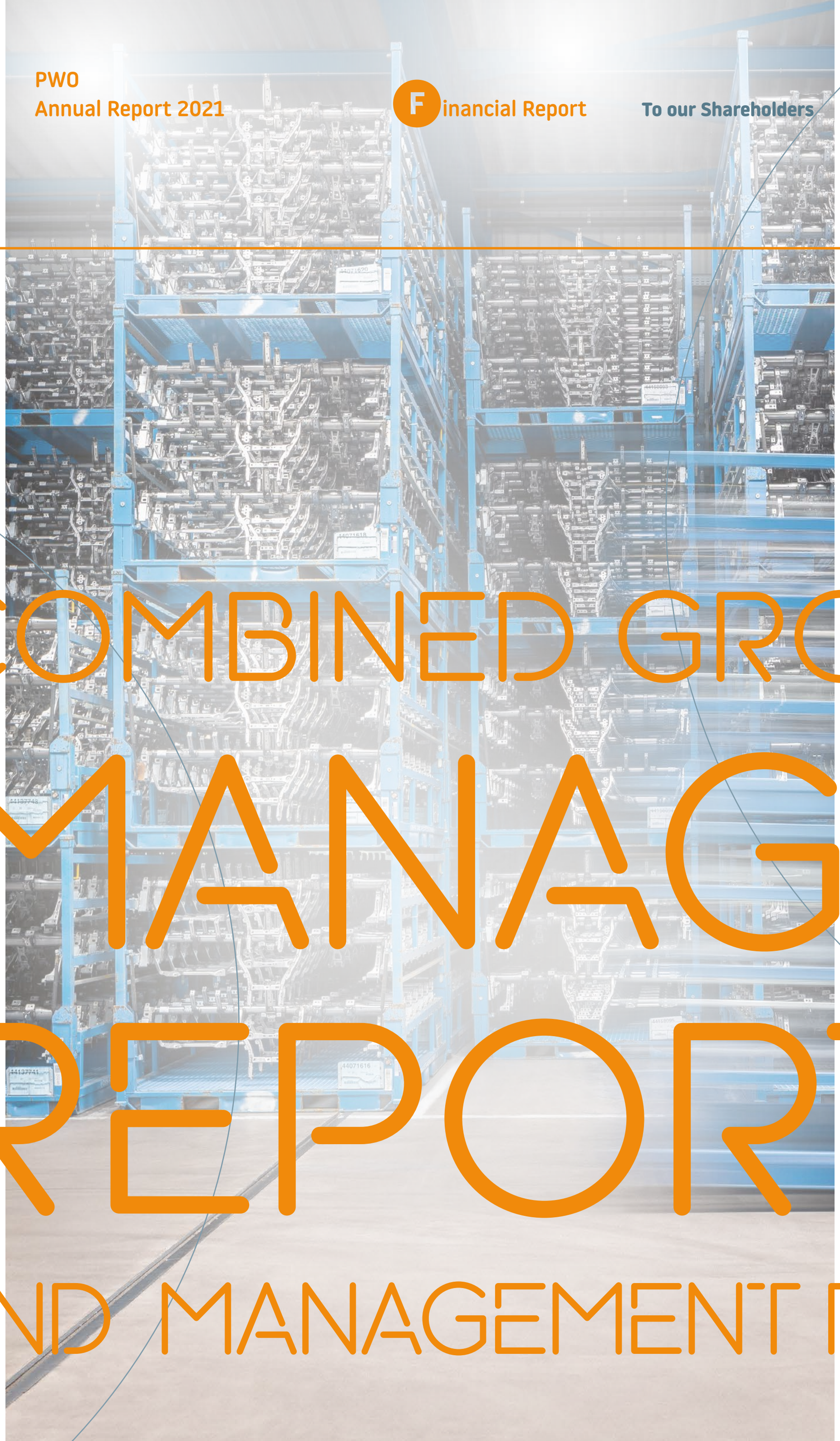


COMBINED GROUP MANAGEMENT REPORT AND MANAGEMENT REPORT OF PWO AG

The combined management report for the January 1 through December 31, 2021 fiscal year contains the reports for Progress-Werk Oberkirch Aktiengesellschaft, Oberkirch, ("PWO," "PWO AG," the "Company") and the PWO Group ("Group"). The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (hereinafter referred to as IFRS), as applicable in the European Union, and the supplementary provisions of the German Commercial Code. PWO AG conducts its accounting according to the provisions of the HGB (hereinafter referred to as HGB) in its currently valid version and the supplementary provisions of the German Stock Corporation Act (hereinafter referred to as AktG).

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

Group Principles

Business Model

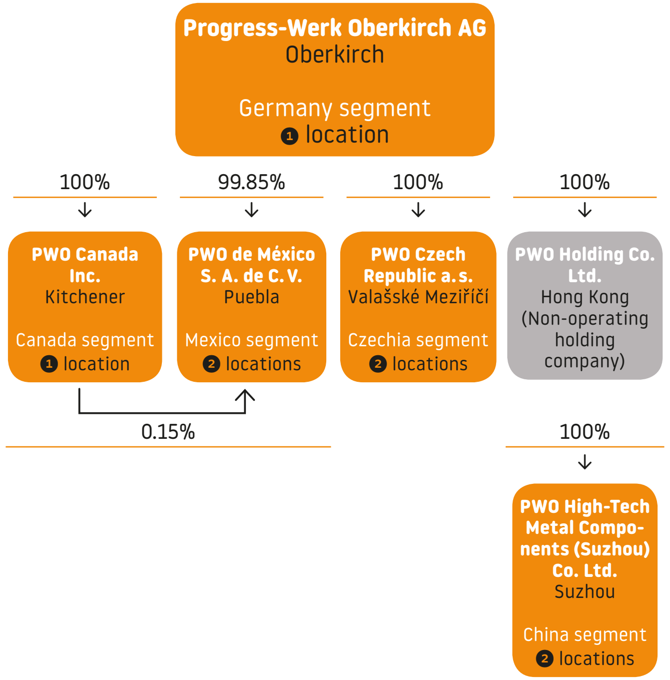
Organizational Structure of the Group

The PWO Group manufactures lightweight construction components made primarily of steel and, to a limited extent, aluminum sheets for the international mobility industry. PWO AG, headquartered in Oberkirch, Germany, is the Group's main location. The management of the Group is carried out from this head office. The Company's international business is generally located at its direct subsidiaries. Solely in China, PWO has established an intermediate holding company based in Hong Kong. This holding company continues to be a non-operating company.

PWO AG is led by an Executive Board consisting of 3 members. A six-member Supervisory Board forms the supervisory body. The Supervisory Board has delegated some of its tasks to committees. These tasks are described in detail in the Report of the Supervisory Board.

Sales Markets, Locations, and Segments

The PWO Group has a streamlined legal structure:



The PWO Group is represented worldwide by a total of 8 locations. These are

- PWO AG, Oberkirch, Germany, 1 location
- PWO Czech Republic a.s., Valašské Meziříčí, Czechia, 2 locations
- PWO Canada Inc., Kitchener, Canada, 1 location
- PWO de México S.A. de C.V., Puebla, Mexico, 2 locations
- PWO High-Tech Metal Components (Suzhou) Co. Ltd., Suzhou, China, 2 locations

Each of the Group companies are responsible for their own business and operational management within the framework of the Group's overall strategy. Because they do not refinance themselves independently but rely on refinancing from the Group, the decisions on the allocation of the capital expenditure required for their growth are made by PWO AG's Executive Board. The 5 business segments – Germany, Czechia, Canada, Mexico, and China – are defined along this dominant internal organizational structure and correlate to the sales markets in which PWO AG and its subsidiaries operate.

Positioning, Expertise and Processes

We develop and manufacture tailor-made solutions for our customers – international automotive manufacturers and Tier 1 suppliers – for large series with unit volumes that sometimes stretch into the millions. We focus on solutions for the 3 trends of the mobility of the future: electrification, safety and comfort. We are entirely independent of internal combustion engines.

We manufacture our components using the cold formation of steels and, to a lesser extent, stainless steel and aluminum. Above all, we provide lightweight construction solutions, in material lightweight construction (replacing conventional deep drawing steel with modern high-strength and ultra high-strength steel), in structural lightweight construction (minimizing a construction component's material usage) and in system lightweight construction (optimizing a component group's material usage). Using various joining technologies, we assemble the individual manufactured components into subsystems.

The Group's revenue in the past fiscal year was broken down into the 3 strategic product areas:

The first, mechanical components for electrical/electronic applications, accounted for 22.9 percent of revenue, followed by safety components for airbags, seats and steering with 31.7 percent, and structural components and subsystems for body and chassis with 45.4 percent.

The components from the first 2 areas are supplied primarily to international Tier 1 suppliers, who in turn supply them to various automakers as components of their own systems for numerous vehicle models. In contrast, the components from the third area are largely manufactured directly on behalf of the vehicle manufacturers on a model-specific basis. Here, too, the range of applications is extended through platform concepts on which the different car models of the manufacturer are based.

Development

We develop our components and subsystems for customers primarily on an individual basis. Consequently, the majority of expenses for product and process development are incurred within the scope of customer projects. PWO's internal development activities and the services provided by third parties for these purposes amounted to approximately 3 percent of revenue in the reporting year (p/y: approx. 3 percent), of which EUR 0.5 million (p/y: EUR 1.0 million) were capitalized as development costs. We do not conduct any research.

External Factors Affecting Operations

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

Other external influential factors and their impact, such as fluctuations in sales volumes and prices, supply chain risks in our industry, changes in procurement prices and exchange rates and, last but not least, the transformation of the mobility industry, are presented in the report on opportunities and risks.

Management System

Only financial indicators are currently defined as the Group's overriding key performance indicators in the management system. The most important indicators did not include non-financial performance indicators. Nonetheless, these indicators are becoming increasingly important, especially indicators relating to the environment and, in particular, climate protection. This is why, in the reporting year, we launched a comprehensive project in collaboration with external experts to further develop our ESG strategy – i.e. our **e**nvironmental, **s**ocial and **g**overnance strategy. In this context, we will also determine non-financial performance indicators as important management indicators.

The Group's key financial performance indicators are primarily revenue, EBIT (earnings before interest and taxes) before currency effects, free cash flow, the equity ratio, dynamic leverage and capital expenditure. The definition of these indicators is presented in the chapters "Results of Operations, Net Assets and Financial Positions." For the management of the segments, we focus in particular on external revenue and EBIT before currency effects.

