FINANCIAL STATEMENTS
2019

2019 FINANCIAL STATEMENTS OF PROGRESS-WERK OBERKIRCH AG

The management report of PWO AG and the group management report for the 2019 fiscal year have been combined in accordance with section 315 (5) HGB together with section 298 (2) HGB and are published in the 2019 annual report.

For the 2019 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 2019 annual report are also available online at www.progress-werk.de/en/investors-press/news-publications/reports/ and as of the convening of the 2020 Annual General Meeting at www.progress-werk.de/en/investors-press/annual-general-meeting/.

CONTENT

BALANCE SHEET PROGRESS-WERK OBERKIRCH AG

ASSETS

EURk

Note no.		31/12/2019	31/12/2018
	Contract and customer-related development services	3,624	4,262
	Acquired industrial property rights and similar rights	1,951	2,052
	Intangible assets	**5,575**	**6,314**
	Land and buildings	33,235	32,779
	Technical equipment and machinery	27,684	21,387
	Other equipment, operating and office equipment	4,158	5,099
	Prepayments and assets under construction	1,046	6,273
	Property, plant and equipment	**66,123**	**65,538**
	Investments in affiliated companies	37,163	37,163
	Loans to affiliated companies	77,737	66,333
	Financial assets	**114,900**	**103,496**
2	**NON-CURRENT ASSETS**	**186,598**	**175,348**
	Raw materials and supplies	11,778	12,629
	Work-in-progress	14,464	20,315
	Finished goods and merchandise	23,318	22,382
3	**Inventories**	**49,560**	**55,326**
	Trade receivables	13,080	11,151
	Receivables from affiliated companies	45,129	54,915
	Other assets	5,218	7,231
4	**Receivables and other assets**	**63,427**	**73,297**
	Cash on hand, bank deposits	156	6,316
	CURRENT ASSETS	**113,143**	**134,939**
5	**Prepayments and accrued income**	**270**	**427**
9	**Deferred tax assets**	**4,728**	**3,083**
	TOTAL ASSETS	**304,739**	**313,797**

EQUITY AND LIABILITIES

EURk

Note no.		31/12/2019	31/12/2018
	Subscribed capital	9,375	9,375
	Capital reserves	38,690	38,690
	Statutory reserves	204	204
	Other retained earnings	67,300	67,300
	Retained earnings	**67,504**	**67,504**
	Unappropriated retained earnings	4,778	4,251
6	**EQUITY**	**120,347**	**119,820**
	Provisions for pensions and other employee benefits	47,793	42,521
	Tax provisions	640	0
	Other provisions	10,725	12,251
7	**PROVISIONS**	**59,158**	**54,772**
	Bank borrowings	88,908	103,523
	Advance payments received on account of orders	1,723	3,979
	Trade payables	11,954	15,946
	Liabilities to affiliated companies	214	948
	Other liabilities	22,435	14,809
8	**LIABILITIES**	**125,234**	**139,205**
	TOTAL EQUITY AND LIABILITIES	**304,739**	**313,797**

INCOME STATEMENT PROGRESS-WERK OBERKIRCH AG

EURk

Note no.		2019	2018
10	Revenue	265,149	292,937
	Change in finished goods and work-in-progress	-4,915	-9,303
11	Other own work capitalized	1,290	1,746
	TOTAL OUTPUT	**261,524**	**285,380**
12	Other operating income	5,166	5,762
	Cost of raw materials and supplies and merchandise purchased	-96,352	-103,855
	Cost of purchased services	-31,379	-45,901
	Cost of materials	**-127,731**	**-149,756**
	Wages and salaries	-72,195	-72,789
	Social security and post-employment costs	-18,184	-17,675
13	**Staff costs**	**-90,379**	**-90,464**
	Amortization of intangible non-current assets and depreciation of property, plant, and equipment	-12,386	-11,553
14	Other operating expenses	-34,012	-36,784
15	Income from investments, of which from affiliated companies EURk 5,000 (p/y: EURk 7,000)	5,000	7,000
16	Income from loans of financial fixed assets, of which from affiliated companies EURk 2,758 (p/y: EURk 1,883)	2,758	1,883
17	Other interest and similar income, of which from affiliated companies EURk 1,886 (p/y: EURk 1,873)	2,097	2,062
18	Interest and similar expenses	-5,343	-4,873
	Financial result	**4,512**	**6,072**
	EARNINGS BEFORE TAXES	**6,694**	**8,657**
19	Income taxes	-1,519	-2,393
	EARNINGS AFTER TAXES	**5,175**	**6,264**
	Other taxes	-429	-392
	NET INCOME	**4,746**	**5,872**
	Profit carried forward from previous year	32	79
	Transfer to other retained earnings	0	-1,700
	UNAPPROPRIATED RETAINED EARNINGS	**4,778**	**4,251**

