company as well as the members of the Management Board and Supervisory Board. In the reporting year, there were no transactions between the Group and the ultimate parent company. There were no relationships with related parties with regard to the supply of goods or the rendering of services.

13 OTHER FINANCIAL OBLIGATIONS

As of December 31, 2017, other financial obligations, including purchase commitments, totaled EURk 11,402 (p/y: EURk 11,885).

The following table shows the maturities of other financial liabilities:

EURk

		of which remaining term				of which remaining term		
	2018 ff.	**‹ 1 year**	**› 1 year**	**› 5 years**	**2017 ff.**	**‹ 1 year**	**› 1 year**	**› 5 years**
Obligations arising from lease and rental contracts	5,052	1,798	3,000	254	3,126	1,512	1,614	0
Order commitments from investment orders	2,961	2,961	0	0	5,055	5,055	0	0
Remaining other financial obligations	3,389	329	1,277	1,783	3,704	324	1,277	2,103
TOTAL	**11,402**	**5,088**	**4,277**	**2,037**	**11,885**	**6,891**	**2,891**	**2,103**

Lease agreements concluded to take advantage of the cash flow benefits related to the required investments contain the risks usually inherent in leasing transactions.

14 DERIVATIVE FINANCIAL INSTRUMENTS – VALUATION UNITS

Derivatives are used for hedging currency and interest rate risks and are not concluded for speculative purposes. This means that derivatives are not purchased without the existence of the corresponding underlying transaction. The risk management and hedging strategies are defined by uniform treasury guidelines and other internal guidelines and are subject to continuous internal risk.

CURRENCY RISKS

Currency hedge contracts are employed for the hedging of risks related to foreign currency-denominated monetary assets that result from our operating activities. These currency hedging instruments are individually measured at their market value as of the reporting date. Negative valuation results are recognized in profit and loss and lead to the recognition of a provision for contingent losses from pending transactions. A positive valuation result, on the other hand, is not recognized. Of the currency hedge contracts, an amount of USDk 1,096 (nominal volume) refers to currency hedge instruments in USD with a fair value of EURk -28.

Valuation units were created for the following hedges of loans to affiliated companies. The hedges mature in 2020.

Underlying transaction / hedge instrument	Risk / type of valuation unit	Amount included in hedge	Amount of risk hedged
Receivables in foreign currency / Currency hedge instrument	Currency risk / micro hedge	CADk 8,000	EURk -36
Receivables in foreign currency / Currency hedge instrument	Currency risk / micro hedge	USDk 46,385	EURk -1,107

Accrued valuation units were created for currency hedge instruments that are employed for planned sales in foreign currency due to their reliable projectable quantities and the expected timing. The hedging contracts cover the defined portion of the expected risk and have a maturity up to 2020.

Underlying transaction / hedge instrument	Risk / type of valuation unit	Amount included in hedge	Amount of risk hedged
Planned receivables in foreign currency / Currency hedge instrument	Currency risk / micro hedge	CADk 810	EURk 0
Planned receivables in foreign currency / Currency hedge instrument	Currency risk / micro hedge	USDk 7,318	EURk -21

We apply the critical terms match method to prospectively evaluate our foreign currency hedges. Because the currencies, maturities, amounts of the planned transactions and the spot element of the currency hedge instrument are identical, opposing value changes are expected to fully offset one another.

Existing ineffectiveness is quantified retrospectively by applying the Dollar Offset Method of the Hypothetical Derivative Model.

The market values of the derivative financial instruments reflect the estimated amount the Company would receive or pay to terminate the contracts as of the reporting date. To calculate the market value, the fair value of foreign currency hedge instruments is determined based on discounted expected future cash flows over the respective remaining term of the contracts using the respective market interest rates and spot rates.

