THE HUMAN TOUCH OF AUTO-MOTIVE TECH-NOLOGY

INTERIM FINANCIAL REPORT

2nd Quarter | 1st Half-Year 2014

PWO

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Letter of the Management Board

Dear Shareholders and Business Associates,

In our last report, we announced a successful start to the 2014 fiscal year and presented the medium-term prospects of the PWO Group. The second quarter saw a slowdown in business that could have been compensated for by the previously expected stronger second half.

Meanwhile, customer call indications no longer indicate acceleration in the next six months. With a revised forecast of EUR 385 million in revenues (p/y: EUR 377.4 million) and an EBIT in the range of EUR 20 million to EUR 21 million (p/y: EUR 22.3 million), our results are expected to be at the previous year's level.

The slower growth concerns all of our locations with the exception of our Czech location. As a consequence, we will not be able to offset the differing business developments within the Group. While our ongoing series productions develop favorably in light of the overall positive trend in the automotive sector, we are adversely impacted by delays in start-ups and lower unit numbers than originally planned with regard to several ramp-ups. Therefore, we are now readjusting our capacity, which was aligned to the higher revenue volume. Nevertheless, we will continue with our previous growth strategy.

Our medium-term outlook is not affected. On the contrary: Our Czech location is developing even better than expected. Even though this location is operating at a high level of utilization, our employees continue to achieve further increases in revenues and EBIT through their tremendous commitment. As a result, we will even exceed our previous plans for this location in 2014.

Therefore, as already communicated, we will accelerate our expansion in the Czech Republic. The size of this location will more than double in the next few years: First, in order to work off the new business we have on our books today, and, above all, because we see the continued high potential for new orders. Our other locations will successively follow suit.

In the past two years, we have won contracts for new series productions, including the accompanying tool orders, amounting to a lifetime volume of over EUR 800 million. The majority of these contracts will start-up and ramp-up in the next two years. Therefore, we are confident that by the year 2015 we will have returned to our long-term path of continual growth in revenues and earnings.

Oberkirch, July 2014
The Management Board

PWO Shares

Following a sharp rise in the PWO share price during the first three months of 2014 from EUR 43.90 (XETRA) at the beginning of the first quarter to EUR 56.82 at the quarter's close, the share mainly moved sideways in the second quarter. In June, the share showed the first signs of weakness and ended the first half of the year at EUR 52.22. With the revision in the forecast for fiscal year 2014 which occurred subsequent to the end of the reporting period, the share price fell significantly to an intra-day low of EUR 45.25 and then recovered to a level of around EUR 48.

Thus, the share price is currently trading approximately 10 percent above the level at the start of the year and outperformed the SDAX and the relevant industry indices. However, in the meantime the share has forfeited most of the outperformance it had achieved before. Since the start of the year, the SDAX price index rose approximately six percent, the DAXsector Automobile price index gained close to two percent and the Auto Parts & Equipment sub-sector index advanced around four percent.

The development of the broad market indices was very volatile in the course of the first half year due to geopolitical concerns and uncertainties. The automotive indices could not fully decouple themselves from these factors despite positive news from the industry.

Directors' Dealings

Any notifications received are published on the Company's website under www.progress-werk.de in the section Investor Relations/PWO shares/Directors' Dealings.

Other information

Number of shares issued as at June 30, 2014 | **3,125,000**
Treasury shares held as at June 30, 2014 | **None**
Dividend per share for fiscal year 2013 | **EUR 1.80**

Current shareholder structure

Consult Invest Beteiligungsberatungs-GmbH, Böblingen | **46.55 %**
Free Float: **53.45 %** | thereof

- Delta Lloyd N.V., Amsterdam, the Netherlands: **17.01 %**
- Sparkasse Offenburg/Ortenau, Offenburg: **5.88 %**

Source: WpHG notifications, own analyses

Interim Group Management Report

REPORT ON ECONOMIC DEVELOPMENT: THE OVERALL ECONOMY

After the positive development of the world economy in the first three months of 2014, growth momentum subsequently experienced a slowdown. Seasonal effects, such as the warm winter in Europe, which had a positive effect on the first quarter, led to a less pronounced "catching up" in the second quarter. In addition, the Ukraine crises, declining economic development in Brazil, and last but not least, the political conflicts in the Middle East, are all proving to be a burden.