NOTES TO THE FINANCIAL STATEMENTS OF PROGRESS-WERK OBERKIRCH AG

GENERAL INFORMATION

Progress-Werk Oberkirch AG is a listed stock corporation headquartered at Industriestrasse 8, 77704 Oberkirch, Germany. The Company is recorded and registered under the number 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

The following accounting policies continued to apply when preparing the annual financial statements.

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 has been calculated using the straight line method since 2011 (before 2011 also according to the diminishing balance method). 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 for the order.

Low-value assets with individual net values of up to EUR 250.00 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 250.00 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 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 based on an item-by-item calculation under 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 allowance.

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 have been measured according to actuarial principles under the projected unit credit method using the RT 2018 G mortality tables from Prof. Dr. Klaus Heubeck 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 actuarial principles, for which the Heubeck mortality tables RT 2018 G were used. Provisions for phased retirement obligations are recognized in accordance with the "block model" 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.

Provisions for anniversary bonuses are calculated based on actuarial principles under the projected unit credit method taking into account average discount rates and the Heubeck mortality tables 2018 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 include 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 their present value pursuant to legal requirements.

Liabilities are measured 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 calculated based on a tax rate. 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 based on an average trade tax multiplier of 360% (p/y: 360%).

FOREIGN CURRENCY ITEMS AND TRANSLATION
Assets and liabilities denominated in foreign currencies are generally translated based on 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 through 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, offsetting value changes of the hedged risk are not recognized, whereas under the gross hedge presentation method, offsetting value changes of the underlying transaction and related hedge instruments of the hedged risk are recognized. The offsetting positive and negative valuation changes are both recognized 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	Prepayments and assets under construction	**Property, plant and equipment**	Investments in affiliated companies	Loans to affiliated companies	**Financial assets**
ACQUISITION AND PRODUCTION COSTS											
As of Jan. 1, 2018	5,644	14,519	20,163	60,045	148,572	25,043	4,009	237,669	48,700	81,873	130,573
Additions	1,719	318	2,037	221	3,169	920	5,182	9,492	1,313	7,922	9,235
Disposals	0	0	0	0	-5,436	-413	0	-5,849	0	-9,647	-9,647
Reclassifications	0	0	0	53	2,864	1	-2,918	0	0	0	0
AS OF DEC. 31, 2018	**7,363**	**14,837**	**22,200**	**60,319**	**149,169**	**25,551**	**6,273**	**241,312**	**50,013**	**80,148**	**130,161**
Additions	1,209	483	1,692	1,211	8,526	599	637	10,973	0	17,254	17,254
Disposals	-76	-844	-920	0	-5,975	-427	0	-6,402	0	-5,850	-5,850
Reclassifications	0	0	0	1,010	4,819	35	-5,864	0	0	0	0
AS OF DEC. 31, 2019	**8,496**	**14,476**	**22,972**	**62,540**	**156,539**	**25,758**	**1,046**	**245,883**	**50,013**	**91,552**	**141,565**
DEPRECIATION AND AMORTIZATION											
As of Jan. 1, 2018	2,218	12,088	14,306	25,853	124,852	18,926	0	169,631	12,850	13,815	26,665
Additions	883	697	1,580	1,687	6,351	1,935	0	9,973	0	0	0
Disposals	0	0	0	0	-3,421	-409	0	-3,830	0	0	0
AS OF DEC. 31, 2018	**3,101**	**12,785**	**15,886**	**27,540**	**127,782**	**20,452**	**0**	**175,774**	**12,850**	**13,815**	**26,665**
Additions	1,847	584	2,431	1,765	6,625	1,565	0	9,955	0	0	0
Disposals	-76	-844	-920	0	-5,552	-417	0	-5,969	0	0	0
AS OF DEC. 31, 2019	**4,872**	**12,525**	**17,397**	**29,305**	**128,855**	**21,600**	**0**	**179,760**	**12,850**	**13,815**	**26,665**
CARRYING AMOUNTS											
As of Dec. 31, 2018	4,262	2,052	6,314	32,779	21,387	5,099	6,273	65,538	37,163	66,333	103,496
As of Dec. 31, 2019	3,624	1,951	5,575	33,235	27,684	4,158	1,046	66,123	37,163	77,737	114,900