INTEREST RATE RISKS

The interest rate related transactions are comprised exclusively of interest rate swaps. As of December 31, 2017 the following interest rate derivatives were still open:

EURk

	Nominal value	Redemption 2017	Residual value	Fixed rate	Term	Fair value	Carrying amount	Balance sheet item
Interest rate swaps	1,500	0	1,500	2.19%	until 2018	-9	-9	Provisions

The fair value of interest rate derivative financial contracts is determined by discounting the expected future cash flows over the respective remaining term of the contracts using futures and the respective market interest rates.

PWO AG's syndicated loan concluded in the 2016 fiscal year and maturing in 2022 features a EURIBOR interest rate floor of 0.0%. As of December 31, 2017, this embedded interest rate derivative had a nominal value of EURk 26,000 (p/y: EURk 46,100) with a fair value of EURk -173 (p/y: EURk -476).

PWO AG's variable-rate promissory note concluded in the 2017 fiscal year and maturing in 2024 features a EURIBOR interest rate floor of 0.0%. As of December 31, 2017, this embedded interest rate derivative had a nominal value of EURk 3,000 and a fair value of EURk -28.

NOTES TO THE INCOME STATEMENT

15 REVENUE

Revenue was recognized according to Section 277 (1) HGB in the version of BilRUG and breaks down as follows:

REVENUE BY REGION

EURk

	2017	2016
Germany	167,283	150,929
Rest of Europe	68,114	66,161
North America	25,425	16,362
Other countries	19,348	13,563
TOTAL	**280,170**	**247,015**

REVENUE BY PRODUCT CATEGORY

EURk

	2017	2016
Mechanical components for electrical and electronic applications	84,964	69,327
Safety components for airbags, seats, and steering	67,689	64,262
Structural components and subsystems for vehicle body and chassis	123,967	109,883
Other revenue	3,550	3,543
TOTAL	**280,170**	**247,015**

16 OTHER OWN WORK CAPITALIZED

Other own work capitalized consists primarily of development costs and investments in machinery.

17 OTHER OPERATING INCOME

Other operating income contains primarily currency gains amounting to EURk 6,657 (p/y: EURk 2,963). Other operating income also includes non-periodic income relating to the reversal of provisions and refunds for prior years of EURk 812 (p/y: EURk 532).

18 STAFF COSTS AND EMPLOYEES

STAFF COSTS

EURk

	2017	2016
Wages and salaries	69,082	66,063
Social security and post-employment costs	14,624	10,716
of which post-employment costs	2,241	-903
TOTAL	**83,706**	**76,779**

NUMBER OF EMPLOYEES BY DIVISION (YEAR AVERAGE)

	2017	2016
Development and sales	118	113
Production and materials	729	712
Tool center	163	153
Administration	63	62
PERMANENT WORKFORCE	**1,073**	**1,040**
Temporary employees	342	288
Trainees	110	107
Non-active employees / phased retirement	58	65
TOTAL WORKFORCE	**1,583**	**1,500**

19 OTHER OPERATING EXPENSES

Other operating expenses primarily include outgoing freight charges; expenses for temporary employees; rental and leases; maintenance; legal, auditing and consultancy services; and training and travel costs. Other operating expenses also include currency losses of EURk 7,700 (p/y: EURk 3,215).

Other operating expenses also contain non-periodic expenses amounting to EURk 38 (p/y: EURk 47) and extraordinary expenses of EURk 445 (p/y: EURk 445) from the application of Sections 66 and 67 (1) through (5) EGHGB (transitional provisions of the Accounting Modernization Act [BilMoG]).

20 INCOME FROM INVESTMENTS

Income from investments resulted from dividend payment from PWO Canada to PWO AG.

21 INCOME FROM LOANS OF FINANCIAL FIXED ASSETS

This position comprises income from loans of financial fixed assets to affiliated companies.

22 OTHER INTEREST AND SIMILAR INCOME

Other interest and similar income include EURk 1,630 (p/y: EURk 1,333) to affiliated companies. This position also includes income relating to discounting of EURk 0 (p/y: EURk 6).