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

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

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

However, this does not mean that all of these targets will be achieved every year. The current transformation process in the mobility industry requires us to critically review the positioning of our locations on an ongoing basis and, where necessary, to approve higher spending or investment in the short term to ensure future market success.

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

Report on Business Development

Macroeconomic Environment

Following the severe recession in 2020 triggered by the outbreak of the global COVID-19 pandemic ("the pandemic"), the global economy picked up again in 2021 despite the pandemic continuing, according to the International Monetary Fund (IMF). Based on the IMF's initial estimate in January 2022, global economic output rose by 5.9 percent in real terms following a 3.1 percent fall in 2021.

The recovery was seen across many different regions, albeit to differing degrees. Among industrialized nations, for example, Japan reported growth of just 1.6 percent, while France and the United Kingdom enjoyed the highest growth rates of 6.7 and 7.2 percent respectively. China was the only major country to avoid a recession in 2020 and saw growth pick up to 8.1 percent in the following year, meaning that the country's share of global economic output also rose in 2021. By contrast, gross domestic product (GDP) in the US rose by 5.0 percent, far lower than global GDP growth.

Both the eurozone and the European Union recovered by 5.2 percent overall, but this was significantly curbed by below-average performance in Germany, where the German Federal Statistical Office puts GDP growth at 2.8 percent. This was by no means enough to make up for the sharp decline in economic output in 2020, especially for industrial production. The German economy as a whole suffered from pandemic-related setbacks chiefly in the final quarter of 2021, with industry experiencing particularly severe supply-side bottlenecks throughout the year.

These bottlenecks, stemming chiefly from global supply chain disruption and production shortages – especially for electronics components – caused the prices of raw materials, intermediate products and logistics to skyrocket as it was not possible to meet growing demand. Suppliers were thus able to raise prices sharply. Energy prices were another key driver of inflation. The price of crude oil increased by more than 67 percent in 2021. Inflation trends continued into 2022.

In light of this situation, many central banks have now begun moving from extremely expansionary monetary policy to a more restrictive approach. For example, some central banks have already increased their base rates, including the Bank of England which did so in December 2021. In the second half of 2021, the US Federal Reserve announced that it was moving away from its previous expansive monetary and interest rate policy and that it would gradually suspend bond purchases and raise interest rates on multiple occasions this year. The European Central Bank also scaled back its bond purchases and said that it will end these by March 2022. However, it left its interest policy unchanged until into the first quarter of 2022.

The International Automotive Industry Environment

After a sharp downturn in the previous year, the international automotive industry market experienced a turbulent 2021. Given the low prior-year basis and catch-up effects, high growth rates were generated in some cases, primarily in the first half of the year. However, the second half of the year, especially December, saw the situation deteriorate significantly as the sector was hit hard by shortages of electronics components. In addition, the shortages of other intermediate products and raw materials and rising energy and logistics prices as described in the previous section also took a toll. All in all, however, Europe (EU27, EFTA & UK) was the only 1 out of the 3 major sales regions to see sales fall in 2021 as a whole. Sales in the US and China picked up slightly.

Just under 11.8 million new vehicles were registered in the European car market in 2021, about 2 percent less than in the previous year. Accordingly, Europe has not yet recovered from the pandemic-related setbacks of the previous year. Performance varied in the 5 largest individual European markets, with Italy reporting an upturn of just under 6 percent and France, Spain and the United Kingdom experiencing lower growth (up 1 percent in each case). In Germany, by contrast, 10 percent less cars were registered than in the prior year. The overall European market was characterized by declines at the end of 2021: 950,200 cars were newly registered in December, a 22 percent year-on-year decrease.

In the US, light vehicle sales (cars and light trucks) picked up by 3 percent to 14.9 million in 2021 but remained far lower than pre-pandemic levels of about 17.0 million in 2019. Sales of light trucks (up 5 percent) performed better in 2021 than sales of cars, which declined by 2 percent. Here, too, the year ended on a weak note: 1.2 million new vehicles were sold in December, down about a quarter (down 26 percent) on the previous year.

The Chinese car market ended 2021 with a market volume of 21.1 million new registered vehicles. With growth of almost 7 percent, the overall figure for the year was thus better than in 2019, the year before the pandemic. Nonetheless, the record sales volume achieved in 2017 was still not surpassed. In Japan, sales of new cars declined by almost 4 percent last year to 3.7 million vehicles. Light vehicle sales (cars and light trucks) in Russia rose by 4 percent to just under 1.7 million in 2021.

The German market is now influenced heavily by the shift towards alternative drives which accounted for 43 percent of all new car registrations in 2021 (battery electric vehicles "BEV," fully electric vehicles; hybrids; plug-ins; fuel cells; gas; hydrogen). This represents a year-on-year increase of 70 percent. At 26 percent, more than a quarter of all new vehicles were electric drives (BEV, plug-ins, vehicles with a fuel cell), 93 percent more than in the previous year. The share of BEV cars climbed by 103 percent to 13.6 percent.

New Registrations/sales of Passenger Vehicles

in units

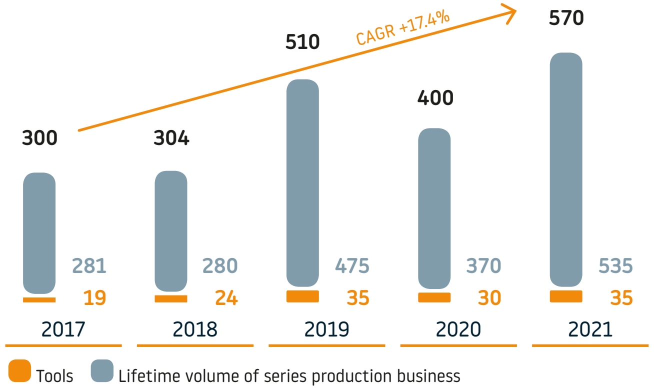
Region	Full-year 2021	Change vs. 2020 (%)
Germany	2,622,202	-10.0
Western Europe (EU14 + EFTA + UK)[1]	10,600,400	-1.9
New EU countries (EU13)[1]	1,174,500	1.5
Europe (EU27 + EFTA + UK)[1]	11,774,900	-1.5
USA[2]	14,913,700	3.1
China	21,090,200	6.6

[1] Excluding Malta
[2] Light Vehicles

Sources: German automotive industry association, German Federal Motor Transport Authority

Lifetime Volume 2017–2021

(EUR million)



Business Development

Order Situation

Our range of future mobility solutions focuses on the 3 trends of electrification, safety and comfort. We are entirely independent of internal combustion engines. Nonetheless, we work with vehicles regardless of the type of drive and are therefore very well positioned for the mobility industry's transformation process.

The high level of new business in the reporting year underscores our solutions expertise. Stepping up our regular, close collaboration with several of our international locations and specialist areas in sales also paid off. We intend to continue to build on this global approach further in the future. Overall, we generated new business with a lifetime volume of about EUR 570 million in the 2021 fiscal year, including associated tool volumes of around EUR 35 million.

In particular, instrument panel carriers contributed significant volumes. In the future, we will manufacture these at our Czech locations for the all-electric touring station wagon of a European customer, who we are supplying with these products for the first time. PWO locations in eastern Europe and China will supply instrument panel carriers to several customer locations for another customer.

Considerable order volumes were also secured for electric engine casing and airbag components. One international automotive supplier is about to switch to a new generation of steering wheel airbags. We will supply a wide range of variants for this, which will be used in numerous vehicle models by different manufacturers.

In the future, we will supply another manufacturer with air spring components for various luxury vehicles. We also acquired another customer who we will supply with a whole package of body components for the global production of a sport utility vehicle.

The vast majority of the current new business is expected to go into production in the 2022 and 2023 fiscal years. However, producing instrument panel carriers generally requires lengthy preparation times and so series production here is not planned to start until 2024 and 2025.

All of our locations generated high volumes, which in some cases easily exceeded annual revenue in 2019, prior to the pandemic. As many orders include supplying platforms that are used to produce various vehicle models with different start-up and phase-out times, the series lifetime is often at the upper end of the typical range for our business of 5 to 8 years on average. However, to the extent that non-model-specific components are manufactured for suppliers, the duration may be significantly longer.

Financial Situation

General Statement of Business Performance and Group's Position

The pandemic continued to present major challenges for economies and populations across the world in the 2021 reporting year. PWO successfully mitigated the negative impact, chiefly because all of our supply chains remained stable throughout the entire reporting year and so we were able to deliver at all times.

At the same time, we implemented comprehensive adjustments at the Oberkirch production site in particular. These will be continued in the 2022 fiscal year. We also prepared our international locations for their planned future growth, which is underpinned not least by high new business in the reporting year and specific contracts. This means that the Group is now far better positioned and more competitive than at the end of fiscal year 2020.

We firmly believe that we can successfully counter the further difficulties resulting from the pandemic and supply chain disruption and continue to successfully develop the Group in the next few years.

Comparison of Forecast to Actual Business Results

	2021 actual results	Most recent forecast for 2021	Forecast for 2021 according to 2020 Annual Report	Actual results according to 2020 Annual Report
Revenue	EUR 404.3 million	EUR 400 million to EUR 410 million[1]	Approx. EUR 380 million	EUR 371.2 million
EBIT before currency effects	EUR 22.1 million	EUR 15 million to EUR 18 million[1]	Positive in low double-digit millions	EUR -8.1 million
Capital expenditure according to segment report	EUR 16.2 million	> EUR 20 million	> EUR 20 million	EUR 13.8 million
Free cash flow	EUR 4.9 million	Negative in low double-digit millions	Negative in low double-digit millions	EUR 29.1 million
Equity ratio	33.6 percent	30 percent[2]	Flat	28.7 percent
Dynamic leverage ratio (financial liabilities less cash and cash equivalents in relation to EBITDA)	2.2 years	< 3.5 years[2]	Less than 4 years	4.8 years
Lifetime volume of new business (series and tool orders)	Approx. EUR 570 million	Towards EUR 600 million[3]	Towards EUR 500 million	Approx. EUR 400 million

[1] Forecast dated April 23, 2021
[2] Forecast dated August 2, 2021
[3] Forecast dated November 22, 2021

Performance in the 2021 fiscal year was very volatile and affected by a wide range of factors that affected various aspects. We began the year with realistic estimates and firmed up our targets over the year in line with business and sector developments.

In the difficult fiscal year that has just ended, we succeeded in achieving and often significantly outperforming the forecasts for almost all key performance indicators.