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

No unscheduled depreciation pursuant to Section 277 (3) sentence 1 HGB for impaired property, plant and equipment was recognized in the 2019 and 2018 fiscal years.

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.

EURk

	2019	2018
Raw materials and supplies	11,778	12,629
Unfinished goods and services	14,464	20,315
Finished goods	23,318	22,382
TOTAL	**49,560**	**55,326**

Raw materials and supplies include OEM-related tool spare parts in the amount of EURk 6,423 (p/y: EURk 6,793). In the 2019 fiscal year, an impairment in the amount of EURk 1,754 (p/y: write-up of EURk 1,304) and a reversal of impairment due to the continued use of already impaired tool spare parts in the amount of EURk 250 (p/y: EURk 250) were carried out.

An internal analysis carried out in the 2018 fiscal year and based on increasing empirical values showed that the individual impairment of tool spare parts after effective scrapping more accurately reflected the amount that is expected to be recoverable for tool spare parts than the impairment made previously based on estimated marketability. The method of individual impairment continued to be applied in the reporting year.

The impact of the revised assumptions for future fiscal years cannot be assessed, as the scrapping of tool spare parts requires the customer's permission.

4 RECEIVABLES AND OTHER ASSETS

Receivables from affiliated companies consist of trade receivables of EURk 5,356 (p/y: EURk 5,154), current loans of EURk 34,773 (p/y: EURk 42,761), and a pending dividend payment from PWO Czech Republic of EURk 5,000 (p/y: EURk 7,000).

EURk

	2019	of which remaining term › 1 year	2018	of which remaining term › 1 year
Trade receivables	13,080	0	11,151	0
Receivables from affiliated companies	45,129	0	54,915	0
Other assets	5,218	0	7,231	0
TOTAL	**63,427**	**0**	**73,297**	**0**

5 PREPAYMENTS AND ACCRUED INCOME

Prepayments and accrued income include the deferral of the interest rate floors from the syndicated loan and promissory note of EURk 270 (p/y: EURk 427).

6 EQUITY

EURk

	Subscribed capital	Capital reserves	Statutory reserve	Other retained earnings	Unappropriated retained earnings	**Equity PWO AG**
AS OF JAN. 1, 2019	**9,375**	**38,690**	**204**	**67,300**	**4,251**	**119,820**
Dividend payment					-4,219	-4,219
Net income					4,746	4,746
Appropriation to other retained earnings						0
AS OF DEC. 31, 2019	**9,375**	**38,690**	**204**	**67,300**	**4,778**	**120,347**

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, 2019 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 4,746 in net income earned in the 2019 fiscal year, EURk 0 was allocated to other retained earnings (p/y: EURk 1,700).

The unappropriated retained earnings of EURk 4,778 in the 2019 fiscal year include profit carried forward of EURk 32 from the prior fiscal year.

7 PROVISIONS

PENSION PROVISIONS

Provisions for defined benefit plans were calculated under the projected unit credit method and based on the Heubeck mortality tables RT 2018.

The transitional amount of EURk 6,669 according to the Accounting Modernization Act (BilMoG) is spread over 15 years. A total of EURk 2,223 (p/y: EURk 2,668) 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 7,195. This amount is subject to a distribution restriction under Section 253 (6) HGB (see Note 25).

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

	2019	2018
Interest rate	2.71%	3.21%
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 5,428 (p/y: EURk 7,099) and other identifiable obligations and risks for which provisions must be recognized under commercial law. Provisions mainly include those for onerous contracts, profit sharing, phased retirement, holidays, flex-time and anniversary bonuses. The provisions for phased retirement are based on an interest rate of 0.98%, and the provisions for the anniversary bonuses are based on an interest rate of 1.97%.

