

2018 CORPORATE GOVERNANCE REPORT

Our corporate mission is rooted in our broad sense of responsibility. We believe it is our duty to deal faithfully with all stakeholders today and in the future and deliver long-term and sustainable value appreciation as a socially active company. These principles are the foundation of our corporate governance, not only at Progress-Werk Oberkirch Aktiengesellschaft (“PWO,” “PWO AG” or “Entity”) but also at our Group companies (together, the “Group” or “Company”).

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

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

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

DECLARATION OF CONFORMITY PURSUANT TO SECTION 161 AKTG

In December 2018, the Management Board and the Supervisory Board issued the following Declaration of Conformity according to Section 161 AktG:

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

CODE ITEM 3.8 | D&O INSURANCE

For the Supervisory Board, the Articles of Association stipulate a deductible equal to half of the fixed annual remuneration of the Supervisory Board member. The Company is of the opinion that an adequate provision has been made, especially as a higher deductible would not serve to increase the motivation and sense of responsibility of the members of the Supervisory Board.

CODE ITEM 4.1.5 | FILLING EXECUTIVE POSITIONS

The Management Board should keep diversity in mind when filling executive positions within the Company and make a special effort to appropriately consider women for these positions. When filling executive positions, the Management Board guided itself by the Company’s interests and the statutory requirements. Priority has therefore been given to the professional and personal qualifications of candidates – irrespective of their gender – and this will continue to be the case in the future. The Management Board has complied with the applicable legal requirements with respect to setting targets for the proportion of women in the two management levels below the Management Board and specifying a deadline to achieve these targets.

CODE ITEM 4.2.3 | CONTRACTS WITH MANAGEMENT BOARD MEMBERS

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

CODE ITEM 5.3.3 | NOMINATION COMMITTEE

The Supervisory Board believes it is unnecessary to form a Nomination Committee, as the previous practice of drafting nominations for suitable candidates for new election or re-election of Supervisory Board mandates by the Annual General Meeting has proven to be effective and efficient. Since the Supervisory Board consists of a total of six members, it also considers it appropriate for the entire Supervisory Board to involve themselves in the nomination of Supervisory Board candidates.

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

Oberkirch, December 2018

Progress-Werk Oberkirch AG

The Supervisory Board
Karl M. Schmidhuber (Chairman)

The Management Board
Dr. Volker Simon (CEO)
Bernd Bartmann (CFO)
Johannes Obrecht (COO)

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

RELEVANT INFORMATION ON CORPORATE GOVERNANCE PRACTICES

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

CORPORATE VALUES

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

CUSTOMERS, PRODUCTS AND GLOBAL PRESENCE

Continually satisfied customers is our key objective in all that we do. We are there worldwide, where our customers need us. We offer innovative solutions to meet their requirements. This allows us to enter new markets early on.

EMPLOYEES

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

INVESTORS, SUPPLIERS AND THE GENERAL PUBLIC

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

GOVERNANCE PRINCIPLES

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

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

TRANSPARENCY

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

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

WHISTLEBLOWER SYSTEM

Violations of laws, as well as unlawful and non-compliant behavior toward business values can have far-reaching implications, including the threat of fines, claims for damages or the confiscation of profits. Not only this, but there can be massive damage made to the Company's image and a loss of reputation.

In order to prevent or, at least, quickly detect and counter legal and other violations, we implemented a whistleblower system created by EQS Group AG and have been using it since 2018. This system gives whistleblowers a communication channel protected by special encryption and security technologies, through which they can report evidence of misconduct by employees and external parties around the clock. Reports can also be made anonymously when this is permissible under local law.

The prerequisite for gaining acceptance for the system is that it is fair in its design and protects both the whistleblower and the person affected. We have defined these criteria in our guideline entitled "Reporting of Suspicious Activity and Concerns."

RISK MANAGEMENT

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

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

We firmly believe that the only decisive criteria when filling executive positions are a candidate's professional expertise and leadership skills.

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

Effective as of July 1, 2017, the Management Board also set the target ratio for women at the two management levels below the Management Board to be achieved by June 30, 2022. The target ratio for the first level of management was set at zero percent and the ratio for the second level was set at 12.5 percent. Overall, the proportion of women in the company is very low, which is inevitably also reflected in the composition of management levels.

The above-mentioned targets for the proportion of women on the Supervisory and Management Boards and the two management levels below the Management Board were achieved in the reporting period.