23 IMPAIRMENT OF FINANCIAL ASSETS

There was no impairment of financial assets in the reporting year. In the previous year, impairment of EURk 3,250 was recognized on the carrying amount of PWO de México and EURk 3,665 on loans from PWO AG to PWO Holding Co., Ltd., Hong Kong.

24 INTEREST AND SIMILAR EXPENSES

This position also includes interest expenses of EURk 1,532 (p/y: EURk 1,549) related to discounting.

25 INCOME TAXES

Progress-Werk Oberkirch AG was subject to a tax audit in the reporting year for the years 2012 to 2015, which has not yet been completed. As a result, income taxes for the 2017 fiscal year include non-periodic expenses of EURk 1,258 whereas the previous year included non-periodic income of EURk 3.

Income taxes also include extraordinary income of EURk 125 (p/y: EURk 125) from the recognition of deferred tax assets.

ADDITIONAL INFORMATION

26 AMOUNTS RESTRICTED FROM DISTRIBUTION

The total amount restricted from distribution under Section 268 (8) HGB is EURk 11,884 (p/y: EURk 10,034). Amounts restricted from distribution relate to capitalized internally-generated intangible assets of EURk 3,426 (p/y: EURk 3,323), capitalized deferred tax assets of EURk 2,156 (p/y: EURk 1,519) and the difference according to Section 253 (6) HGB of EURk 6,302 (p/y: EURk 5,192).

27 RESEARCH AND DEVELOPMENT COSTS

Research costs were not incurred. Of the EURk 8,630 (p/y: EURk 8,580) in customer-related development costs, EURk 1,141 (p/y: EURk 667) were capitalized as intangible assets.

28 AUDITOR'S FEE

The auditor's fee recognized as an expense according to Section 285 (1) no. 17 HGB comprised the following:

EURk

	2017	2016
Audit	206	168
Other assurance services	9	13
Tax consultancy services	85	62
Other services	19	0
TOTAL	**319**	**243**

The auditor's fee consists of non-periodic expenses of EURk 26 (p/y: EURk 8). Other assurance services include the fee for the EMIR review. Other services mainly relate to valuation and assurance services in the context of the syndicated loan. No other assurance and valuation services were utilized.

29 TOTAL REMUNERATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

In the 2017 fiscal year, the total remuneration of the Management Board amounted to EURk 1,447 (p/y: EURk 1,393). This amount includes performance-related components of EURk 675 (p/y: EURk 561). The total remuneration of the Supervisory Board in fiscal year 2017 amounted to EURk 271 (p/y: EURk 286). No advances or loans were granted to members of the governing bodies.

The combined group management report contains the remuneration report along with the individual remuneration of the Management Board and Supervisory Board.

Pension payments to former members of the Management Board of PWO AG and their surviving dependents amounted to EURk 228 (p/y: EURk 223). As of the reporting date, corresponding pension provisions amounted to EURk 3,166 (p/y: EURk 2,996). As of December 31, 2017, the transitional amount not yet recognized, as defined by the German Accounting Law Modernization Act (BilMoG), amounts to EURk 346.

30 INVESTMENTS IN AFFILIATED COMPANIES

As of December 31, 2017, PWO AG had investments in the following companies:

EURk

	Interest in capital	Equity	Net income
PWO Canada Inc., Kitchener, Canada	100%	10,777	2,880
PWO Czech Republic a.s., Valašské Meziříčí, Czech Republic	100%	33,214	7,314
PWO Holding Co., Ltd., Hong Kong, China	100%	-1,007	-39
PWO High-Tech Metal Components (Suzhou) Co., Ltd., Suzhou, China [1]	100%	8,990	-3,195
PWO de México S.A. de C.V., Puebla, Mexico [2]	100%	1,282	-1,074

[1] Indirect holding through PWO Holding Co., Ltd., for a total of 100%.
[2] Indirect holding through PWO Canada Inc. for a total of 0.14%.