8 LIABILITIES

Of the bank borrowings, EURk 3,675 (p/y: EURk 5,436) are secured by mortgages and EURk 0 (p/y: EURk 0) 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 214 (p/y: EURk 948).

EURk

		of which remaining term				of which remaining term		
	2019	‹ 1 year	› 1 year	› 5 years	2018	‹ 1 year	› 1 year	› 5 years
Bank borrowings	88,908	24,384	63,039	1,485	103,523	34,721	40,578	28,224
Prepayments on orders	1,723	1,723	0	0	3,979	3,979	0	0
Trade payables	11,954	11,954	0	0	15,946	15,946	0	0
Liabilities to affiliated companies	214	214	0	0	948	948	0	0
Other liabilities [1]	22,435	17,504	2,709	2,222	14,809	13,777	414	618
of which from taxes	886	886	0	0	898	898	0	0
of which from social security	0	0	0	0	1	1	0	0
TOTAL	**125,234**	**55,779**	**65,748**	**3,707**	**139,205**	**69,371**	**40,992**	**28,842**

[1] The item "Other liabilities" includes lease liabilities. In the previous year's figures, only the maturities were adjusted.

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	
	2019	2018	2019	2018
Intangible assets, property, plant and equipment, financial assets and other assets	0	0	1,292	1,486
Provisions	6,020	4,569	0	0
SUB-TOTAL	**6,020**	**4,569**	**1,292**	**1,486**
Offsetting	-1,292	-1,486	-1,292	-1,486
TOTAL ACCORDING TO BALANCE SHEET	**4,728**	**3,083**	**0**	**0**

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

NOTES TO THE INCOME STATEMENT

10 REVENUE

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

REVENUE BY REGION

EURk

	2019	2018
Germany	150,397	184,191
Rest of Europe	72,545	67,493
North America	25,291	24,753
Other countries	16,916	16,500
TOTAL	**265,149**	**292,937**

REVENUE BY PRODUCT CATEGORY

EURk

	2019	2018
Mechanical components for electrical and electronic applications	82,496	87,396
Safety components for airbags, seats, and steering	54,820	63,827
Structural components and subsystems for vehicle body and chassis	123,080	138,067
Other revenue	4,753	3,647
TOTAL	**265,149**	**292,937**

11 OTHER OWN WORK CAPITALIZED

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

12 OTHER OPERATING INCOME

Other operating income contains primarily currency gains amounting to EURk 3,242 (p/y: EURk 4,331) and non-periodic income relating to the reversal of provisions and refunds for prior years of EURk 1,561 (p/y: EURk 701).

13 STAFF COSTS AND EMPLOYEES

STAFF COSTS

EURk

	2019	2018
Wages and salaries	72,195	72,789
Social security and post-employment costs	18,184	17,675
of which post-employment costs	5,221	4,868
TOTAL	**90,379**	**90,464**

NUMBER OF EMPLOYEES BY DIVISION (YEAR AVERAGE)

	2019	2018
Development and sales	137	121
Production and materials	747	757
Tool center	159	172
Administration	72	69
PERMANENT WORKFORCE	**1,115**	**1,119**
Temporary employees	275	341
Trainees	132	124
Non-active employees in phased retirement	61	66
TOTAL WORKFORCE	**1,583**	**1,650**

14 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 5,260 (p/y: EURk 5,136).

Other operating expenses also contain non-periodic expenses amounting to EURk 341 (p/y: EURk 181) 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]).

15 INCOME FROM INVESTMENTS

Income from investments resulted from the dividend payment of PWO Czech Republic to Progress-Werk Oberkirch AG.

16 INCOME FROM LOANS OF FINANCIAL FIXED ASSETS

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

17 OTHER INTEREST AND SIMILAR INCOME

Other interest and similar income include EURk 1,886 (p/y: EURk 1,873) to affiliated companies.

18 INTEREST AND SIMILAR EXPENSES

This position also includes interest expenses of EURk 1,435 (p/y: EURk 1,486) related to discounting.