These factors are currently reflected only to a limited extent in the specific forecasts of economists for the major countries and regions of the world economy. For example, in its latest publication of Global Economic Prospects, the World Bank has confirmed its expectations for real gross domestic product (GDP) growth in the eurozone of 1.1 percent in 2014 and left the forecast for China essentially unchanged at 7.6 percent. The forecast for the USA was reduced to an increase of 2.1 percent from a previous estimate of 2.8 percent due to the weak first quarter.

However, factors of uncertainty are having a significant effect on economic sentiment and are curbing optimism. Individual indicators, such as lower manufacturing output in Germany in May for the third consecutive time, lead to significant declines in sentiment indicators. Therefore, the majority of economic experts currently warn of an end to the upturn in Europe and a revision in their forecasts.

REPORT ON ECONOMIC DEVELOPMENT: SECTOR TRENDS

New registrations/sales of passenger vehicles in units (source: VDA)

Region	**1HY2014**	**Change vs. 1HY2013** (%)
Europe (EU28 + EFTA) [1]	6,851,600	+6.2
Western Europe (EU15 + EFTA)	6,393,800	+5.5
Russia [2]	1,229,800	-7.6
USA [2]	8,123,400	+4.2
China	8,857,600	+14.5

[1] excluding Malta | [2] Light Vehicles

The growth of the automotive market has clearly stabilized in course of the first half of 2014 after a weak start in the year. There is a visible rise in new registrations in the three major markets of Western Europe, USA, and China compared to the previous year. In contrast, sales of light vehicles have weakened considerably in Russia during the first six months of the year triggered by the Ukraine crisis.

All major Western European automotive markets grew in the first half of the year: Germany (+2 percent), France (+3 percent), Italy (+3 percent), Spain (+18 percent, although supported by the local scrappage scheme), and the United Kingdom (+11 percent). Weaker figures were only reported in Austria (-3 percent), Switzerland (-4 percent), Belgium (-1 percent), and the Netherlands (-5 percent).

In the new EU countries, demand increased by a solid 17 percent to 457,800 units and none of these countries experienced a decline. Sales of light vehicles in the US performed well with growth of 4 percent. In China, growth remained high at 14 percent.

The favorable development of the international automotive industry supported automotive production in Germany, which, by June, had grown 6 percent. The export ratio, i.e., the share of exports from domestic production, rose to 77 percent in the first half year.

BUSINESS DEVELOPMENT: RESULTS OF OPERATIONS

In the first half of 2014, we generated revenues of EUR 194.7 million (p/y: EUR 191.6 million), total output of EUR 198.9 million (p/y: EUR 198.1 million), and an EBIT of EUR 10.8 million (p/y: EUR 11.0 million). At EUR 5.5 million (p/y: EUR 6.0 million), the net income for the period remained below the previous year's level due to a temporary rise in the tax rate. Accordingly, earnings per share fell to EUR 1.76 (p/y: EUR 1.91).

Overall, business performance was at the previous year's level, but was adversely affected by the slower than expected start-up and ramp-up of new series productions in the second quarter. We had already added the capacity necessary for the level of revenues originally scheduled for 2014. This meant that the missing call orders in the reporting quarter were visibly reflected in earnings, despite revenues and total output remaining largely at the previous year's level.

During the reporting quarter, revenues and total output amounted to EUR 95.0 million (p/y: EUR 97.5 million) and EUR 98.4 million (p/y: EUR 100.0 million), respectively. EBIT declined to EUR 4.8 million (p/y: EUR 5.2 million). There was a particularly strong rise in the depreciation and amortization ratio from 5.4 percent in the previous year to 5.8 percent as a result of the newly added capacity. The rise in the other operating expense ratio was even more pronounced and grew from 9.1 percent to 9.7 percent. This was largely due to higher costs for temporary employees. There was some relief, however, from a change in the material mix which resulted in a decline in the cost of materials ratio.

Net income for the period amounted to EUR 2.3 million (p/y: EUR 2.8 million) and earnings per share amounted to EUR 0.72 (p/y: EUR 0.89) as a result of a higher tax rate compared to the previous year. The decline in net income was also due to higher financial expenses resulting from an increased level of interest-bearing borrowings, which have been refinanced with longer maturities in the meantime.

