

REMUNERATION REPORT

The remuneration report presents the Management and Supervisory Boards' remuneration pursuant to the provisions of the German Commercial Code (HGB), the German Accounting Standards (GAS 17) and the recommendations of the German Corporate Government Code (GCGC) in the valid version dated February 7, 2017.

REMUNERATION SYSTEM FOR THE MANAGEMENT BOARD

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

Total remuneration consists of fixed and performance-related components.

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

In the 2018 fiscal year, the system of performance-related remuneration for the members of the Management Board was redesigned. The previous one-year variable and multi-year variable components have been combined into one remuneration component and continues to be measured against the Group's net income for the period which, in the opinion of the Supervisory Board, reflects the combined performance of the Management Board and the

workforce to secure jobs at the Company and the ability to pay a dividend. The calculation is based on 10 percent of the Group's net income for the period of two years prior, 20 percent of the prior year and 70 percent of the new fiscal year – making 70 percent of this remuneration forward-looking. The proportion of variable remuneration to the Group's net income for the period, as well as the maximum achievable amount, varies among the individual members of the Management Board and is due for payment upon the adoption of the annual financial statements of the new financial year under this calculation basis. The new regulation applies to Management Board members Dr. Volker Simon and Bernd Bartmann as of January 1, 2018 and applies to Johannes Obrecht as of January 1, 2019.

The previous system for performance-based remuneration consisted of one-year and multiple-year variable components. The one-year variable component was measured according to the net income of the Group for the previous fiscal year. The multiple-year variable component was measured according to the Group's average net income over a period of three years. The absolute level of performance-based remuneration was limited in its amount and structured, so that multi-year components outweighed one-year components and ensured that both positive and negative corporate developments were taken into account.

The existing employment contracts also provide for a discretionary bonus, whereby the Supervisory Board may consider extraordinary positive and negative developments at its discretion up to a limited annual maximum amount. The maximum amount for the CEO is different than for the other Management Board members. Starting as of the 2018 fiscal year, the development of free cash flow, the dynamic leverage ratio and net debt over a 3-year period based on the planning from the beginning of the respective fiscal year are deemed to be multi-year assessment components.

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

Management Board member Bernd Bartmann is entitled to receive retirement, disability and survivor pension.

4	100 YEARS OF PIONEERING	32	GROUP PRINCIPLES	58	CORPORATE GOVERNANCE STATEMENT	60
18	TO OUR SHAREHOLDERS	35	REPORT ON BUSINESS DEVELOPMENT	58	NON-FINANCIAL GROUP STATEMENT	
30	COMBINED GROUP MANAGEMENT REPORT & MANAGEMENT REPORT OF PWO AG	47	REPORT ON RISKS, OPPORTUNITIES AND FORECASTS	59	REMUNERATION REPORT	
68	CONSOLIDATED FINANCIAL STATEMENTS	57	DEPENDENCY REPORT	65	BUSINESS DEVELOPMENT AT PROGRESS-WERK OBERKIRCH AG	
		57	TAKEOVER-RELATED DISCLOSURES	67	RESPONSIBILITY STATEMENT	

MANAGEMENT BOARD REMUNERATION ACCORDING TO THE GAS 17 ACCOUNTING STANDARD

EURk

	Dr. Volker Simon (CEO)		Bernd Bartmann		Johannes Obrecht		Total remuneration	
	2018	2017	2018	2017	2018	2017	2018	2017
FIXED REMUNERATION								
Basic annual salary ¹	270	320	216	216	192	168	678	704
Non-cash benefits	25	17	34	33	19	18	78	68
TOTAL	295	337	250	249	211	186	756	772
PERFORMANCE-RELATED REMUNERATION								
NEW REMUNERATION SYSTEM								
Variable remuneration	240	--	180	--	--	--	420	0
PREVIOUS REMUNERATION SYSTEM								
One-year variable remuneration	--	132	--	103	65	88	65	323
Multi-year variable remuneration	--	148	--	107	86	97	86	352
TOTAL	240	280	180	210	151	185	571	675
TOTAL REMUNERATION	535	617	430	459	362	371	1,327	1,447

¹ Dr. Simon's basic annual salary in the 2018 fiscal year does not include any payments to establish a private retirement program (p/y: EURk 50).