Revenue was near the middle of the most recent forecast range. EBIT before currency effects, on the other hand, far exceeded the upper end of the range. This was thanks in part to positive revenue effects, as a higher share was generated at our profitable international locations than assumed, as well as positive extraordinary effects of EUR 2.3 million which are discussed in the “Results of Operations” section.

Capital expenditure remained lower than budgeted on account of the reporting date. This, alongside our liquidity-based balance sheet management, resulted in far higher free cash flow than anticipated. The equity ratio also declined and the dynamic leverage ratio was better than expected as a result.

We are very satisfied with the new business acquired, where we were substantially more successful than assumed at the start of the reporting year.

Results of Operations

Income Statement

SELECTED INFORMATION (EURk)	2021	in % of revenue	2020	in % of revenue
Revenue[1]	404,274	100.0	371,154	100.0
Total output	404,817	100.1	372,157	100.3
Cost of materials	217,921	53.9	191,559	51.6
Staff costs	110,729	27.4	107,282	28.9
Other operating expenses	42,914	10.6	61,998	16.7
EBITDA	47,155	11.7	21,169	5.7
Depreciation/amortization	25,332	6.3	31,268	8.4
EBIT before currency effects[1]	22,131	5.5	-8,123	-2.2
Currency effects according to the P&L	-308	-0.1	-1,976	-0.5
EBIT including currency effects	21,823	5.4	-10,099	-2.7
Profit or loss for the period[2]	14,742	3.6	-11,662	-3.1
No. of employees on Dec. 31, incl. temporary employees	2,957	–	3,093	–

[1] Group key performance indicator
[2] Net income/loss for the period is attributable in full to the shareholders of PWO AG

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

When comparing to the previous year, negative extraordinary items of EUR 24.0 million (net) in the 2020 fiscal year must also be taken into account. These are due primarily to expenses for recognizing provisions for personnel adjustment measures and adjustments to the carrying amounts of non-current assets. By contrast, the reporting year saw net positive extraordinary items of EUR 2.3 million, the result mainly of the reversal of provisions for personnel adjustment measures, contract negotiations with customers and changes in the value of property, plant and equipment in the Germany and Canada segments. The vast majority of the extraordinary items related to other operating income and the Germany segment.

Overall, business performed far better in the reporting year than in the previous year, which was dominated by the outbreak of the pandemic. Revenue picked up noticeably in line with this. EBIT improved in operating terms, i.e. even excluding the positive extraordinary items listed.

Yet after a very good start to 2021, the sector economy took a swift, significant tumble. This stemmed from considerable bottlenecks in global supply chains, which forced manufacturers to slow and sometimes even temporarily halt production. Overall, our industry was unable to meet end customer demand.

Given the lack of customer call-offs, we had to scale back our production significantly in some cases and temporarily halt it at some locations and introduce short-time work schemes at the German location. We discuss the assistance we received on account of these indirect effects of the pandemic in detail in the information about the segments. It totaled EUR 2.6 million at Group level.

Supply chain disruptions and materials shortages caused procurement prices to increase dramatically. Over the year, massive spikes in energy prices also weighed heavily on results of operations. Details of this can be found in the "The International Automotive Industry Environment" section.

Nevertheless, we were able to deliver at all times in the 2021 fiscal year. However, supply uncertainties, especially for electronics components, combined with rising prices tended to result in inflated call-offs along the entire supply chain as all market participants attempt to reduce their own supply risks. This presented additional problems for everyone affected. Call-off figures were frequently revised downwards at the very last minute within procurement and production approval periods. The need to make permanent changes to production quantities and, in turn, production processes, naturally created inefficiencies that strained the results of operations.

To cap the rise in the cost of materials ratio, we conducted ongoing negotiations with our customers regarding rapid price adjustments in line with the use of materials for our products and price increases at our suppliers. However, this generally involves a time delay, which was a major cause of the year-on-year rise in the cost of materials ratio in the 2021 fiscal year.

To secure our profitability, we also planned personnel resources as precisely as possible for the year as a whole. In principle, however, we aim to retain the qualified employees we need for the long-term development of the Group, even in periods of market weakness. The staff costs ratio declined in the reporting year compared to the 2020 fiscal year because the number of employees in the Germany segment decreased and we utilized short-time work allowances there. At the same time, the number of employees at the international locations rose overall.

The lower depreciation and amortization expense ratio – a result of capital expenditure in the 2 previous fiscal years being well below the long-term average on account of the pandemic – improved the results of operations.

The substantial downturn in other operating expenses compared to the previous year was chiefly because the extraordinary items in the 2020 fiscal year no longer applied, EUR 21.5 million of which had related to other operating expenses.

With slightly higher net debt, the negative balance of the financial result increased to EUR 6.2 million (p/y: EUR 6.0 million). Income taxes came to EUR 0.9 million (p/y: benefits of EUR 4.4 million), primarily because we benefited from existing loss carryforwards. Overall, net income for the period improved to EUR 14.7 million (p/y: EUR -11.7 million) and earnings per share to EUR 4.72 (p/y: EUR -3.73).

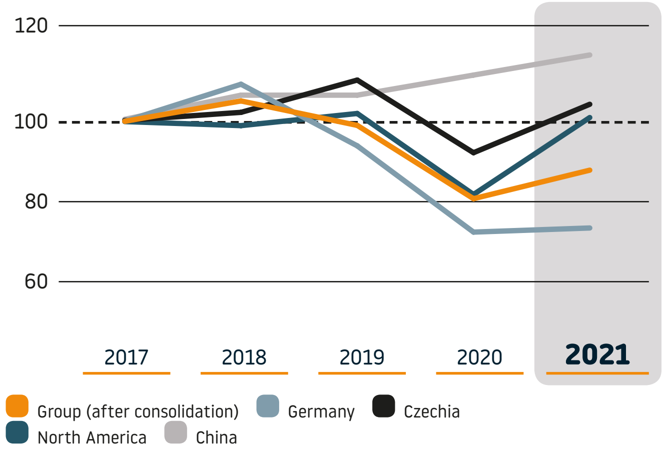
This meant that the net assets, financial position and results of operations were satisfactory again in the reporting year despite the once again exceptional challenges. The positive development of our international locations again made a major contribution to this performance.

Segments

In line with the Group's internal management system, our locations form the basis for segment reporting. The segments are defined according to the locations of the Group's assets, which is also the basis for the allocation of the Group's revenue. Intercompany revenue between the individual sites concerns mainly deliveries of series parts and tools.

In the tables that follow, we present selected information on segment development. The indicators we use to manage the Group are labeled accordingly.

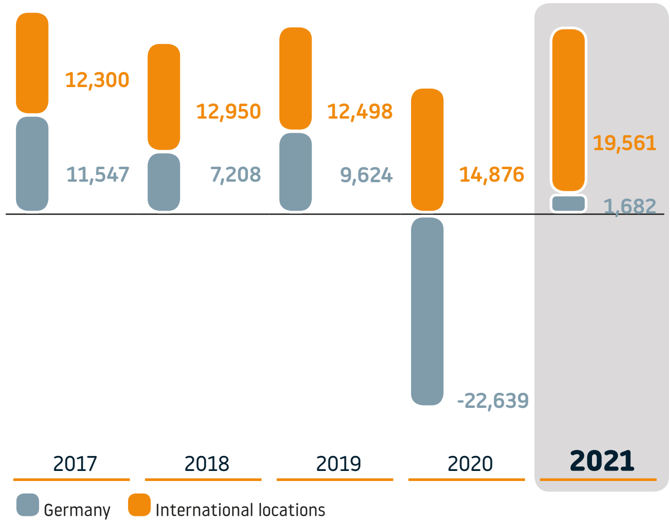
Change in External Segment Revenue over the Last 5 Years (indexed; 2017 = 100)



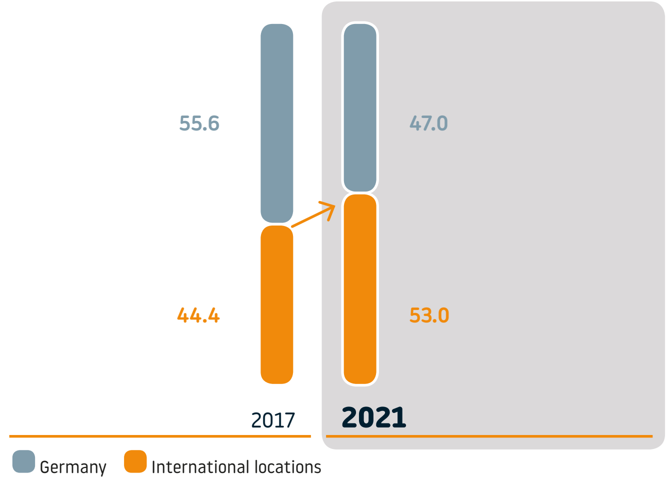
"North America" has been reported as 2 separate segments, "Mexico" and "Canada", since the 2020 fiscal year. For the purpose of prior year comparisons, they have been combined here again for 2020 and 2021 using the same definition as in the previous years.

International Locations Driving Income

(performance indicator: EBIT before currency effects in EURk)



Sharp Rise in Share of Revenue Attributable to International Locations in the Last 5 Years (in %)



EURk	2021	in % of external revenue	2020	in % of external revenue
SEGMENT GERMANY				
Total revenue	203,907	107.4	199,046	106.5
External revenue[1]	189,833	100.0	186,942	100.0
Total output	204,450	107.7	200,048	107.0
EBIT before currency effects[1]	1,682	0.9	-22,639	-12.1
EBIT including currency effects	1,349	0.7	-24,116	-12.9
No. of employees on Dec. 31, incl. temporary employees	1,151	–	1,419	–

[1] Key performance indicator for Group and segment

Our home location in Oberkirch, which forms the Germany segment, felt the effects of the particularly weak sector economy in Europe, with external revenue rising only marginally in the previous year. We utilized short-time work schemes throughout the entire year and were reimbursed a total of EUR 1.5 million in short-time work allowances for this.

This is primarily why results of operations improved substantially year on year, as most of the negative previous year extraordinary items were in the Germany segment, whereas the positive extraordinary items in the reporting year mostly affected this segment. While we expect further improvements as a result of the adjustments as the positive effects in connection with these gradually take effect, profitability in the Germany segment is still not satisfactory.

Accordingly, we continued the adjustments in the reporting year. As well as a wide range of measures to boost productivity, these mainly included implementing the site renovation program agreed in December 2020.