31 CONSOLIDATED FINANCIAL STATEMENTS

The annual financial statements are included in the consolidated financial statements of Progress-Werk Oberkirch AG, Oberkirch, which represent the consolidated financial statements for the companies' smallest and largest scope of consolidation.

32 DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE

The Declaration of Conformity with the German Corporate Governance Code pursuant to Section 161 AktG issued by the Management Board and Supervisory Board in December 2017 is permanently available to shareholders via the Company's website at www.progress-werk.de/en.

33 SUBSEQUENT EVENTS

No events of significant importance to the net assets, financial position and results of operations have occurred after the end of the fiscal year that require reporting.

34 COMPOSITION AND MANDATES OF THE SUPERVISORY BOARD AND MANAGEMENT BOARD

SUPERVISORY BOARD

Karl M. Schmidhuber, Alzenau | Chairman of the Supervisory Board
Former Chief Executive Officer of Progress-Werk Oberkirch AG

Other Mandates
- Hörnlein Beteiligungsverwaltung GmbH, Schwäbisch Gmünd, Member of the Advisory Board

Dr. Gerhard Wirth, Stuttgart | Deputy Chairman of the Supervisory Board
Attorney, Of Counsel for the law firm Gleiss Lutz Hootz Hirsch, Partnerschaftsgesellschaft von Rechtsanwälten, Steuerberatern

Other Mandates
- Düker GmbH, Karlstadt, Member of the Supervisory Board and Advisory Board
- Wolff & Müller Holding GmbH & Co. KG, Stuttgart, Member of the Advisory Board

Dr. Georg Hengstberger, Tübingen
Master's degree in mathematics, Managing Director of Consult Invest Beteiligungsberatungs-GmbH, Böblingen

Other Mandates
- Düker GmbH, Karlstadt, Chairman of the Supervisory Board

Herbert König, Renchen | Employee Representative
Industrial Clerk and Chairman of the Works Council of PWO

Ulrich Ruetz, Ludwigsburg
Former Chairman of the Management Board of BERU AG, Ludwigsburg

Other Mandates
- Düker GmbH, Karlstadt, Deputy Chairman of the Supervisory Board
- Wüstenrot Holding AG, Ludwigsburg, Member of the Supervisory Board

Gerhard Schrempp, Renchen | Employee Representative
Buying agent for stamping and forming tools and Member of the Works Council of PWO AG

Dieter Maier, Stuttgart | Honorary Chairman of the Supervisory Board
Former Member of the Executive Board of the Baden-Württembergische Bank AG, Stuttgart
(Chairman of the Supervisory Board of Progress-Werk Oberkirch AG from 1989 to 2016)

MANAGEMENT BOARD

Dr. Volker Simon, Offenburg | CEO
Responsible for markets and technology

Other Mandates
- PWO Canada Inc., Kitchener, Canada, Member of the Board of Directors
- PWO Czech Republic a.s., Valašské Meziříčí, Czech Republic, Member of the Supervisory Board
- PWO Holding Co., Ltd., Hong Kong, China, Director
- PWO High-Tech Metal Components (Suzhou) Co., Ltd., Suzhou, China, Chairman of the Board of Directors
- PWO de México S.A. de C.V., Puebla, Mexiko, Chairman of the Board of Directors

Bernd Bartmann, Schutterwald
Responsible for administration and finance

Other Mandates
- PWO Canada Inc., Kitchener, Canada, Member of the Board of Directors
- PWO Czech Republic a.s., Valašské Meziříčí, Czech Republic, Chairman of the Supervisory Board
- PWO Holding Co., Ltd., Hong Kong, China, Director
- PWO High-Tech Metal Components (Suzhou) Co., Ltd., Suzhou, China, Member of the Board of Directors
- PWO de México S.A. de C.V., Puebla, Mexiko, Member of the Board of Directors
- Sparkasse Offenburg/Ortenau, Offenburg, Member of the Advisory Board
- avenit AG, Offenburg, Deputy Chairman of the Supervisory Board