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

Management Board members Dr. Volker Simon and Johannes Obrecht are not entitled to pension benefits but, as set out in their Management Board contracts, instead receive a fixed annual benefit for a private retirement

scheme that is also paid by the Company, at the request of both gentlemen, directly into a pension trust.

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

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

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

EURk

	Annual entitlement ¹		Present value of benefit obligations		Allocation to pension provisions	
	2018	2017	2018	2017	2018	2017
Dr. Volker Simon, CEO	0	0	0	0	0	0
Bernd Bartmann ²	72	72	1,308	1,434	107	105
Johannes Obrecht	0	0	0	0	0	0
TOTAL	72	72	1,308	1,434	107	105

¹ At the start of pension at the age of 65 years based on the entitlements earned until December 31, 2018.

² The allocation to the pension provisions for Bernd Bartmann does not include the fixed annual payment of EURk 20 into a pension trust that is agreed upon in addition to his pension benefits.

The Personnel Committee of the Supervisory Board regularly reviews the remuneration system for the Management Board in preparation for the resolution of the plenary. As previously mentioned, the last review was conducted in the 2018 fiscal year.

MANAGEMENT BOARD REMUNERATION IN ACCORDANCE WITH THE GAS 17 ACCOUNTING STANDARD

The total Management Board remuneration for the 2018 fiscal year amounted to EURk 1,327 (p/y: EURk 1,447). This includes performance-based remuneration of EURk 571 (p/y: EURk 675). Added to this amount were non-cash benefits of EURk 78 (p/y: EURk 68), which mainly consisted of company cars, phone bills, insurance premiums and non-cash benefits. The table on page 60 shows the individual remuneration of the Management Board members.

The Company has recognized pension provisions for the future pension entitlement of Bernd Bartmann. The allocation to pension provisions in the reporting year amounted to a total of EURk 107 (p/y: EURk 105). The allocation amount included what is known as service costs excluding interest costs.

There are no pension entitlements for the benefit of Dr. Volker Simon or Johannes Obrecht. To establish a private pension plan, Dr. Simon and Mr. Obrecht instead receive fixed annual payments of EURk 50 and EURk 40, respectively, which the Company pays directly into a pension fund at the request of both gentlemen. A fixed annual benefit of EURk 20 for Bernd Bartmann was agreed in addition to the

pension commitment. The payment is also made directly to a pension trust at the request of Bernd Bartmann.

The table above shows the individual expenses for pensions.

Former Management Board members and their surviving dependents have received pension payments amounting to EURk 233 (p/y: EURk 228) during the reporting year. The corresponding pension provisions amounted to EURk 4,107 (p/y: EURk 4,386) on December 31, 2018.

A provision amounting to EURk 884 (p/y: EURk 929) was recognized in the 2018 fiscal year for current pensions and entitlements for former members of the Management Board.

In the event of termination of employment, no other benefits were promised to any member of the Management Board. In the 2018 fiscal year, no members of the Management Board had received any payments or promises from a third party in connection with their work as Management Board members.

MANAGEMENT BOARD REMUNERATION IN ACCORDANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

Pursuant to the recommendations of the German Corporate Governance Code as amended on February 7, 2017, both the benefits granted and the payments are presented using the sample tables.