Another 2 agreements regarding a reconciliation of interests were successfully reached in connection with this. We again applied our responsible severance program for a total of 117 employees. As a result of the 3 agreements concluded as part of this, natural turnover and the reduction in the number of temporary employees, there were far fewer employees at the end of the reporting year than in the previous year.

Extensive efficiency analyses also resulted in additional productivity potential, which we want to tap into in the next 2 fiscal years by way of natural turnover. To achieve this, we are currently in the process of implementing a product line-based matrix organization in production. The aim of this is not only to harness synergies but also to ensure higher process quality, greater flexibility and faster decision-making in order to further strengthen the production site.

EURk	2021	in % of external revenue	2020	in % of external revenue
SEGMENT CZECHIA				
Total revenue	75,856	106.4	64,420	102.7
External revenue[1]	71,261	100.0	62,706	100.0
Total output	75,856	106.4	64,420	102.7
EBIT before currency effects[1]	6,045	8.5	4,549	7.3
EBIT including currency effects	5,895	8.3	4,515	7.2
No. of employees on Dec. 31, incl. temporary employees	648	–	613	–

[1] Key performance indicator for Group and segment

External revenue in the Czechia segment improved significantly thanks to starting and ramping up new series production. We began expanding the segment considerably in the reporting year. For details on capital expenditure, please see the explanations in the “Financial Position” section. The expansion negatively affected operating processes and management capacities. Regarding the growth planned in the 2022 fiscal year, we increased the number of employees substantially in the reporting year despite the sector downturn and have begun the required training. Thanks to highly efficient and resilient processes overall, the Czech locations largely offset these negative effects and the slowdown in the sector economy during the year. In turn, EBIT improved considerably year on year. Pandemic assistance in this segment totaled EURk 44.7 and comprised government support for those who had to quarantine or were at risk of unemployment and for the costs of testing.

EURk	2021	in % of external revenue	2020	in % of external revenue
SEGMENT CANADA				
Total revenue	34,548	101.5	31,080	100.4
External revenue[1]	34,022	100.0	30,941	100.0
Total output	34,548	101.5	31,080	100.4
EBIT before currency effects[1]	286	0.8	-151	-0.5
EBIT including currency effects	256	0.8	-237	-0.8
No. of employees on Dec. 31, incl. temporary employees	306	–	244	–

[1] Key performance indicator for Group and segment

External revenue also climbed considerably in the Canada segment. The segment is currently benefiting from start-ups and ramp-ups of new series productions and so can partially escape sector trends. Nonetheless, bottlenecks in our customers' supply chains were particularly pronounced here. The rise in revenue would have been greater if these had not occurred. This meant that we frequently had to adjust our operating processes to account for lower call-off figures than expected, which squeezed profitability in the segment.

We also simultaneously increased the number of employees significantly throughout the year for the same reasons as in the Czechia segment. Especially in the second half of the year, this also included increasing the number of temporary workers, which contributed to a substantial rise in other operating expenses. Unlike in the previous year, segment EBIT was thus positive again in the reporting year but remained stuck just over the break-even point. In Canada, the government provided companies with assistance through the CEWS program, which paid up to 75 percent of wages for Canadian companies affected by COVID-19. We received EUR 1.1 million in assistance in the reporting year.

EURk	2021	in % of external revenue	2020	in % of external revenue
SEGMENT MEXICO				
Total revenue	67,319	100.1	50,797	100.1
External revenue[1]	67,250	100.0	50,737	100.0
Total output	67,319	100.1	50,797	100.1
EBIT before currency effects[1]	7,973	11.9	2,757	5.4
EBIT including currency effects	7,797	11.6	2,646	5.2
No. of employees on Dec. 31, incl. temporary employees	531	–	495	–

[1] Key performance indicator for Group and segment

The Mexico segment also generated very strong revenue growth thanks to greater start-ups and ramp-ups of series productions, although customer supply chain bottlenecks brought production to a stop on multiple occasions at these sites too. The locations successfully resolved the resulting inefficiencies and the requirements due to series start-ups and almost tripled EBIT, highlighting how stable and resilient operating processes there are. There is no government pandemic assistance for companies in Mexico.

EURk	2021	in % of external revenue	2020	in % of external revenue
SEGMENT CHINA				
Total revenue	47,718	113.8	42,370	105.9
External revenue[1]	41,914	100.0	40,026	100.0
Total output	47,718	113.8	42,370	105.9
EBIT before currency effects[1]	5,347	12.8	7,725	19.3
EBIT including currency effects	5,729	13.7	7,456	18.6
No. of employees on Dec. 31, incl. temporary employees	321	–	322	–

[1] Key performance indicator for Group and segment

After barely feeling the effects of the pandemic at the start of the reporting year, the shortage of electronics components reached China, in the second half of the year too. Accordingly, revenue growth in our China segment was hampered by start-ups and ramp-ups of new series productions.

Results of operations in the China segment were also hurt by rising costs of materials and energy prices, like in the other segments. In addition, the segment was affected by site closures as a result of government electricity rationing. There is no government pandemic assistance for companies in China.

Nevertheless, taking into account positive operating effects of EUR 3.1 million in the 2020 fiscal year, which could not be extrapolated to the future, EBIT improved from purely operating activities.

Net Assets

Development of Equity Ratio and Dynamic Leverage Ratio

EURk	2021	2020
Equity	125,301	104,464
Total assets	373,272	363,654
Equity ratio[1] = Shareholders' equity % total assets	**33.6**	**28.7**
Non-current financial liabilities	68,926	67,800
Current financial liabilities	41,590	40,845
Cash and cash equivalents	-6,907	-6,161
Net debt	**103,609**	**102,484**
EBITDA	**47,155**	**21,169**
Dynamic leverage ratio in years = Net debt/EBITDA[1]	**2.2**	**4.8**

[1] Group key performance indicator

In the 2021 fiscal year, total assets increased to EUR 373.3 million (p/y: EUR 363.7 million). Non-current assets of EUR 224.6 million (p/y: EUR 225.7 million) were essentially unchanged, primarily a result of us maintaining our lower level of capital expenditure. Significant investment volumes were seen in the Germany, Czechia, Canada and Mexico segments. The main areas are explained in detail in the chapter "Financial Position."

Current assets, on the other hand, rose to EUR 148.7 million (p/y: EUR 137.9 million). This reflects higher raw materials, consumables and supplies; in light of strained supply chains, we are currently stockpiling more than in the previous year and this has to be purchased at massively inflated prices. Furthermore, current contract assets increased ahead of the major series start-ups planned for the 2022 fiscal year.

Due to our consistent liquidity management, we succeeded in maintaining net debt at virtually the same level in the reporting year, while trade payables increased as of the reporting date. The decline in pension provisions is chiefly attributable to higher capital market interest rates used for measurement. Together with equity, these 3 items represent the Group's main sources of financing. Under current liabilities, other liabilities and other current provisions in particular were far lower than in the previous year. This was driven primarily by implementing our personnel adjustment measures.

The net gain for the period, actuarial gains and positive foreign exchange differences contributed significantly to the increase in equity to EUR 125.3 million (p/y: EUR 104.5 million). As a result, the equity ratio improved to 33.6 percent (p/y: 28.7 percent) and the dynamic leverage ratio more than halved to 2.2 years (p/y: 4.8 years).

The structure of financial liabilities, which were assumed at interest rates of between 0.85 percent and 7.23 percent (current) and 1.35 percent and 7.00 percent (non-current), did not change substantially in the past year. As of the reporting date, these consisted primarily of a syndicated loan and a promissory note made up of several tranches, one EUR 20.0 million tranche of which fell due and was repaid in the reporting year. The previous syndicated loan of EUR 110 million remains unchanged, and the commitment remains until mid-2023.

In addition, there are still a number of higher-interest bilateral loans whose fixed interest rates will not expire for another few years. The higher interest rates in the above range are primarily on subordinated local financing of individual subsidiaries.

The EUR 30 million "KfW-Unternehmerkredit 037" pandemic assistance program adopted by the Kreditanstalt für Wiederaufbau at the start of 2021, which was subject to a distribution restriction, was not utilized and was terminated early in September 2021. Additional bilateral credit facilities of EUR 20 million without a distribution restriction have been available since August 2021, maturing in mid-2023. This created a financial framework that facilitates the further systematic expansion of the Group and also provides suitable means to tackle the uncertainties associated with the COVID-19 pandemic, which may continue for some time. The Group's unused lines of credit, including cash and cash equivalents, totaled EUR 113.3 million as of the reporting date (p/y: EUR 116.9 million).

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

Financial Position

Cash flow from operating activities came to EUR 21.0 million in the reporting period (p/y: EUR 49.2 million).

Extraordinary items, chiefly for personnel adjustment measures, had strained net income for the period in the previous year, but most of these had still not had an effect on liquidity and so had a EUR 18.4 million effect on other non-cash expenses/income. The measures were implemented in the reporting year and so the 2 items again reflect operating business. At the same time, the change in current and non-current liabilities resulted in higher cash outflows than in the previous year.

Furthermore, capital employed in current assets declined substantially in the previous year – this affected contract assets in particular – but current and non-current assets picked up again in the reporting year in connection with the expansion of the business volumes.

The far lower cash inflow from operating activities was accompanied by somewhat lower cash flow from investing activities of EUR -9.9 million (p/y: EUR -13.5 million). The capital expenditures made in the reporting period are explained in the following chapter. Free cash flow after interest paid and received amounted to EUR 4.9 million in the reporting period (p/y: EUR 29.1 million).

Ensuring sufficient liquidity for the PWO Group is the focus of our financial management at all times. We strive to maintain a liquidity reserve above and beyond current payment obligations while limiting the utilization of short-term credit lines as much as possible and therefore balance these with surplus liquidity. In the reporting year, the Group was solvent at all times. In view of the Group's high level of available credit lines, we are convinced that we have taken sufficient precautions to ensure solvency at all times in the future. For further information on the principles and objectives of financial and cash management, please refer to the notes to the consolidated financial statements.

As shown in the segment report, capital expenditure in the 2021 fiscal year amounted to EUR 16.2 million (p/y: EUR 13.8 million). The difference between this amount and the aforementioned cash flow from investing activities is due to new lease financing arrangements concluded in the reporting year. Following very low capital expenditure in the Germany and Czechia segments in the 2020 fiscal year on account of the pandemic, this picked up again in the reporting year, whereas it declined in the other segments.