BUSINESS DEVELOPMENT: SEGMENTS

At our home location in Oberkirch, which constitutes the Germany segment, our external revenues in the half year reporting period grew 1.7 percent to EUR 121.2 million (p/y: EUR 119.2 million). Total output amounted to EUR 129.2 million and was slightly below the previous year's level of EUR 130.1 million. Thus, this location is experiencing weaker growth than previously expected.

Our present growth is not sufficient enough to compensate for the annual increases in costs and expenses experienced in a high-tech location in a high-wage country such as Germany. As a result, the EBIT in the six-month period declined to EUR 6.4 million (p/y: EUR 7.2 million). Therefore, the measures for cost containment and earnings improvement that have been implemented thus far must be broadened further to secure Oberkirch's profitability.

The Czech location, which forms the Rest of Europe segment, continues to develop very positively. External revenues rose strongly by 24.4 percent to EUR 25.2 million (p/y: EUR 20.3 million) in the first half of 2014 and total output increased even faster to EUR 28.7 million (p/y: EUR 22.8 million). EBIT experienced a disproportionate expansion of 33.1 percent to EUR 3.6 million.

This development is particularly pleasing because this location is now operating at a high level of utilization. In order to process these high volumes on time, our in-house logistics operations, in particular, are demanding a tremendous amount of effort from our employees. We continue to expect that this location's growth will weaken in the further course of the year due to basis effects.

The NAFTA Area segment is comprised of the locations in Canada and Mexico. The current start-ups and ramp-ups of new series productions at these locations are proceeding slower than previously expected. Furthermore, customer call orders have been volatile, especially in Canada, and the efficiency improvements being made to the production in Mexico are only progressing gradually.

Total external revenues in the NAFTA Area amounted to EUR 42.7 million (p/y: EUR 46.3 million) in the first six months and were noticeably below those of the previous year. The same was true for total output which amounted to EUR 42.4 million (p/y: EUR 47.6 million) and the EBIT which totaled EUR 1.4 million (p/y: EUR 2.1 million).

At our Chinese location, which forms the Asia segment, one start-up was delayed and further start-ups took place with lower volumes than originally indicated. As a result, external revenues were below the previous year and amounted to EUR 5.6 million (p/y: EUR 5.9 million). In contrast, total output came to EUR 7.5 million (p/y: EUR 6.1 million) due to tool orders which were not yet invoiced. Although EBIT improved to EUR -0.7 million (p/y: EUR -1.2 million) it was still below plan.

NET ASSETS AND FINANCIAL POSITION

As of the reporting date, total assets of the Group increased to EUR 331.3 million compared to EUR 299.4 million at the end of the prior fiscal year. This resulted mainly from seasonal increase in receivables and other assets from EUR 63.0 million to EUR 84.6 million and in inventories from EUR 62.2 million to EUR 65.6 million. In the course of our investment activities, non-current assets grew to EUR 168.0 million after EUR 164.4 million.

On the equity and liabilities side, the increase in total assets is particularly reflected in the expansion in interest-bearing borrowings to EUR 136.6 million compared to EUR 107.7 million at the balance sheet date of 31 December 2013. We have made a visible improvement in the maturity structure of our borrowings: In April, we successfully issued a promissory note loan for the first time. This issue was five times oversubscribed within only a short period of time. Hence, the volume of EUR 30 million initially planned was eventually doubled to EUR 60 million. We have used these funds to reduce current interest-bearing borrowings from EUR 60.0 million as of the end of the previous financial year to EUR 34.9 million as of the reporting date. At the same time, non-current interest-bearing borrowings increased from EUR 47.7 million to EUR 101.7 million.

Next to the net income for the period of EUR 5.5 million, the change in equity largely reflects actuarial losses from defined benefit pension plans in the amount of EUR 4.6 million, primarily due to the continued decline in the level of interest rates used in the calculation of pensions. In addition, there was a EUR 5.6 million cash outflow for the dividend following the Annual General Meeting in May. This led to a decline in the equity position from EUR 102.5 million at the beginning of the fiscal year to EUR 97.6 million as of the reporting date. Accordingly, the equity ratio declined from 34.2 percent to 29.5 percent and the gearing (net debt in percentage of equity) increased from 97.3 percent to 130.8 percent. We expect inventories and receivables to experience a seasonal decline during the second half of the year allowing the balance sheet ratios to improve again as usual.