19 INCOME TAXES

Income taxes in the reporting year include income from deferred taxes in the amount of EURk 1,645 (p/y: EURk 927) as well as extraordinary income of EURk 125 (p/y: EURk 125) from the recognition of deferred tax assets.

Income taxes in the reporting year also include non-periodic benefits of EURk 1 compared to EURk 622 in non-periodic expenses in the prior year.

ADDITIONAL INFORMATION

20 CONTINGENT LIABILITIES

Liabilities exist in the amount of EURk 20,933 (p/y: EURk 28,812) 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 1,150 (p/y: EURk 1,400) as of the reporting date.

21 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. The Company has transferred all of the material risks to the factor. As of December 31, 2019, receivables with a nominal amount of EURk 16,173 (p/y: EURk 19,538) had been sold.

22 RELATED PARTIES

Progress-Werk Oberkirch AG is the parent company of the PWO Group. Consult Invest Beteiligungsberatungs-GmbH, Böblingen, is the principle shareholder of Progress-Werk Oberkirch AG. Its major shareholder, Dr. Klaus-Georg Hengstberger, represents the ultimate controlling party of the PWO Group. As in the previous year, there were no transactions between the Group and Consult Invest Beteiligungsberatungs-GmbH, Böblingen, and its related parties except for the dividend payment.

23 OTHER FINANCIAL OBLIGATIONS

As of December 31, 2019, other financial obligations, including purchase commitments, totaled EURk 10,704 (p/y: EURk 20,584).

The following table shows the maturities of other financial liabilities:

EURk

		of which remaining term				of which remaining term		
	2020 ff.	**‹ 1 year**	**› 1 year**	**› 5 years**	**2019 ff.**	**‹ 1 year**	**› 1 year**	**› 5 years**
Obligations arising from lease and rental contracts	6,538	1,932	3,492	1,114	8,683	2,227	4,383	2,073
Order commitments from investment orders	1,425	1,425	0	0	8,841	8,841	0	0
Remaining other financial obligations	2,741	319	1,277	1,145	3,060	319	1,277	1,464
TOTAL	**10,704**	**3,676**	**4,769**	**2,259**	**20,584**	**11,387**	**5,660**	**3,537**

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

24 DERIVATIVE FINANCIAL INSTRUMENTS – VALUATION UNITS

Derivatives are used for hedging currency and interest rate risks and not for speculative purposes. This means that derivatives are purchased only in connection with 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 3,000 (nominal volume) refers to currency hedge instruments in USD with a fair value of EURk -82.

Valuation units were created for the following hedges of loans to affiliated companies. The hedges mature in 2022.

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 18,500	EURk -29
Receivables in foreign currency / Currency hedge instrument	Currency risk / micro hedge	USDk 52,385	EURk -2,509

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 2023.

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	EURk 6,927	EURk -307

We apply the critical terms match method to prospectively evaluate our foreign currency hedges. Because the currencies, maturities, planned transaction amounts and spot components 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. For the calculation of 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

Interest rate and currency swaps were entered into in order to hedge non-current loans to affiliated companies. The following valuation units were formed for the underlying transaction and the corresponding hedge instrument:

EURk

Underlying transaction / hedge instrument	Risk / Type of valuation unit	Nominal value	Redemption 2019	Residual value	Interest rate received	Interest rate paid	Term	Amount of risk hedged
Non-current loan / Interest rate and currency swap	Interest and currency risk / micro hedge	11,325	517	10,808	EUR	CNY	2024	-11

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.

Progress-Werk Oberkirch AG's syndicated loan maturing in 2023 features a EURIBOR interest rate floor of 0.0%. As of December 31, 2019, this embedded interest rate derivative had a nominal value of EURk 45,000 (p/y: EURk 28,500) with a fair value of EURk -589 (p/y: EURk -274).

Progress-Werk Oberkirch AG's variable-rate promissory note maturing in 2024 features a EURIBOR interest rate floor of 0.0%. As of December 31, 2019, this embedded interest rate derivative had a nominal value of EURk 3,000 (p/y: EURk 3,000) and a fair value of EURk -38 (p/y: EURk -32).