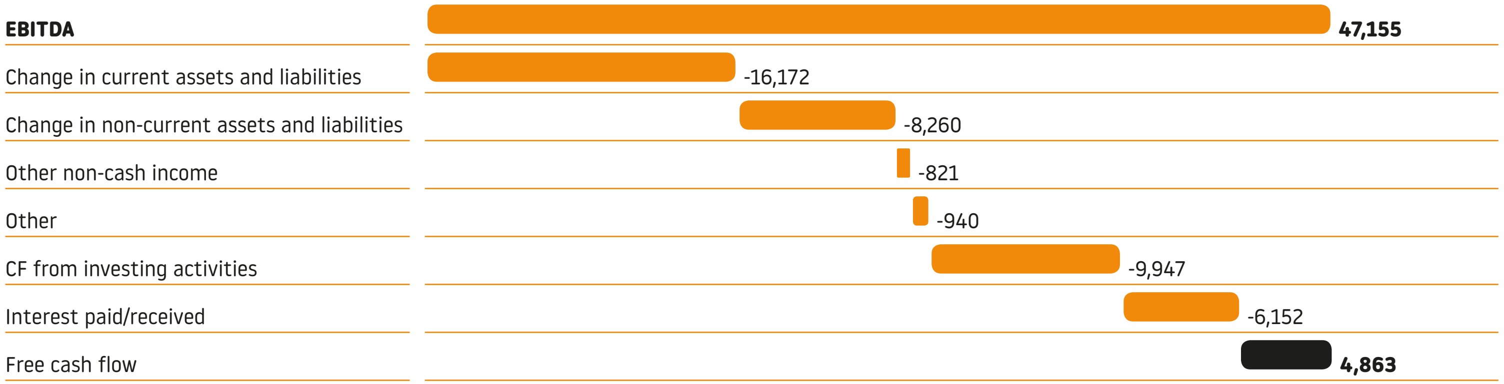
In the Germany segment, capital expenditure of EUR 6.9 million (p/y: EUR 3.6 million) related in part to a fully automated milling center for toolmaking as part of our digitalization project. Additional increases in process efficiency were secured by capital expenditure on automation – such as an automated setting for a press – on the replacement of component cleaning equipment, on an optical measurement system and on material handling in logistics.

Capital expenditure of EUR 6.0 million (p/y: EUR 1.5 million) was attributable to the Czechia segment in the reporting year. The Czech site is currently undergoing considerable expansion and being prepared for future growth. Accordingly, we purchased considerable additional property in the reporting year, on which primarily new press halls are to be built. Finally, the available space here will be almost tripled following the construction of a new assembly and logistics hall. In addition, project-related measures were also carried out such as various production equipment for crossbeams, the overhauling of a plant and the further expansion of quality management.

In the Canada segment, capital expenditure of EUR 2.2 million (p/y: EUR 4.6 million) in the reporting year related to project-related measures – primarily for crossbeams orders – and, above all, a new 800 metric ton press.

In the Mexico segment, we invested EUR 2.4 million (p/y: EUR 3.4 million), for example in a new system, which essentially doubles cleaning capacities for metal components. Work also began on building a new logistics hall. This essentially increased the logistics space at the Mexican site by 50 percent. At EUR 0.4 million (p/y: EUR 0.8 million), capital expenditure in the China segment was low again.

Sources of Free Cash Flow 2021 (EURk)



Report on Risks, Opportunities and Forecasts

Report on Opportunities and Risks

Risk Philosophy and Risk Policy

Risk management helps ensure that company targets are met and is therefore an essential component of PWO's corporate governance. Risk management optimizes the opportunity/risk profile and risk costs, creates transparency regarding PWO's risk situation and establishes an early warning system to detect positive and negative developments.

We define risk policy as the consistent approach taken to handle opportunities and risks. It serves as the basis for all risk management activities at the company. PWO follows the principles of values-based corporate governance and takes business risks if the income opportunities these present are expected to increase the value of the company. It is imperative here that we fulfill our social responsibility (environmental, social and employee interests, respect for human rights and tackling corruption and bribery) through sustainable business operations.

PWO's Risk Management System

Organization of the PWO Group's Risk Management System

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

It includes operational checks by risk owners, the review and monitoring of the control standards by independent units such as risk management and risk hedging by the Corporate Audit department. The risk management system is also subject to external auditing.

Opportunities and risks can lead to a deviation from the plan and so are defined as uncertain events. Opportunities can lead to a positive deviation, risks to a negative one. There are also what are known as mixed risks (e.g. economic fluctuations), which can have both a negative and a positive impact on corporate planning on account of their volatility. All opportunities and risks are clearly assigned to owners and are evaluated using scenario distributions with regard to their amount and probability of occurrence.

Status and Development of the Risk Management System

Risk management at PWO is developed and refined on a continual basis. Development of a risk tolerance concept was completed in the 2021 fiscal year and the concept was implemented. The tolerance criteria were key financial indicators/thresholds regarding debt and equity. Reporting thresholds were also established for top risks in the Group, the AG and at subsidiaries.

Strategic opportunities and risks were also assessed in collaboration with the top management. We report on this in the section "Presentation of Opportunities and Risks Having a Predominantly Medium or Long Term Effect." In the future, the strategic opportunities and risks will be updated once a year as part of a structured process. The dependencies between these and the top risks are presented in an interdependencies matrix.

Tasks were increasingly delegated to risk managers at the subsidiaries. The goal here is to increase individual risk responsibility at the subsidiaries, further developing risk management in the Group as a whole. Extensive training sessions were also held in this context in the 2021 fiscal year.

In accordance with the CSR Directive Implementation Act, which regulates companies' **C**orporate **S**ocial **R**esponsibility, non-financial risks must also be identified and assessed for all subsidiaries in the Group and measures must be established on the basis of this. No serious risks were identified in this area in the reporting period. In addition, steps were taken to more closely monitor supply chain risks. We report on this in the "Compliance Management and Corporate Audit" section. Our aim for 2022 is to expand risk management with regard to ESG issues and to adapt our ESG risk reporting accordingly.

Compliance Management and Corporate Audit

PWO has established a Group-wide Compliance Management System (CMS). In the reporting year, the CMS was expanded to include the establishment of the Compliance Committee, a revised compliance risk assessment and fundamental documentation and guidelines.

The CMS is gradually established and developed in the Group in line with the recognized IDW Auditing Standard 980 and DIN ISO 37301. As part of this, the existing Code of Conduct was developed further in close coordination with the Works Council.

The Business Partner Code was expanded to cover our responsibility for supply chains and now includes sections on air quality, water quality and consumption and responsible chemicals management. As a result of the German Supply Chain Act ("LKSG") that comes into effect in 2023, it now also covers the use of security forces and land acquisition.

A process was also established for sustainable procurement and business partner compliance, which requires new suppliers to undergo an integrity check regarding our sustainability requirements before we consider placing an order with them. Existing suppliers are reviewed each year as part of a simplified review of new findings. This new process ensures compliance both with the stricter ESG requirements and with the LKSG that comes into force in 2023. The process is due to be launched at the Group's locations starting in 2022.

To ensure a more objective assessment of the compliance risk at the respective national companies and departments regarding the risk areas of corruption and bribery, antitrust and competition breaches, property crimes, conflicts of interest, data protection violations and insider trading and the disclosure of insider information, risk assessments were substantially revised and a detailed questionnaire was developed that was used for the first time in the reporting year at the Oberkirch site and is to be introduced at foreign the locations in 2022.

We are also continuing to further develop our training concept and we provided e-learning courses at all locations in the 2021 fiscal year with updated content. As in the previous year, the group of participants was selected on the basis of risk.

As defined by the German Institute of Internal Auditing, Corporate Audit ("CA") provides independent and objective audit and consultancy services that are intended to create added value and improve business processes. This unit thus helps the organization achieve its goals by using a systemic and targeted approach to assess the effectiveness of risk management, the checks and management and monitoring processes and to identify potential for improvement.

The selection of audit topics by Corporate Audit is essentially based on risk-oriented multi-year planning. The audits for 2021 were also based on this. However, the structure and content of audits in 2021 were restricted in the reporting year by limiting factors such as the pandemic and short-time work. For this reason, all audits in the 2021 fiscal year were carried out from Germany, including a remote full audit of PWO China. CA also provided selective support on individual topics and questions from the specialist departments and the Executive Board. This did not in any case result in audit results that would have required the Executive Board to intervene immediately to prevent financial losses or damage to our reputation.

Control and Risk Management in the Financial Reporting Process

All operating units are involved in control and risk management in the financial reporting process. This structure relies on a clear separation of duties and the principle of double-checking.

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

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

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

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

Development of the Overall Risk Position

The overall risk situation of the PWO Group improved in the reporting year. This is chiefly because we incorporated a higher share of risks into planning compared to the previous year in light of sustained high levels of uncertainty in connection with the pandemic and its impact on supply chains, procurement prices and, in turn, on macroeconomic developments. In addition, the impairment risk also declined following the write downs in the previous year's annual financial statements.

However, as a result of the war between Russia and Ukraine, which started after the end of the reporting period, negative deviations from planning have become more probable for various risks. These relate in particular to falls in demand, disruption to and interruptions of supply chains as well as higher procurement prices. At present, the change in the risk situation cannot yet be quantified.

The changes in the ranking of the individual risk categories in comparison to the prior year's annual report are clearly and conveniently shown in the table below. No new opportunities and risks have been added to the top risks. Financing and interest rate risks are no longer included in the top risks. Editorial changes were made to some of the risk names compared to the previous year.

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

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

Presentation of Opportunities and Risks Having Predominantly a Short-Term Effect

The following presents the major opportunities and risks for our 2022 operating planning based on the scenario assessment and taking into account any risk mitigating measures. We continue to classify risk in the following risk categories: financial, performance, market, regulatory and other opportunities and risks. The order of the risk categories and the order of the highest respective individual risks within each category presented below reflect our current assessment of the relative level of risk in descending order.

Our business is characterized by long-term contracts. New orders sometimes require lead times of several years. During the series lifetime of 5 to 8 years, customers usually stay with the same supplier. On the one hand, this aspect of our business contributes to our planning certainty; on the other hand, it limits our short-term opportunities. Therefore, in terms of our operational planning for the year 2022, the risks outweigh the opportunities.