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

DIVERSITY IN THE MANAGEMENT AND SUPERVISORY BOARDS

The Supervisory Board strives to comprise itself of members that ensure that the Management Board receives qualified supervision and advice. The members, as a whole, should have the knowledge, skills and professional experience necessary to properly perform the duties of a supervisory board for an internationally active, publically listed company in the automotive supplier industry.

In accordance with Item 5.4.1 of the German Corporate Governance Code, the Supervisory Board has specified the following concrete objectives for its composition, which take into account the Company's specific situation, including its international activities, potential conflicts of interest, number of independent Supervisory Board members and an age limit to be set for these members, as well as a standard limit to be set for the term of service allowed on the supervisory board and other aspects of diversity that should be adequately considered:

Experience and (specific) knowledge

The Supervisory Board as a whole should possess the expertise that is considered essential in view of Group's activities. This specifically includes in-depth experience and knowledge in

- managing a larger international company;
- the automotive supply business and value creation along different value chains;
- the field of product and process development and particularly in the technology relevant for the company and peripheral or related areas;
- the areas of sales and procurement markets as well as production, quality, distribution and supply chain structures in the automotive industry;
- contract and capital market law;
- business administration and controlling;
- accounting, bookkeeping, financing and taxation;
- the areas of corporate governance, compliance, CSR, risk management and internal audit;
- the field of digitization (opportunities/risks); and
- HR management.

Independence

More than half of the members of the Supervisory Board should be independent within the meaning of Item 5.4.2 of the German Corporate Governance Code, whereby it is assumed that the fact of an employment relationship with the Group in itself does not call into question the independence of the employee representative. The Supervisory Board should not include more than two former members of the Management Board.

International Expertise

At least half of the shareholder representatives should have long-term international experience.

Age Limit

Generally, the members of the Supervisory Board should not be older than 70 years of age when they are elected. A deviation from this rule may be possible in individually justifiable cases.

General Limit for Length of Membership

Generally, membership on the Supervisory Board should not exceed 20 years or four terms of office. A deviation from this rule may be possible in individually justifiable cases.

PARTICIPATION OF ALL GENDERS

The Supervisory Board seeks to include all genders in its composition when possible.

By diversity, the Supervisory Board refers in particular to different, complementary skill profiles, (industry-) specific and (professional) experience, as well as (technical) knowledge, international expertise and independence, regardless of gender. Of particular importance here are professional backgrounds, experience and (technical) knowledge.

The Supervisory Board works to integrate the concept of diversity in its composition by taking into account to the greatest extent possible the above-mentioned objectives for selecting suitable candidates when nominating Supervisory Board members. The Company's interests, as well as individual circumstances, are always the key criteria for the Supervisory Board's decision as to the nominations to be made to the Annual General Meeting.

The current composition of the Supervisory Board meets the targets set for the Supervisory Board's composition and the related diversity objectives.

The Supervisory Board will duly consider the diversity aspects that are important to it in any development-related adjustments to its required profile for the body as a whole.

The Supervisory Board also takes diversity into consideration when appointing members of the Management Board. The Supervisory Board did not prepare a separate formal diversity concept for the Management Board, as it considers this to be inappropriate because there are three Management Board members.

CODE OF CONDUCT AND BUSINESS PARTNER CODE OF CONDUCT

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

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

Since the 2016 fiscal year, our requirements for the behavior of our business partners have been summarized in a Business Partner Code of Conduct. This Code is available on our website and applies Group-wide. The Code also outlines our expectation that business partners consider and communicate our principles and requirements when selecting their subcontractors.

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

THE WORKING PRACTICES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

As a stock corporation under German law, PW0 AG is subject to the relevant statutory provisions regarding management and supervision. Its dual management and control structure consists of a Management Board and a Supervisory Board. The Management Board and the Supervisory Board base their management and monitoring

of the Company on the German Corporate Governance Code in its relevant current version.

MANAGEMENT BOARD

The Management Board of PW0 AG currently consists of three members and takes sole responsibility for the Company's operational management and strategic development. The principles of cooperation are summarized in the Board's Rules of Procedure, and the assignment of duties within the Board is documented in the Schedule of Responsibilities.

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

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

The CEO coordinates the management of the Company via the entire Board. The board members are obliged to regularly inform the CEO of any major transactions and on the progress of business in their respective departments. Board meetings should take place at regular intervals and, if possible, at least bi-weekly and on dates established far in advance.

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

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

The Management Board's Rules of Procedure define a list of transactions and activities that require the prior approval of the Supervisory Board.