4	100 YEARS OF PIONEERING	32	GROUP PRINCIPLES	58	CORPORATE GOVERNANCE STATEMENT	62
18	TO OUR SHAREHOLDERS	35	REPORT ON BUSINESS DEVELOPMENT	58	NON-FINANCIAL GROUP STATEMENT	
30	COMBINED GROUP MANAGEMENT REPORT & MANAGEMENT REPORT OF PWO AG	47	REPORT ON RISKS, OPPORTUNITIES AND FORECASTS	59	REMUNERATION REPORT	
68	CONSOLIDATED FINANCIAL STATEMENTS	57	DEPENDENCY REPORT	65	BUSINESS DEVELOPMENT AT PROGRESS-WERK OBERKIRCH AG	
		57	TAKEOVER-RELATED DISCLOSURES	67	RESPONSIBILITY STATEMENT	

MANAGEMENT BOARD REMUNERATION ACCORDING TO THE GCGC: BENEFITS GRANTED DURING THE REPORTING YEAR

EURk

	Dr. Volker Simon (CEO) Market and Technology Entry: 01/07/2014				Bernd Bartmann Administration and Finance Entry: 01/01/2005				Johannes Obrecht Production and Materials Entry: 01/07/2016			
	2017	2018	2018	2018	2017	2018	2018	2018	2017	2018	2018	2018
			Min.	Max.			Min.	Max.			Min.	Max.
Fixed remuneration ¹	320	270	--	--	216	216	--	--	168	192	--	--
Non-cash benefits	17	25	--	--	33	34	--	--	18	19	--	--
TOTAL	337	295	--	--	249	250	--	--	186	211	--	--
Discretionary bonus ²	0	0	--	100	0	0	--	80	0	0	--	80
NEW REMUNERATION SYSTEM												
Variable remuneration (2016-2018)	--	456	--	500	--	342	--	400	--	--	--	--
PREVIOUS REMUNERATION SYSTEM												
One-year variable remuneration	217	--	--	--	169	--	--	--	145	140	--	190
Multi-year variable remuneration (2017-2018)	0	--	--	--	0	--	--	--	0	158	--	210
Multi-year variable remuneration (2016-2017)	0	--	--	--	0	--	--	--	135	--	--	--
Multi-year variable remuneration (2016-2018)	0	--	--	--	0	--	--	--	0	--	--	--
Multi-year variable remuneration (2015-2017)	201	--	--	--	146	--	--	--	0	--	--	--
TOTAL	418	456	--	--	315	342	--	--	280	298	--	--
Pension expenses ³	0	50	--	--	125	127	--	--	40	40	--	--
TOTAL REMUNERATION	755	801	--	--	689	719	--	--	506	549	--	--

¹ Dr. Simon's basic annual salary in the 2018 fiscal year does not include any payments to establish a private retirement program (p/y: EURk 50).

² At its own discretion, the Supervisory Board may decide to grant special remuneration in cases of extraordinary performance or success in the amounts shown above.

In turn, in cases of extraordinary developments, the entitlements to variable remuneration may be reduced in the amounts shown above.

³ Pension expenses include payments into a pension trust (Dr. Simon: EURk 50; Mr. Bartmann: EURk 20; Mr. Obrecht: EURk 40).

In the table titled "Benefits granted," the amounts budgeted for one- and multiple-year variable remuneration are shown as opposed to GAS 17. The minimum and maximum values that can be achieved are also reported. The pension expenses shown in the table under "Individual pension expenses" as an allocation to pension provisions, is also included in the total remuneration. The fixed annual payments to a pension trust in addition to the pension commitments are also included.

The total remuneration granted to the Management Board in accordance with the German Corporate Governance Code reached EURk 2,069 (p/y: EURk 1,950) for the 2018 fiscal year.

The total remuneration paid to the Management Board in accordance with the German Corporate Governance Code reached EURk 1,544 (p/y: EURk 1,612) for the 2018 fiscal year.