All individual opportunities and risks are evaluated according to their impact (amount of loss in relation to EBIT) and their likelihood of occurrence during the planning period. The sum of the net expected values of the individual opportunities and risks of a particular category yields their net expected value. The following table does not account for portfolio or correlation effects, but these are shown in risk management by way of causal chains. The risk significance of the individual categories is defined in the table below:

Definition of Risk Significance

Description	Net expected value risk category
Low	≤ EUR 1.0 million
Moderate	> EUR 1.0 million < EUR 3.0 million
High	≥ EUR 3.0 million

Overview of Risk Significance for the Risk Categories

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

Market Opportunities and Risks

Economy and Sales Volumes

Fluctuations in sales volumes can give rise to capacity utilization risks. In the case of new orders in our business, we have to reckon with repeated start-up delays on the part of vehicle manufacturers. In the case of existing orders, fluctuations may result from declines in demand from end customers. An additional burden in the reporting year came from significant bottlenecks along the entire supply chain in the mobility industry, which slowed down production at manufacturers. There were also disruptions to the supply chain on account of coronavirus protection measures. Both of these pressures also affected other sectors in the 2021 fiscal year, in some cases severely, and so took a toll on many countries' economic development. We assume that this development will continue, at least at the start of the new fiscal year, and that it will not begin to gradually improve until later in the year.

As part of planning, we anticipated and took into account coronavirus risks based on the knowledge available and the assessments derived from this knowledge. However, given the uncertainties and unpredictability of the pandemic development it is uncertain whether this assessment adequately anticipates future developments. This is even more relevant in view of the global spread of the Omicron variant which, while resulting in milder symptoms, also entails far higher case rates.

The assessment of this risk is therefore subject to higher uncertainty. This is accompanied by an increased risk of not achieving the planned revenue. Due to the long-term nature of our business, we can only compensate for reductions in capacity utilization by making adjustments in our cost base. However, as a responsible employer and in our economic interest, we want to retain our highly qualified employees in temporary periods of weakness. Government aid programs launched in various countries as a result of the pandemic can have a supporting effect here, with the regulations on short-time work in Germany particularly helpful.

On the other hand, opportunities arise because, in view of the uncertainties listed, we were in some cases more cautious with our planning for the 2022 fiscal year than the call-offs expected from customers would allow. If these are achieved, planned revenue for these series productions may be exceeded.

Raw Materials and Procurement Prices

The raw materials required for our production processes include, first and foremost, steel and, to a much lesser extent, aluminum and stainless steel. There were temporarily major bottlenecks in the availability of steel in the reporting year, which we were able to manage successfully. We were therefore able to deliver at all times. However, the situation on the steel market eased as a result of declining production figures in the mobility industry over the year – due to the shortage of electronics components – and so this risk no longer exists. By contrasts, risks relating to aluminum increased throughout the reporting year, chiefly stemming from supply bottlenecks and the energy shortage in China.

In our business, we are generally exposed to earnings risks from changes in raw material prices. With rising prices – as is currently the case – there is the risk that price adjustments in line with the use of materials for our products and price increases imposed by our suppliers are not possible. In the past, we have always been able to negotiate mutually agreed solutions with our customers, and we are confident that we will be able to continue to do this in the future. Nevertheless, this usually leads to a time delay between purchasing the material and compensation by the customer. The Group's profitability is also under significant pressure at present due to some massive price hikes, including for purchased parts and various other raw materials, consumables and supplies as well as energy.

Selling Prices

In our planning for higher input prices, we factored in being able to make price adjustments in line with the use of materials for our products and price increases at our suppliers. However, unsuccessful negotiations regarding this in light of massive price rises present a greater risk than in the past.

Dependence on Suppliers

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

Performance Opportunities and Risks

Production

The main performance risks in production are business interruption risks. These can result primarily from damage to or failure of production equipment or tools. Depending on the extent of the damage and the duration of the outage, this can impair the timely delivery of goods to customers. The risk of the failure of an entire location however can be virtually ruled out. We have established a broad range of measures to manage business interruption risks.

Given the very volatile release order situation at present and even last-minute production downtime at customers, there is also the risk of being unable to provide the planned service and therefore being unable to cover fixed costs. Accordingly, we are aiming to make our processes even more flexible so that we can respond to customer release forecasts even more quickly.

Quality, Product Liability and Recalls

Quality requirements in the mobility industry are traditionally very high. Product liability risks and risks resulting from product recalls have increased steadily in the past several years.

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

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

Toolmaking

Capacity utilization risks in toolmaking primarily affect the Oberkirch site and are a result of the current number of employees, as labor costs in Germany are too high by international standards and so are not competitive. In light of this, we made changes in the 2021 fiscal year that are in effect until the end of 2022 to reduce this risk position. We are also striving to improve capacity utilization through new orders.

In the Mexico segment, there is also the risk of tool breakage at a bottleneck machine that disrupts operations. Measures taken to combat this including adjusting inventory management for the relevant components and introducing a disruption protection system to identify wear and tear at an early stage. Training and further qualifications of toolmakers were also expanded significantly.

Other Opportunities and Risks

Personnel

At the Germany location, there is a risk of changes to the regulations for temporary workers, which could extend to an obligation to take them on as employees on permanent contracts. While partners in the new German government recognize the importance of contracts for work and temporary employment in their coalition agreement, they want to ensure more security for the workers in question. In addition, legislative reviews are anticipated in the case of a European jurisdiction. 3 proceedings are currently pending at the European Court of Justice. We will take measures to mitigate risk as soon as any specific changes are made to statutory regulations.

The timely availability of staff in sufficient numbers and with the right qualifications continues to pose a particular risk. Intense competitive for skilled workers also presents the risk of unplanned increases in staff costs. One of the ways to reduce this risk is to plan and manage the need for skilled workers as early on as possible and on a long-term basis through education and extensive continued training, employee qualification and other initiatives. Risk throughout the Group is also managed by means of broad-based personnel recruitment and employee retention concepts, which are developed on an ongoing basis.

Data Security

Open IT structures, which make processes available worldwide, are among the basic requirements for sustainable corporate success today. These structures are particularly exposed to the risks of data losses and misuse as a result of systematic gaps in the system and data losses caused by unreadable backup files. This, as well as infiltrating malware, can result in a whole range of damage, including temporary business interruption.

For years, we have been focusing on consolidating all IT services in a PWO Private Cloud, where we have implemented diverse, standby backup systems. All employees who work remotely also have secure access to their working environment via the PWO Private Cloud. We also continuously expand our certified information security management system at the Oberkirch site. The processes and structures established in this context are implemented in the subsidiaries as required. Based on these activities, we remain confident that we are well-positioned in the area of data security.

Financial Opportunities and Risks

Impairment Risk

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

This risk relates in particular to our sites in Germany and Canada. In Germany, we are working to improve the Company's profitability and growth prospects in order to counter the risk of an impairment of fixed assets.

Currencies

All of the PWO Group's locations are subject to currency risk in terms of translation risk (translating the subsidiaries financial statements in euro) and transaction risk (sales, procurement and staff costs). This also presents opportunities if currency parities develop favorably for us. However, we do not take this into account in our planning.

The Group's main currencies are the euro, the Czech koruna, the Canadian dollar, the US dollar, the Mexican peso and the Chinese renminbi. We use hedging to avoid these risks with the aim of securing currency parities when receiving orders and thereby the budget plan.

There are currency fluctuations at the Germany location, especially from loans granted by the parent company to the international locations denominated in the local currencies of those locations and hedged in Germany. For a further explanation of the risks arising from the use of financial instruments, please refer to the notes to the consolidated financial statements.

Regulatory Opportunities and Risks

Contracts

Risks from unfavorable contractual arrangements include, specifically, timing differences between contractually agreed material and production releases and the lead times of actual procurement and production. This can give rise to significant risks in the event of sharp short-term declines in demand.

These risks increased significantly in the reporting year. Supply uncertainties in the mobility industry – including but not limited to electronics components – combined with rising prices for raw materials, consumables, supplies and purchased parts and subcontracted work, tended to result in inflated call-offs along the entire supply chain as all market participants attempted to reduce their own supply risks. Call-off figures were frequently revised downwards at the very last minute within procurement and production approval periods. We counter these risks by negotiating constructively with our customers. In the past, we have always been able to find mutually agreed solutions.

Tax and Political Environments

The PWO Group operates in countries on 3 continents with very different tax environments. In some cases, this results in extensive requirements, the complexity of which is also tending to increase. We mitigate these risks through close collaboration with external experts who have proven experience in the countries and subject areas in question.

Compliance

We counter compliance risks with our CMS described at the beginning of this risk report. We closely manage the risk of potential patent infringements through the many years of product and industry expertise of our employees and through cooperation with an external patent attorney. At present, there are still no disputes. We are carefully monitoring the further development of the requirements of the EU General Data Protection Regulation in practice.

Presentation of Opportunities and Risks Having a Predominantly Medium- Or Long-Term Effect

The following provides an overview of the Group's strategic opportunities and risks over the medium term, which is defined as a period of at least 3 years. In the following section, these are discussed in accordance with our assessment of their relative importance for us.

Underutilization of Capacities

As a capital-intensive company, we are financially dependent on sufficient utilization of our pressing and toolmaking capacities. If this is not achieved, unmet fixed costs for staff and machinery affect earnings. This may mean that necessary investments are not funded, permanently reducing the Group's competitive position. If capacity utilization problems persist, this could jeopardize the company as a going concern.

Cyberattacks

Cyberattacks are an increasing threat to companies worldwide. They can take the form of malware that blocks IT systems or encrypts data on these systems. Hackers install these with the intention of extorting ransom payments. In particular, if they succeed in gaining access to critical IT infrastructure, this can have negative effects including disruptions to operating processes in administration and production. This can also jeopardize the company as a going concern.

Geopolitical Tension

The mobility sector operates worldwide and is highly interconnected. PWO, too, works with production and assembly locations on 3 continents in countries with very different environments. Geopolitical tension can thus affect our business directly as well as indirectly, through changes to manufacturers' sales opportunities or supply chain disruption. Over the last few years, we have increasingly seen governments approving regulations that do not comply with the principles and regulations of the World Trade Organization. Examples include tariffs, trade bans, embargoes, tax adjustments and new requirements for handling data. Disrupting or preventing trade flows can result in considerable losses for companies' business operations.

Personnel

There is currently a shortage of skilled labor in almost all of our markets. With societies aging and younger generations demanding more from their working environment (think work-life-balance), this shortage will get worse still in the future. This creates stiff competition for talented employees. If PWO were to become unappealing to potential employees, this could hurt the Group's innovative strength. There is also the risk of being unable to retain existing employees, which could result in a loss of know-how. The consequences of this would be declining competitiveness. On the other hand, this also represents an opportunity for us to position ourselves as a particularly attractive employer by directing particular attention towards this issue, ensuring a respectful corporate culture and offering attractive development prospects. We will therefore step up our efforts here – which are already substantial – even further in the future.