25 AMOUNTS RESTRICTED FROM DISTRIBUTION

The total amount restricted from distribution under Section 268 (8) HGB is EURk 15,547 (p/y: EURk 14,987). Amounts restricted from distribution relate to capitalized internally-generated intangible assets of EURk 3,624 (p/y: EURk 4,262), capitalized deferred tax assets of EURk 4,728 (p/y: EURk 3,083) and the difference according to Section 253 (6) HGB of EURk 7,195 (p/y: EURk 7,642).

26 RESEARCH AND DEVELOPMENT COSTS

Research costs were not incurred. Of the EURk 7,872 (p/y: EURk 8,460) in customer-related development costs, EURk 1,209 (p/y: EURk 1,719) were capitalized as intangible assets.

27 AUDITOR'S FEE

The auditor's fee, which was recognized as an expense according to Section 285 (1) no. 17 HGB, consisted of the following:

EURk

	2019	2018
Audit	204	184
Other assurance services	11	11
Tax consultancy services	150	128
Other services	56	63
TOTAL	**421**	**386**

The auditor's fee does not consist of any non-periodic expenses (p/y: EURk 27). Other assurance services include the fee for the EMIR audit and assurance services related to the syndicated loan. The fees for other services mainly consist of technical support in connection with regulatory requirements. No other assurance and valuation services were utilized.

28 TOTAL REMUNERATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

In the 2019 fiscal year, the total remuneration of the Management Board amounted to EURk 1,474 (p/y: EURk 1,327). This amount includes performance-related components of EURk 696 (p/y: EURk 571). The total remuneration of the Supervisory Board in fiscal year 2019 amounted to EURk 294 (p/y: EURk 279). 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 Progress-Werk Oberkirch AG and their surviving dependents amounted to EURk 236 (p/y: EURk 233). As of the reporting date, corresponding pension provisions under HGB amounted to EURk 3,563 (p/y: EURk 3,357). As of December 31, 2019, the transitional amount not yet recognized, as defined by the German Accounting Law Modernization Act (BilMoG), amounts to EURk 247.

29 INVESTMENTS IN AFFILIATED COMPANIES

As of December 31, 2019, Progress-Werk Oberkirch AG had investments in the following companies:

EURk

	Interest in capital	Equity	Net income
PWO Canada Inc., Kitchener, Canada	100%	12,695	-78
PWO Czech Republic a.s., Valašské Meziříčí, Czechia	100%	30,361	4,741
PWO Holding Co., Ltd., Hong Kong, China	100%	-1,093	-43
PWO High-Tech Metal Components (Suzhou) Co., Ltd., Suzhou, China [1]	100%	9,725	894
PWO de México S.A. de C.V., Puebla, Mexico [2]	100%	635	-231

[1] Indirect holding through PWO Holding Co., Ltd., for a total of 100%.
[2] Indirect holding through PWO Canada Inc. for a total of 0.15%.

30 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 company's smallest and largest scope of consolidation.

31 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 2019 is permanently available to shareholders via the Company's website at www.progress-werk.de/en/corporate-governance.

32 SUBSEQUENT EVENTS

The outbreak of the corona pandemic has resulted in massive economic disruption worldwide. The further course of the pandemic is not currently foreseeable. All of the automotive manufacturers that PWO supplies directly have temporarily suspended their production. As a result, PWO will also significantly scale back production in Oberkirch and adjust the capacity at its subsidiaries to the respective local market conditions. PWO has applied for shorter work schedules for all employees at the Oberkirch site. These shorter schedules are expected to reduce work time by almost 100 percent, at least for a temporary period. On March 20, 2020, the Management Board issued an ad hoc notification stating that is impossible at present to adequately assess and reliably quantify the effects of the pandemic on the PWO Group. The Management Board also withdrew the forecast for the 2020 fiscal year and, for now, will refrain from providing a new forecast for the 2020 fiscal year. In addition, the Management Board resolved on its proposal for the appropriation of retained earnings, according to which no dividend shall be distributed to shareholders for the 2019 fiscal year. In contrast to the Company's prior dividend policy, the unappropriated retained earnings for the 2019 fiscal year shall be carried forward. This step is intended to help improve liquidity. The Management Board intends to review the dividend proposal based on the developments taking place in the weeks ahead and may submit an updated proposal to the Annual General Meeting.