SUPERVISORY BOARD

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

The Supervisory Board of PWO AG consists of six members. Two-thirds of the Supervisory Board is comprised of shareholder representatives, and one-third is comprised of employee representatives. The financial expert as defined in Section 100 (5) AktG is currently Carsten Claus.

The goals for the composition of the Board and fulfilling the competency profile within the entire Supervisory Board are taken into account in the Supervisory Board's proposals to the Annual General Meeting for the election of Supervisory Board members. The current composition of the Supervisory Board complies with these target and profile requirements; namely that all members of the Supervisory Board are acquainted with the automotive and electrical sectors relevant to Company and Group activities, with at least one Supervisory Board member possessing expertise in the areas of accounting or auditing.

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

The Supervisory Board's Rules of Procedure stipulate the formation of committees and governs their powers. There

are currently two committees: the Personnel Committee and the Audit Committee.

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

The Audit Committee rather than the Supervisory Board conducts the preliminary examination of the financial statements, the management report and the auditor's audit report. The Audit Committee also conducts the preliminary review of the consolidated financial statements and group management report and assumes the other assigned duties laid out in the German Corporate Governance Code. The Committee consists of the Supervisory Board's chairperson, one shareholder representative and a Supervisory Board employee representative. The Supervisory Board may also appoint other Supervisory Board members to the Audit Committee. The members of the Audit Committee in their entirety must be acquainted with the sector in which the Company operates. The chairperson of the Audit Committee should not be the chairperson of the Supervisory Board or a former member of the Management Board whose appointment ended less than two years before. The actions of the Audit Committee are governed by its own separate rules of procedure.

The chairpersons report to the Supervisory Board on the consultation and resolutions of the respective committees. Further details on the composition and working practices of the Supervisory Board and its committees, particularly the number and subject of the meetings in the 2018 fiscal year, can be found in the Report of the Supervisory Board.

ADDITIONAL CORPORATE GOVERNANCE DISCLOSURES

SHAREHOLDERS AND THE ANNUAL GENERAL MEETING

The Management Board feels a special obligation toward the shareholders. As owners of PWO AG, they provide the capital for maintaining and expanding their Company's

international market position. The most important obligation of the Management Board, therefore, is to secure PWO AG's viability and permanently strengthen the competitiveness of the Company and its subsidiaries, while at the same time achieving a sustainable and attractive return on the capital provided.

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

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

MANDATES OF THE MANAGEMENT BOARD

Outside of the Group, Bernd Bartmann serves as the deputy chairman of the Supervisory Board of *avenit AG*, Offenburg. He is also a member of the Advisory Board of the *Wirtschaftsverband Industrieller Unternehmen Baden e. V.* (Chamber of Industry and Commerce in Baden) and a member of the Advisory Board of the *Sparkasse Offenburg/Ortenau*. Dr. Volker Simon and Johannes Obrecht hold positions at the *Offenburg University of Applied Sciences* as members of the Board of Trustees and the Founder's Committee.

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

SHAREHOLDINGS OF GOVERNING BODIES

Dr. Georg Hengstberger, who is a member of the Company's Supervisory Board, is a shareholder and the managing director of *Consult Invest Beteiligungsberatungs-GmbH*, Böblingen. As of the end of the 2018 fiscal year, this entity held 46.62 percent of the outstanding shares of PWO AG.

During the past fiscal year, the Company was not made aware of any transactions that were subject to statutory disclosure under Article 19 of the Market Abuse Regulation (MAR). Notifications of managers' transactions and those of closely related persons under Article 19 MAR are available on our website at <https://www.progress-werk.de/en/investors-press/the-pwo-share/managers-transactions/>.

STOCK OPTION PROGRAMS

Stock option programs or similar stock-based incentive systems did not exist in the 2018 fiscal year, and there are currently none in existence.

ACCOUNTING AND AUDITING

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

The consolidated financial statements and the financial statements were audited by *Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft*, Stuttgart, who was elected by the 2018 Annual General Meeting. The Supervisory Board has agreed with the auditor that the Audit Committee chairperson shall be informed immediately of any disqualification or bias issues during the audit that cannot be immediately resolved. The auditor should also promptly report to the Supervisory Board on all important facts and events that arise during the audit and are material for carrying out the tasks of the Supervisory Board.

REMUNERATION REPORT

The remuneration report explains the principles of the remuneration system for the Management Board and the Supervisory Board and discloses the remuneration of the members of the Management Board and Supervisory Board in the 2018 fiscal year. The remuneration report is part of the management report and is therefore published in the 2018 Annual Report.