Pandemics

A pandemic is a general risk that occurs very rarely but, as we saw in 2020, can happen at any time and have serious repercussions for global business and supply chains. With global shutdowns and production stoppages, revenue declined and people had to shift to short-time work schemes or lost their jobs as a result of insolvencies. By taking action early and consistently and thanks to the high level of commitment shown by our employees, we were able to mitigate this negative impact.

Sustainability and Climate Change

Sustainable business models is becoming the decisive topic of the 21st century. Given the urgent need for action, the focus currently is on tackling climate change. According to the current status, we have not identified any additional material risks relating to climate change.

Nevertheless, sustainability is far broader than this and extends to many other environmental issues, social issues and aspects of good corporate governance. Companies who fail to develop a detailed sustainability strategy at an early stage that meets the interests of their target groups are at risk of losing their market position – when competing for customers, employees and capital. Accordingly, we work on fully aligning our business processes with sustainability requirements with the aim of making our stance here a true competitive advantage.

Use of Steel and Aluminum

Our core expertise relates to the cold formation of steel and aluminum. Essentially, all materials are exposed to substitution risks if customer requirements change. Nonetheless, we believe that the opportunities of further increasing the use of steel and aluminum parts by far outweigh the risks. This is because of their favorable material properties (they absorb the impact of a crash in the event of an accident), the fact that they are fully recyclable and the potential offered by lightweight construction. Accordingly, moving forwards we will continue to strengthen our already substantial lightweight construction expertise.

Logistics Processes

Logistics processes change constantly. This also means that the demands on logistics management and dependence on logistics companies are constantly growing. As a result, 3D simulations of the entire process and quick responses to changing costs are increasingly important. Logistics costs will rise in the future on account of higher carbon taxes and a general increase in the cost of transport. We have so far been very successful in offsetting higher costs through innovative and creative solutions. Our aim is to build on these skills further to create opportunities from changes to logistics processes.

Tapping New Sales Markets Outside the Mobility Industry

In the future, we want to tap new sales markets outside the mobility industry. This opens up significant additional growth potential and reduces dependency on the development and cycle of the mobility industry in the long term. Nevertheless, one challenge will be limiting the additional complexity that this creates for the company and making the structure of administrative processes even more competitive.

Digitalization

The digitalization of all business processes using the tools of Industry 4.0 is relentlessly gathering pace. It allows processes to be designed more efficiently, reduces the use of resources and improves product quality. In turn, this opens the door to additional growth and strengthens the company's reputation on the customer market. In view of this, we are committed to modern, data-driven production and believe this presents opportunities to further expand our market position.

Development of the Mobility Industry

The mobility sector is currently undergoing a profound transformation shaped by the megatrends of sustainability, the sharing economy, e-mobility and urbanization. On top of this, forecasting customer call-offs is uncertain and so more flexible production concepts are needed. The current product portfolio is excellent positioned for the transformation in the 3 trends of electrification, safety and comfort and is entirely independent of internal combustion engines. In our view, this means that we will not miss out on any existing business opportunities in the future and will instead benefit from new products and processes and attract new customers. We thus see the transformation process as an opportunity for future corporate development.

Report on Forecasts and Outlook

Expected General Economic and Industry Development

As in the previous year, forecasts for global economic development in 2022 continue to be characterized by major uncertainty in light of the ongoing pandemic and the new COVID-19 Omicron variant.

According to the IMF, the year also begun from a weaker basis and with flatter growth than originally expected. In addition, the global economy is also suffering from far higher inflation as a consequence of supply chain bottlenecks that are persisting for longer than expected and rising raw material prices, especially for crude oil and intermediate products. The easing of supply chain disruption throughout the year and, in turn, a slow-down in inflation, creates a certain opportunity. The IMF believes the main risks are posed by the occurrence of new and dangerous COVID-19 variants.

In line with this, the IMF revised its original 2021 fall forecast downwards considerably by half a percentage point at the start of 2022. Following expansion of 5.9 percent in 2021, growth is expected at just 4.4 percent this year. The reduced forecast is essentially due to lower expectations for the major industrial regions EU, USA and China. As well as the widespread, ongoing harm caused by the pandemic, in the US the other main strains are likely to result from less expansive fiscal policy, the more restrictive approach taken by the Fed and ongoing supply chain problems, while China will likely be hurt by its zero COVID-19 policy and unresolved financing problems at some major real estate developers. In the EU, only Germany (3.8 percent compared to 2.7 percent) and Spain (5.8 percent compared to 4.9 percent) are expected to see higher growth rates.

In its annual economic report of January 2022, the German government also expects German real GDP to increase by only 3.6 percent, a more pessimistic stance than even the IMF. In its projections in November 2021, the Council of Economic Experts has still assumed an increase of 4.6 percent. This more cautious estimate reflects the economic dip in the final month of 2021, especially in the services sector.

The German Association of the Automotive Industry (VDA) expects global growth in car sales of 4 percent for 2022, similar to the previous year's level. This would still be almost 13 percent lower than the global car market's high in 2017. Markets in the United States and China look set to pick up by 2 percent. Europe is currently much further away from a return to pre-pandemic levels and is expected to see somewhat stronger growth of 5 percent, in part due to catch-up effects. The VDA expects the German market to grow by 7 percent to 2.8 million cars in 2022. Domestic production is expected to reach 3.5 million units in 2022, up 13 percent and in line with production levels in 2020. Foreign production looks set to increase by 5 percent this year to 9.9 million units.

Starting from a low level, the European Automobile Manufacturers' Association (ACEA) reckons that car sales figures in the EU will recover by 7.9 percent this year to 10.5 million units. However, this would still leave the volume almost 20 percent below the pre-pandemic levels of 2019. In addition, recovery also depends on an improvement in the supply of electronics components.

Business Development and Future Direction

Development of the PWO Group

The following forecast shows our assessment before the war between Russia and Ukraine. Currently it is not possible to predict the negative impact of the war on PWO. For this reason we are retaining our forecast. As soon as it is possible to assess the consequences of the war, we will update our forecast.

	2022 forecast	2021 actual results
Revenue	Approx. EUR 480 million	EUR 404.3 million
EBIT before currency effects	EUR 19 million to EUR 22 million	EUR 22.1 million
Capital expenditure according to segment report	Approx. EUR 30 million	EUR 16.2 million
Free cash flow	Balanced	EUR 4.9 million
Equity ratio	Flat	33.6 percent
Dynamic leverage ratio (financial liabilities less cash and cash equivalents in relation to EBITDA)	2.5 to 3.0 years	2.2 years
Lifetime volume of new business	Over EUR 500 million	Approx. EUR 570 million

Our planning for 2022 is based on the assumption that the Group's scope of consolidation will remain unchanged. It is also based on detailed individual estimates of the volumes of the series productions currently underway, as well as on the upcoming start-ups and ramp-ups and phase-outs. We assume that there will be no major disruptions to supply chains, massive pandemic restrictions or lockdowns and that there will be no significant deviations from the anticipated price rises at our customers and suppliers. In the following comments, we focus on our key performance indicator EBIT before currency effects.

Forecast of the Results of Operations

Despite only slightly increasing call-offs by our customers due to the continuing semiconductor crisis, revenue is expected to rise substantially by tens of millions in euro in 2022 as a result of price adjustments in line with the use of materials for our products and price increases at our suppliers. However, this generally involves a time delay. We believe that disruptions to global supply chains in our industry will resolve only gradually, resulting in similar inefficiencies to in the reporting year and adversely affecting the results of operations. Costs – especially at the Oberkirch production site – will not decrease until later in the year. Contrary to what is normal for our business, this means that performance as a whole could be more restrained in the first half of the year than in the second.

At the same time, we intend to make rapid progress in expanding our international locations, efficiently complete current start-ups and ramp-ups of new series productions and lay the foundations for further growth.

Against this backdrop, we expect revenue to grow to around EUR 480 million in the 2022 fiscal year. Despite several larger and complex series start-ups, the discontinuation of extraordinary items and the mix shift in 2021 revenue, we anticipate EBIT will be in a range between EUR 19 million and EUR 22 million. Without the positive extraordinary items of EUR 2.3 million described in the “Results of Operations” section, EBIT would have come to about EUR 19.8 million in the 2021 fiscal year. The lower end of the range reflects continued high levels of uncertainty regarding future developments, while at the top end of the range we assume that supply chains recover more quickly than currently anticipated, customer call-offs become more predictable again and thus operating processes are more efficient. This is likely to have a particularly positive effect in the Czechia, Mexico and China segments. The following explanation of the segment forecast refers to the lower end of the Group’s forecast range.

In the Germany segment, we still expect weaker industry performance than in other markets. The expected rise in external revenue to around EUR 215 million will likely therefore result almost exclusively from price adjustments in line with the use of materials for our products and price increases at our suppliers. For this reason, we assume that the standard annual cost increases will more than offset savings to date, meaning that EBIT could be lower than in the 2021 fiscal year at around EUR 1 million. The additional savings planned for 2022 will not be recognized in profit or loss for a full twelve-month period until the 2023 fiscal year.

The Czechia segment is approaching a major growth surge to external revenue of around EUR 95 million. We also expect EBIT to improve, although the expansion of locations will likely continue to take a toll on operating processes and management capacities here and so EBIT may rise only by a disproportionately low amount to around EUR 6.5 million.

In the Canada segment, further start-ups and ramp-ups should help significantly drive up external revenue to about EUR 45 million and help EBIT improve to around EUR 1.5 million.

We also anticipate significant growth in external revenue in the Mexico segment to around EUR 80 million, although we also think that the cost of materials ratio here will be poorer than in the Group. This, alongside the planned expansion of locations, could cause EBIT to decline to about EUR 7 million.

In the China segment, we anticipate external revenue of about EUR 40 million on the basis of the planned series phase-outs and start-ups. EBIT should be about EUR 4 million.

Forecast for Capital Expenditure, Financial Position and Net Assets

To ensure the start-ups and ramp-ups of new series productions planned for the next few years, we intend to substantially step up investment again in the 2022 fiscal year compared to the reporting year. The Czechia segment will be a key focus area here, where we will expand the locations by investing heavily in new buildings to create space for new purchases of forming presses and equipment in the future. In the Germany segment, by contrast, the focus is on technical equipment and machinery. In Canada and Mexico, location expansion will chiefly take the form of various smaller investment projects to boost performance. Only low capital expenditure is planned in the China segment.