33 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

Not a member of any other statutory supervisory boards in Germany and comparable domestic and foreign supervisory bodies of commercial enterprises

Dr. Georg Hengstberger, Tübingen | Deputy Chairman of the Supervisory Board
Master's degree in mathematics,
Managing Director of Consult Invest Beteiligungsberatungs GmbH, Böblingen

Membership in other statutory supervisory boards in Germany and comparable domestic and foreign supervisory bodies of commercial enterprises
- Düker GmbH, Karlstadt | Chairman of the Supervisory Board and member of the Advisory Board
- Düker Email Technologie GmbH, Laufach | Chairman of the Advisory Board

Carsten Claus, Aidlingen
Former Chairman of the Management Board of Kreissparkasse Böblingen

Not a member of any other statutory supervisory boards in Germany and comparable domestic and foreign supervisory bodies of commercial enterprises

Herbert König, Renchen | Employee Representative
Industrial Clerk and Chairman of the Works Council of Progress-Werk Oberkirch AG

Not a member of any other statutory supervisory boards in Germany and comparable domestic and foreign supervisory bodies of commercial enterprises

Dr. Jochen Ruetz, Stuttgart
Managing Director/CFO and member of the Administrative Board of GFT Technologies SE, Stuttgart

Membership in other statutory supervisory boards in Germany and comparable domestic and foreign supervisory bodies of commercial enterprises
- G. Elsinghorst Stahl und Technik GmbH, Bocholt | Member of the Supervisory Board

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

Not a member of any other statutory supervisory boards in Germany and comparable
domestic and foreign supervisory bodies of commercial enterprises

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 until 2016)

MANAGEMENT BOARD

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

Membership in other statutory supervisory boards in Germany and comparable
domestic and foreign supervisory bodies of commercial enterprises
- PWO Canada Inc., Kitchener, Canada | Member of the Board of Directors
- PWO Czech Republic a.s., Valašské Meziříčí, Czechia | 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, Mexico | Chairman of the Board of Directors

Bernd Bartmann, Schutterwald | Responsible for administration and finance

Membership in other statutory supervisory boards in Germany and comparable
domestic and foreign supervisory bodies of commercial enterprises
- PWO Canada Inc., Kitchener, Canada | Member of the Board of Directors
- PWO Czech Republic a.s., Valašské Meziříčí, Czechia | 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, Mexico, 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

Not a member of any other statutory supervisory boards in Germany and comparable
domestic and foreign supervisory bodies of commercial enterprises

34 PROPOSAL FOR THE APPROPRIATION OF RETAINED EARNINGS

It is proposed to the Annual General Meeting that Progress-Werk Oberkirch AG's unappropriated retained earnings of EURk 4,778 as of December 31, 2019 be used as follows:

No payment of a dividend	EURk 0
Carried forward to new account	EURk 4,778

The aforementioned dividend proposal takes into account the operational and financial challenges and adverse economic effects on the current year's business performance resulting from the spread of the coronavirus, and is intended to improve liquidity by waiving the distribution of the dividend. The Management Board is continually and thoroughly monitoring the situation and, based on the developments in the weeks to come and the resulting impact on the Company's business performance, the Management Board will review the proposal and may submit an updated proposal to the Annual General Meeting.

Oberkirch, March 26, 2020

The Management Board

Dr. Volker Simon (CEO)

Bernd Bartmann

Johannes Obrecht

INDEPENDENT AUDITOR'S REPORT

To Progress-Werk Oberkirch Aktiengesellschaft

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 Aktiengesellschaft, Oberkirch, consisting of the balance sheet as of December 31, 2019 and the income statement for the fiscal year from January 1 to December 31, 2019, 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 Aktiengesellschaft, Oberkirch, for the fiscal year from January 1 to December 31, 2019, which was combined with the group management report. In accordance with German legal provisions, we have not reviewed the content of the "Responsibility Statement" contained in the management report or the Corporate Governance Statement published on the website, whose webpage is referenced in the management report and which is a part of the management report.

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, 2019 and its results of operations for the fiscal year from January 1 to December 31, 2019, 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" and the content of the Corporate Governance 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.

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.

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, 2019. 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. The reporting year was also marked by the general weakening of the automotive environment, which varied in degree in the different geographic regions in which the Company operates. In this context, the recoverability of financial assets was a particularly important audit matter.