MANAGEMENT BOARD REMUNERATION ACCORDING TO THE GCGC: BENEFITS PAID DURING THE REPORTING YEAR

EURK

	Dr. Volker Simon (CEO) Market and Technology Entry: 01/07/2014		Bernd Bartmann Administration and Finance Entry: 01/01/2005		Johannes Obrecht Production and Materials Entry: 01/07/2016	
	2017	2018	2017	2018	2017	2018
Fixed remuneration ¹	320	270	216	216	168	192
Non-cash benefits	17	25	33	34	18	19
TOTAL	337	295	249	250	186	211
Discretionary bonus ²	0	0	0	0	0	0
NEW REMUNERATION SYSTEM						
Variable remuneration (2016-2018)	--	240	--	180	--	--
PREVIOUS REMUNERATION SYSTEM						
One-year variable remuneration	132	--	103	--	88	65
Multi-year variable remuneration (2017-2018)	--	--	--	--	--	86
Multi-year variable remuneration (2016-2017)	0	--	0	--	97	--
Multi-year variable remuneration (2016-2018)	0	--	0	--	0	--
Multi-year variable remuneration (2015-2017)	148	--	107	--	0	--
TOTAL	280	240	210	180	185	151
Pension expenses ³	0	50	125	127	40	40
TOTAL REMUNERATION	617	585	584	557	411	402

¹ Dr. Simon's basic annual salary in the 2018 fiscal year does not include any payments to establish a private retirement program (p/y: EURk 50).

² At its own discretion, the Supervisory Board may decide to grant special remuneration in cases of extraordinary performance or success in the amounts shown above.

In turn, in cases of extraordinary developments, the entitlements to variable remuneration may be reduced in the amounts shown above.

³ Pension expenses include payments into a pension trust (Dr. Simon: EURk 50; Mr. Bartmann: EURk 20; Mr. Obrecht: EURk 40).

REMUNERATION OF THE SUPERVISORY BOARD

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

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

the fixed remuneration in the case of the Supervisory Board chairperson.

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

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

4	100 YEARS OF PIONEERING	32	GROUP PRINCIPLES	58	CORPORATE GOVERNANCE STATEMENT	64
18	TO OUR SHAREHOLDERS	35	REPORT ON BUSINESS DEVELOPMENT	58	NON-FINANCIAL GROUP STATEMENT	
30	COMBINED GROUP MANAGEMENT REPORT & MANAGEMENT REPORT OF PWO AG	47	REPORT ON RISKS, OPPORTUNITIES AND FORECASTS	59	REMUNERATION REPORT	
68	CONSOLIDATED FINANCIAL STATEMENTS	57	DEPENDENCY REPORT	65	BUSINESS DEVELOPMENT AT PROGRESS-WERK OBERKIRCH AG	
		57	TAKEOVER-RELATED DISCLOSURES	67	RESPONSIBILITY STATEMENT	

EURk

	Fixed remuneration		Attendance fees		Total remuneration	
	2018	2017	2018	2017	2018	2017
Karl M. Schmidhuber, Chairman	69	69	5	5	74	74
Dr. Georg Hengstberger, Deputy Chairman (since May 23, 2018)	46	38	5	5	51	43
Dr. Gerhard Wirth, Deputy Chairman (until May 23, 2018)	18	44	2	3	20	47
Carsten Claus (since May 23, 2018)	25	0	3	0	28	0
Herbert König	31	31	5	5	36	36
Dr. Jochen Ruetz (since May 23, 2018)	21	0	3	0	24	0
Ulrich Ruetz (until May 23, 2018)	16	38	3	5	19	43
Gerhard Schrempp	25	25	3	3	28	28
TOTAL	251	245	28	26	279	271

Compensation is payable at the end of the fiscal year.

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

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

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

BUSINESS DEVELOPMENT AT PROGRESS-WERK OBERKIRCH AG

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

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

As of the reporting date, the number of employees of the Company, including temporary workers, increased to 1,656 (p/y: 1,645). This number includes 152 (p/y: 133) young people who are currently completing training.