Despite the sharp rise in capital expenditure overall and the still only modest improvement in Group profitability, our aim is to use liquidity-based management to achieve a balanced free cash flow and keep the equity ratio steady. The dynamic leverage ratio increased again compared to the very low level in the 2021 fiscal year.

Forecast for the Order Situation

We increased new business substantially in the 2021 fiscal year to EUR 570 million (p/y: EUR 400 million). With new business of over EUR 500 million, we want to exceed the expected revenue of around EUR 480 million in the 2022 fiscal year, thereby securing the Group’s future growth. The composition of business will change in line with this. While we received several large orders for instrument panel carriers in 2021, there will be fewer such contracts in our sales market in 2022. Nevertheless, we expect to be able to increase the number of orders received in our other product areas by enough to still generate the expected volume.

General Statement on Future Development

Performance in the 2021 fiscal year showed that the PWO Group is able to perform and deliver at all times, even in current challenging market phases. Over the 2 years of the pandemic, we have developed processes that help us respond to unusual situations with flexibility. The strong commitment demonstrated at all times by our highly qualified employees is crucial here.

At the same time, we have made the Oberkirch production site far more competitive in the last year and a half by employing a range of measures and positioned our international locations for growth, not least thanks to high new business.

We are confident that we will be able to successfully meet the challenges in the 2022 fiscal year too.

Dependency Report

With respect to the legal transactions described in the section on related parties and based on the circumstances known at the time the transactions were executed, our Company received appropriate compensation for every transaction and was not disadvantaged as a result.

Takeover-related Disclosures Pursuant to Sections 289 a and 315 a HGB

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

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

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

Consult Invest Beteiligungsberatungs-GmbH, Böblingen, Germany, has notified us of its interest exceeding 10 percent of the voting rights in PWO. As of December 31, 2021, it held 46.73 percent of the voting rights (unchanged on the previous year) and is the main shareholder.

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

Pursuant to Section 179 (1) and Section 119 (1), No. 6 AktG, each amendment to the Articles of Association requires a shareholder resolution of the Annual General Meeting. In deviation from Section 179 (2), sentence 1 AktG, Article 15 of the Articles of Association states that Annual General Meeting resolutions can be approved by a simple majority of votes cast and – if a capital majority is required – a simple majority of the capital stock, unless otherwise stipulated by law or the Articles of Association. The Supervisory Board is authorized to adopt amendments to the Articles of Association that relate only to their wording.

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

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

Corporate Governance Statement Pursuant to Sections 289 f and 315 d HGB

The Corporate Governance Statement is published on the Company's website at
→ **https://www.progress-werk.de/en/group/corporate-governance/**.

The Corporate Governance Statement is an unaudited segment of the management report.

Non-Financial Group Statement Pursuant to Sections 289 b–e, 315 b–c HGB

The non-financial Group statement is published in the form of a separate non-financial group report and is then published on the Company's website at

→ **https://www.progress-werk.de/en/group/corporate-governance/.**

The non-financial Group statement is an unaudited segment of the management report.

Business Development of PWO AG

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

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

As of the reporting date, the number of employees at the Company, including temporary staff, was 1,151, which was significantly lower than in the previous year (p/y: 1,419). This figure includes 90 (p/y: 127) young trainees who are currently completing their training. The number of trainee positions we offer is based on the demand for junior staff expected in the future.

As explained in the Group management report, the mobility industry was once again hit hard by the pandemic in the reporting year. Production figures fell well short of previous year figures, chiefly on account of supply bottlenecks for electronics components. Massive hikes in procurement prices in many cases also placed additional strain on profitability in the mobility industry.

We have to tailor our resources to these conditions, which is why we continued the program adopted at the end of 2020 to adjust the staff headcount. For details on the number of employees, please refer to the comments on the Germany segment in the Group management report.

Income Statement

SELECTED INFORMATION (EURK)	2021	in % of revenue	2020	in % of revenue
Revenue	206,530	100.0	209,711	100.0
Total output	207,809	100.6	202,628	96.6
Cost of materials	108,419	52.5	97,106	46.3
Staff costs	73,945	35.8	75,531	36.0
Depreciation/ amortization	10,466	5.1	10,932	5.2
Other operating expenses	30,251	14.6	51,269	24.4
Financial result	21,109	10.2	453	0.2
Earnings before taxes	16,969	8.2	-24,986	-11.9
Net income (p/y: net loss)	16,854	8.2	-20,247	-9.7
Withdrawal from other retained earnings	3,315		0	
Unappropriated retained earnings (p/y: unappropriated retained loss)	4,700		-15,469	

Revenue at PWO AG in the reporting year was down on the previous year, whereas revenue in the Group's Germany segment rose. This difference is due to the separate accounting of the change in inventories under HGB accounting standards.

PWO AG's earnings performance is affected by a number of extraordinary items. For example, negative extraordinary items of EUR 22.3 million for personnel adjustment measures and additions to provisions for onerous contracts were recognized in the 2020 fiscal year. By contrast, 2021 saw positive extraordinary items of EUR 4.6 million, the result mainly of the reversal of provisions for personnel adjustment measures. In addition, the financial result of EUR 21.7 million benefited from a distribution by our Czech subsidiary and reversals of write-downs on financial assets.

Earnings were adversely affected by weaker business in the reporting year and higher material prices. Changes in staff costs reflect the reduction in the number of permanent employees, higher collectively agreed wages and salaries and the receipt of short-time work allowances. Overall, staff costs declined in absolute terms and the staff costs ratio was somewhat lower.

The slight year-on-year decline in depreciation/amortization was the result primarily of lower levels of capital expenditure at PWO AG in the last few years.

The balance from other operating income and expenses was also significantly affected by the extraordinary items described above. In the previous year, these items accounted for all of these negative extraordinary items of EUR 22.3 million, compared to positive extraordinary items of EUR 4.6 million in the reporting year.

The financial result includes a EUR 7.0 million distribution by our Czech subsidiary (p/y: EUR 0.0 million), income from loans to subsidiaries of EUR 2.5 million (p/y: EUR 3.1 million) and other interest and similar income of EUR 2.0 million (p/y: EUR 2.4 million). In addition, there was income relating to other periods and non-recurring income in the form of reversals of write-downs on financial assets of EUR 14.7 million (p/y: EUR 0 million) on the carrying amount of our Mexican subsidiary and on loans to our Chinese subsidiary. Interest expenses came to EUR 5.0 million in both the reporting year and the previous year.

In total, earnings before taxes improved to EUR 17.0 million (p/y: EUR -25.0 million). Income taxes came to EUR 0.2 million. Taxes resulted in a positive amount of EUR 5.1 million in the previous year due to the recognition of deferred taxes on losses carried forward. EBIT before currency effects moved from EUR -24.0 million to EUR -4.1 million. Overall, the net income for the period amounted to EUR 16.9 million (p/y: net loss of EUR 20.2 million).

Total assets were essentially unchanged in the reporting year at EUR 281.5 million (p/y: EUR 280.2 million). While property, plant and equipment reduced on account of restrained capital expenditure activity in the 2 previous years, financial assets picked up significantly. This reflects the reversals of write-downs described. We also increased equity at our Mexican subsidiary in the reporting year. Loans to affiliated companies – not accounting for reversals of write-downs – were also higher.

As stated, the reversals of write-downs related to the Mexican and the Chinese subsidiaries, which had not been profitable for a long period of time. Impairment losses were recognized at this time. Both companies are now not only stable, they are also profitable in the long term. This is the basis for the reversals of write-downs in the reporting year.

Inventories saw a slight increase compared to the end of the 2020 fiscal year, in particular due to more incomplete tools. Receivables from affiliated companies remained down on the previous year on account of repayments, although the distribution by our Czech subsidiary had not yet been made as of the reporting date and so is not recognized here. The lower measurement of financial instruments and lower tax receivables caused a decline in other assets compared to the previous year.

Given the high net income in the reporting year, equity rose to EUR 117.0 million (p/y: EUR 100.1 million) and the equity ratio to 41.6 percent (p/y: 35.7 percent). Unappropriated retained earnings came to EUR 4.7 million and result from the unappropriated retained loss in the previous year of EUR 15.5 million, net income in the reporting year and withdrawal from other retained earnings of EUR 3.3 million.

Higher pension provisions are attributable chiefly to the decrease in discount rates compared to the previous year in accordance with the German Commercial Code. The increase in trade payables was due to the reporting date. The considerable decline in other provisions and other liabilities reflects the implementation of personnel adjustment measures at PWO AG, for which provisions had been recognized and other liabilities allocated in the previous year.

Overall we managed to conclude the reporting year with satisfactory balance sheet quality. However, this is not yet the case for profitability.

We expect revenue to rise to around EUR 230 million in the 2022 fiscal year. As in the Group, we assume that this growth will stem predominantly from higher material prices. Based on EBIT before currency effects of around EUR 1 million included in the Group Report on forecasts and outlook, a negative effect on earnings of about EUR 6 million is still to be taken into account, relating chiefly to pension provisions and lease financing and a result of the different accounting policies under IFRS and HGB. Overall, we therefore anticipate EBIT before currency effects in line with HGB of approximately EUR -5 million for the 2022 fiscal year at PWO AG.

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

Reconciliation of Key Performance Indicator

EURk	2021	2020
Revenue acc. to HGB	206,530	209,711
Reconciliation	-2,623	-10,665
Total revenue acc. to IFRS	203,907	199,046
External revenue acc. to IFRS	189,833	186,942
Earnings before taxes acc. to HGB	16,969	-24,986
Financial result	-21,109	-453
Currency effects	64	1,477
EBIT before currency effects acc. to HGB	-4,076	-23,962
Reconciliation	5,758	1,323
EBIT before currency effects acc. to IFRS	1,682	-22,639

In the 2 reporting years, the reconciliation between the 2 sets of accounting standards with regard to revenue resulted, above all, from IFRS 15 accounting and internal revenue and, in the case of EBIT before currency effects, mainly from the measurement of pension provisions, non-current assets, leasing and rental expenses, and IFRS 15 accounting.

Oberkirch, March 18, 2022

The Executive Board

Carlo Lazzarini (CEO)

Dr. Cornelia Ballwießer (CFO)

Johannes Obrecht (COO)