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 the 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.

REVENUE RECOGNITION

Reason for Designation as a Key Audit Matter: Essential activities of the Group's business include the production of series parts, the development and production of tools and contract-related development services. Revenue is always recognized at the point in time in which the underlying service has been rendered or the goods have been delivered, i.e., the ownership has been transferred to the customer. The revenue recognition of tools, in particular, is subject to the risk that revenue is recognized at an earlier point in time as a result of the manual recording leading to the incorrect timing of tool sales. Revenue recognition represents a key audit matter because of the significance of revenues and the related effects on earnings, and due to the fact that revenues and earnings before interest and taxes (EBIT) are key financial performance indicators in the Group's management and planning.

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 customers and specifically the contractual provisions on the timing of the transfer of risk and invoicing procedures. Based on random samples, we reviewed if the corresponding customer acceptance was available for tool revenues recognized in December, and that the corresponding revenues had been recognized in the correct period. We requested random confirmation of balances for tool receivables outstanding as of the reporting date.

In addition, we reviewed the systematic approach for the posting of all revenues reported in the 2019 financial year using data analyses and assessed the logic of its recognition against the background of the existing processes. We have also analyzed items that were recognized in all revenue during the year that do not constitute invoices (such as credits) and reviewed these for any unusual activity. This review also included an analysis of unusual margin fluctuations over time. Deviations from our expectations were assessed on the basis of additional audit activities based on the findings, taking into account further evidence from the audit.

We have also examined revenues to determine whether the corresponding trade receivables were settled in the customary framework by payments of the invoice amount. We have randomly reconciled incoming payments with the corresponding account statements.

To be able to detect any abnormalities in the results realized in connection with revenues, we compared the revenue recognized in the respective months of the 2019 financial year with the corresponding cost of production to determine whether there were any discernable unanticipated fluctuations in the gross margin.

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

Reference to Corresponding Information: For the accounting policies applied for revenue recognition, please refer to the disclosures in the Company's notes to the financial statements.

OTHER INFORMATION
The legal representatives are responsible for the other information comprising the combined management report and the "Responsibility Statement" included in the combined management report, the Corporate Governance Statement mentioned above, the Non-financial Statement published on the Internet, as well as other parts of the annual report that are expected to be made available to us after issuing the audit opinion.

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 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.

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 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.

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 a 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 the arrangements and measures relevant to the audit of the management report, to design audit procedures that are appropriate for the circumstances but not to express 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 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 combined 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 combined 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 22, 2019 and commissioned by the Supervisory Board on July 1, 2019. 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 26, 2020

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Göhner	Scheppank
Auditor	Auditor

RESPONSIBILITY STATEMENT

„We declare to the best of our knowledge, and in accordance with the applicable accounting standards, the annual financial statements provide a true and fair view of the Company's net assets, financial position and results of operations, and the management report of Progress-Werk Oberkirch Aktiengesellschaft, which is combined with the Group management report, presents the Company's business performance, including the financial performance and the financial position, in a manner that gives a true and fair view and describes the principal opportunities and risks of the Company's anticipated development."

Oberkirch, March 26, 2020

The Management Board

Dr. Volker Simon (CEO)

Bernd Bartmann

Johannes Obrecht

IMPRINT

INVESTOR RELATIONS CONTACTS

BERND BARTMANN
Member of the Management Board
(Administration and Finance)

Telephone: +49 7802 84-844
Fax: +49 7802 84-789
ir@progress-werk.de

CHARLOTTE FRENZEL
Investor Relations

Telephone: +49 7802 84-844
Fax: +49 7802 84-789
ir@progress-werk.de

DESIGN
Büro Schramm für Gestaltung GmbH,
bueroschramm.de

Figures in this annual report are typically presented in EURk. 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, gender-neutral as well as gender-specific forms are used. Hereby all genders are expressly meant.

PROGRESS-WERK OBERKIRCH AG
P.O. BOX 1344
77697 OBERKIRCH
GERMANY

TELEPHONE: +49 7802 84-0
TELEFAX: +49 7802 84-356
INFO@PROGRESS-WERK.DE
WWW.PROGRESS-WERK.DE