Johannes Obrecht, Oberkirch
Responsible for production and materials

Other Mandates
- no other mandates

35 PROPOSAL FOR THE APPROPRIATION OF RETAINED EARNINGS

It is proposed to the Annual General Meeting that PWO AG's unappropriated retained earnings of EURk 5,235 as of December 31, 2017 be used as follows:

Payment of a dividend of EUR 1.65 for each dividend-bearing share	EURk 5,156
Carried forward to new account	EURk 79

The number of dividend-entitled shares may change before the resolution for the appropriation of retained earnings through the purchase of the Company's own shares (cf. Section 71b AktG). In this event, the Management Board and Supervisory Board would make an amended resolution proposal to the Annual General Meeting on the appropriation of retained earnings, which would provide for an unchanged distribution of EUR 1.65 for each dividend-entitled share.

Oberkirch, March 13, 2018

The Management Board

Dr. Volker Simon (CEO) | Bernd Bartmann | Johannes Obrecht

INDEPENDENT AUDITOR'S REPORT

To Progress-Werk Oberkirch AG

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND MANAGEMENT REPORT

AUDIT OPINION

We have audited the annual financial statements of Progress-Werk Oberkirch AG, Oberkirch, consisting of the balance sheet as of December 31, 2017 and the income statement for the fiscal year from January 1 to December 31, 2017, and the notes to the annual financial statements, including the presentation of significant accounting and measurement policies. We have also audited the management report of Progress-Werk Oberkirch AG, Oberkirch, for the fiscal year from January 1 to December 31, 2017, which was combined with the group management report. We have not reviewed the content of the "Responsibility Statement" contained in the management report in accordance with the German legal provisions.

In our opinion and based on our audit findings

– the accompanying annual financial statements comply, in all material respects, with the provisions of the German commercial law for corporations and give a true and fair view of the net assets and financial position of the Company as of December 31, 2017 and its results of operations for the fiscal year from January 1 to December 31, 2017, in accordance with the German principles of due and proper accounting; and

– the accompanying management report, which was combined with the group management report, as a whole provides an accurate view of the Company's position. The management report is consistent with the annual financial statements in all material respects, complies with German statutory requirements and suitably presents the opportunities and risks of future development. Our audit opinion on the management report does not include the content of the "Responsibility Statement" mentioned above."

Pursuant to Section 322 (3) sentence 1 HGB, we state that our audit has not led to any reservations with respect to the regularity of the annual financial statements and the management report, which was combined with the group management report.

BASIS FOR AUDIT OPINION

We conducted our audit of the annual financial statements and management report in accordance with Section 317 HGB and the EU Audit Regulation (No 537/2014; hereinafter referred to as "EU Audit Regulation") and the generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors (IDW). Our responsibilities under those regulations and guidelines are further described in the "Auditor's responsibilities for the audit of the annual financial statements and management report" section of our audit report. We are independent of the Company in accordance with the requirements of European Union law, German commercial law and the rules of professional conduct, and we have fulfilled our other ethical responsibilities under German professional law in accordance with these requirements. In addition, pursuant to Article 10 (2) (f) EU Audit Regulation, we hereby declare that we did not provide any of the prohibited non-audit services referred to in Article 5 (1) EU Audit Regulation. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion on the annual financial statements and management report, which was combined with the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of the most significance in our audit of the annual financial statements for the fiscal year from January 1 to December 31, 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

In the following section, we describe what we believe were the key audit matters:

RECOVERABILITY OF FINANCIAL ASSETS
Reason for Designation as a Key Audit Matter: Investments in affiliated companies are subject to an annual impairment test. The impairment test is based on the present value of future cash flows of the relevant entity. The valuations are derived from the forecasts of the affiliated companies, which are based on the financial plans adopted by the Management Board and acknowledged by the Supervisory Board. The valuation results depend particularly on the entities' future income estimated by the legal representatives and the discount rates used and are, therefore, discretionary.