The increase in PWO AG's revenue in the reporting year resulted from the invoicing of upfront investments in tools made in the prior year. As a result, finished goods and work-in-progress declined by EUR 9.3 million (p/y: increase of EUR 14.7 million) and total output remained below the previous year's level. These results reflect the decline in higher-margin series revenues in the 2018 fiscal year, which placed a burden on the Company's profitability.

The lower volume of upfront investment resulted in a significant decline in the cost of materials ratio. However, staff costs experienced a noticeable rise despite the decline in total output. This rise was the result of two factors: more staff was required to secure the current,

large-volume start-ups and ramp-ups than at a later stage in the series production process; and the existing supplementary collective agreement limited our ability to adapt our personnel resources to changes in the volume of production.

The modest level of investment at PWO AG in the 2018 fiscal year led to essentially the same level of depreciation and amortization as in the previous year. The decline in other operating income resulted mainly from fewer currency gains, which were offset by a similar amount of lower currency losses and reported under other operating expenses. The balance of other operating income and expenses still increased in the reporting year, as additional cost-cutting measures introduced in the second half of the year had taken only partial effect by the end of the fiscal year.

The financial result improved to EUR 6.1 million (p/y: EUR 1.2 million), as income from investments of EUR 7.0 million (p/y: EUR 2.3 million) was well above last year. Earnings before taxes decreased overall to EUR 8.7 million (p/y: EUR 10.2 million). After taxes, net income amounted to EUR 5.9 million (p/y: EUR 5.2 million).

Total assets in the reporting year rose to EUR 313.8 million (p/y: EUR 306.0 million). This increase originated primarily from a higher level of outstanding accounts receivable from affiliated companies on the reporting date. Bank balances were also higher than at the end of the 2017 fiscal year. Non-current assets, in contrast, declined slightly as a result of the aforementioned low level of investment. Inventories were reduced visibly by the invoicing of upfront tool investments. At EUR 119.8 million (p/y: EUR 119.1 million), equity remaining virtually unchanged, and the equity ratio as of the reporting date equaled 38.2 percent (p/y: 38.9 percent).

4	100 YEARS OF PIONEERING	32	GROUP PRINCIPLES	58	CORPORATE GOVERNANCE STATEMENT	66
18	TO OUR SHAREHOLDERS	35	REPORT ON BUSINESS DEVELOPMENT	58	NON-FINANCIAL GROUP STATEMENT	
30	COMBINED GROUP MANAGEMENT REPORT & MANAGEMENT REPORT OF PWO AG	47	REPORT ON RISKS, OPPORTUNITIES AND FORECASTS	59	REMUNERATION REPORT	
68	CONSOLIDATED FINANCIAL STATEMENTS	57	DEPENDENCY REPORT	65	BUSINESS DEVELOPMENT AT PROGRESS-WERK OBERKIRCH AG	
		57	TAKEOVER-RELATED DISCLOSURES	67	RESPONSIBILITY STATEMENT	

INCOME STATEMENT SELECTED INFORMATION

EURk				
	2018	in % of total output	2017	in % of total output
Revenue	292,937	102.6	280,170	94.6
Total output	285,380	100.0	296,058	100.0
Cost of materials	149,756	52.5	162,731	55.0
Staff costs	90,464	31.7	83,706	28.3
Depreciation and amortization	11,553	4.0	11,547	3.9
Other operating expenses	36,784	12.9	38,790	13.1
Financial result	6,072	2.1	1,157	0.4
Earnings before taxes	8,657	3.0	10,198	3.4
Net income	5,872	2.1	5,234	1.8
Unappropriated retained earnings	4,251	1.5	5,235	1.8

With respect to our future business development, we kindly refer you to the statements made regarding the opportunities and risks of the Group. These statements also essentially apply to PWO AG. We expect our total output to essentially remain at the current level. We also expect cost reductions and process improvements

initiated to gradually take effect. The turnaround in the profitability however will only develop slowly over a period of several years. Furthermore, earnings before taxes are significantly influenced by the dividend payments of the subsidiaries, which occur irregularly.