Audit Approach: We reviewed the legal representatives' underlying processes for determining fair value. We understood the methodology and results of the underlying valuation models for determining fair value by consulting with internal valuation experts. We also analyzed whether the underlying budgets reflected general and sector-specific market expectations. We conducted a random target/actual comparison of past plan data with actual results in order to assess the accuracy of historical forecasts. The valuation parameters used to estimate fair value, such as expected growth rates and weighted average cost of capital, were compared with generally available market data and assessed with regard to the change of significant assumptions, including future market conditions.

Our audit has not resulted in any reservations as to the assessment of the recoverability of financial assets.

Reference to Corresponding Information: With regard to the accounting and valuation policies used to determine the recoverability of financial assets, we refer to the information in the notes to the annual financial statements.

TIMING OF THE REVENUE RECOGNITION OF TOOL SALES

Reason for Designation as a Key Audit Matter: Developing and manufacturing tools are key parts of the Company's business activities and involve a higher risk that revenue is not recognized in the financial statements in the correct period due to the vast number of different tools and customers. In addition, the fact that the tools remain at the Company's location after completion in order to be used for series production and revenues are recognized manually also present some risk when it comes to revenue recognition. Therefore, revenue recognition for tools represented a key audit matter in our audit, also as a result of the significance of revenue and cost of materials for the financial statements and because revenue and EBIT are key financial performance indicators for the Company's management and forecasts.

Audit Approach: As part of our audit, we conducted a review based on our understanding of the Company's operations and processes that included the contractual arrangements between the Company and the various clients and specifically the provisions on the timing of the transfer of risk and invoicing procedures. In doing so, we also dealt with the processes for revenue recognition and deferral implemented by the Company's legal representatives. Our audit included individual and analytical audit measures. Based on a mathematical and statistical selection process, we reviewed random samples to see if the corresponding customer acceptance was available for revenues recognized in December and that they had been recognized in the correct period. We requested random confirmation of balances for tool receivables outstanding as of the reporting date. Our analytical audit measures included an analysis of tool revenue during the reporting year compared to the prior year to spot any unusual amounts. We also looked for any unusual patterns by analyzing the tool revenue that did not represent invoices, such as credits, that were posted during year. Furthermore, we reviewed the general ledger in December for any unusual posting amounts compared to the average for the year and for any unusual frequency in the posting of tool revenue in order to detect any irregularities in the deferral of revenue.

Our audit has not resulted in any reservations as to the timing of the revenue recognition of tool sales.

Reference to Corresponding Information: With regard to the criteria for determining the period in which revenues are recognized, we refer to the information on the significant accounting and measurement policies contained in the notes to the annual financial statements.

OTHER INFORMATION

The Supervisory Board is responsible for the "Report of the Supervisory Board." The legal representatives are responsible for the other information comprising the "Responsibility Statement," which is contained in the combined group management report, and the remaining sections of the Annual Report, which will presumably be made available to us after the receipt of the audit opinion and, specifically, the "Report of the Supervisory Board" and the "Letter from the Management Board."

Our audit opinion of the annual financial statements and the management report does not include the other information and, therefore, we do not express an audit opinion or any other form or audit conclusion on these sections.

As part of our audit, we are responsible for reading and assessing whether the other information

- is materially inconsistent with the annual financial statements, the management report and our knowledge obtained during the audit; or

- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE LEGAL REPRESENTATIVES AND THE SUPERVISORY BOARD FOR THE ANNUAL FINANCIAL STATEMENTS AND THE MANAGEMENT REPORT

The legal representatives are responsible for the preparation of the annual financial statements, which comply with the provisions of the German commercial law for corporations in all material respects, and that the annual financial statements give a true and fair view of the net assets, financial positions and results of operations of the Company in accordance with the German principles of due and proper accounting. Furthermore, the legal representatives are responsible for such internal control as they determine is necessary in accordance with the German principles of due and proper accounting to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the legal representatives are responsible for assessing the Company's ability to continue as a going concern. The legal representatives are also responsible for disclosing, as applicable, matters related to going concern. In addition, the legal representatives are responsible for ensuring that accounting is performed on a going concern basis unless actual and legal circumstances prevent them from doing so.

The legal representatives are also responsible for preparing the management report, which, as a whole, provides an accurate view of the Company's position and is consistent in all material respects with the annual financial statements, complies with German statutory requirements and suitably presents the opportunities and risks of future development. Furthermore, the legal representatives are responsible for such arrangements and measures (systems) as they deem necessary to enable the preparation of a management report in compliance with the applicable requirements of German commercial law and to provide sufficient and appropriate evidence for the statements made in the management report.

The Supervisory Board is responsible for monitoring the Company's financial reporting process used in preparing the annual financial statements and the management report, which was combined with the group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND THE MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the annual financial statements, as a whole, are free from material misstatements due to either fraud or error; whether the management report, which was combined with the group management report, as a whole, provides an accurate view of the Company's position and is consistent in all material respects with the annual financial statements and our audit findings and complies with German statutory requirements; suitably presents the opportunities and risks of future development, and finally, to issue an auditor's report that includes our opinion of the annual financial statements and the management report, which was combined with the group management report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with the German generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if individually or together could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

As part of our audit, we exercise professional judgment and maintain critical stance throughout the audit. We also

- identify and assess the risk of material misstatements in the annual financial statements and the management report from either fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the overriding of internal controls;

- obtain an understanding of internal controls relevant to the audit of the annual financial statements and of the arrangements and measures relevant to the audit of the management report, in order to design audit procedures that are appropriate for the circumstances but not for the purpose of expressing an opinion on the effectiveness of these systems of the Company;

- evaluate the appropriateness of the accounting policies used, as well as the feasibility of accounting estimates and related disclosures made by the legal representatives;

- make a conclusion as to the appropriateness of the legal representatives' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention to this fact in our auditor's report to the related disclosures in the annual financial statements and management report, which was combined with the group management report, or, if such disclosures are inadequate, to modify our particular opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that gives a true and fair view of the Company's net assets, financial position, and results of operations in accordance with the German principles of due and proper accounting;

- evaluate the consistency of the management report, which was combined with the group management report, with the annual financial statements, its legal compliance and the presentation of the Company's position;

- perform audit procedures on the prospective information presented by the legal representatives in the management report. Based on sufficient and appropriate audit evidence, we hereby, in particular, trace the significant assumptions used by the legal representatives as a basis for the prospective information and assess the appropriate derivation of the prospective information from these assumptions. We are not issuing a separate audit opinion on the prospective information or the underlying assumptions. There is a significant, unavoidable risk that future events will deviate significantly from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships or other matters that may reasonably be thought to have a bearing on our independence or any related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance during the audit of the annual financial statements of the current period and, therefore, represent the key audit matters. We describe these matters in our auditor's report unless laws or other legal provisions preclude public disclosures on the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

OTHER DISCLOSURES PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were appointed as auditors at the Annual General Meeting held on May 23, 2017 and commissioned by the Supervisory Board on September 27, 2017. We have been engaged as auditors of Progress-Werk Oberkirch Aktiengesellschaft, Oberkirch, continuously since the 1990 fiscal year.

We declare that the audit opinion in this auditor's report is consistent with the additional report to the Audit Committee referred to in Article 11 of the EU Audit Regulation (audit report).

RESPONSIBLE AUDITOR

The auditor responsible for the engagement is Mr. Frank Göhner.

Stuttgart, March 23, 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Göhner	Scheppank
Auditor	Auditor

IMPRINT

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Figures in this financial statements are typically presented in EURk and EUR million. Differences in the individual figures versus the actual amounts may emerge due to rounding. Such differences are not of a significant nature. For reasons of better readability, the generic masculine form is used in addition to gender-specific forms but expressly refers to all genders.

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