The changes in the balance sheet described also had a significant influence on the development of cash flows during the first six months of the new fiscal year. Cash flow from operating activities fell to EUR –7.5 million (p/y: EUR 2.0 million) since the working capital had a stronger increase of EUR 26.9 million than in the previous year (p/y: EUR 20.9 million).

Cash flow from investing activities during the six-month period amounted to EUR –11.4 million (p/y: EUR –9.4 million). The investments carried out during this reporting period are described in a separate section of this interim financial report. As a result, free cash flow after interest paid and received amounted to EUR –21.2 million (p/y: EUR –9.4 million).

A net change in cash and cash equivalents in the amount of EUR 6.1 million (p/y: EUR –6.4 million) was reported after dividends paid of EUR 5.6 million (p/y: EUR 5.0 million) and the proceeds from borrowings in the net amount of EUR 33.0 million (p/y: EUR 8.0 million).

NEW BUSINESS

New business during the first six months was fully in line with our expectations. We acquired a lifetime volume of future series productions in the amount of approximately EUR 130 million. In addition, we received tool orders with a volume of approximately EUR 12 million.

For the remainder of this year, our customers are not scheduled to award any further major contracts. This applies, in particular, to series productions with lifetime volumes in the double-digit million and low three-digit million euro range. Significant fluctuations in terms of contract awards are typical in our business. These result from the life cycles of the vehicle models and platforms and are very predictable. Consequently, we had acquired a large volume of new business in the last two years.

Also in terms of the new business we are currently acquiring, profitability takes precedence over the pace of growth. Additionally, we continue to strive to maintain a balance among our three product groups. Through the numerous smaller contracts we are winning at the moment, we are presently able to diversify our order structure even more and in turn limit both risk and our dependence in line with our strategic management.

INVESTMENTS

In the first half of the current fiscal year, the PWO Group invested EUR 12.7 million (p/y: EUR 10.9 million), as described in the segment report. Of this amount, EUR 7.4 million was invested during the second quarter (p/y: EUR 3.1 million).

In Oberkirch, structural measures that had been initiated in the past year were completed and several manufacturing lines were purchased. These included welding cells for start-ups and ramp-ups of series orders, an advance payment for a 450-ton fine-cutting press, and a turning lathe for hard machining for our tool center. A total of EUR 8.5 million (p/y: EUR 6.4 million) was invested in the half year reporting period.

At the Czech location, investments of EUR 1.0 million (p/y: EUR 0.6 million) were related to new assembly lines. Structural measures were also initiated. This location is already operating at a high level of capacity utilization and is on the verge of another period of strong growth. Therefore, we will bring our 2015 and 2016 investment plans forward by one year to 2014 and 2015, as we announced in June. The size of our Czech location will more than double overall in the next few years.

Investment volumes at the two sites in the NAFTA Area rose to EUR 3.0 million (p/y: EUR 2.5 million). While the expansion of the logistics center in Canada is on the verge of completion, there were no significant individual investments in Mexico in the reporting quarter after the installments made for the new 1,250-ton press. China also implemented only smaller measures during the reporting period which came to a level of EUR 0.3 million (p/y: EUR 1.4 million).

For fiscal year 2014, we expect total investments to reach approximately EUR 40 million. This sum includes the expansion brought forward at our Czech location.

EMPLOYEES

At the end of the half year reporting period, the number of employees in the PWO Group had risen to 3,227 employees after 3,103 at the end of 2013. This figure includes 157 trainees as of the reporting date compared to 170 trainees at the beginning of the fiscal year.

We increased the number of employees principally at our international locations during the first half of the year. We are presently preparing for further start-ups and ramp-ups scheduled for the coming quarters, regardless of the somewhat slower than expected growth rate. We are already hiring the necessary skilled personnel and training them for their future tasks to ensure the most efficient start-up in production possible.

The site located in the Czech Republic is the focus of this expansion and the number of employees at that site has risen strongly from 431 to 483. The staff in Mexico and China also saw a visible increase with employees now numbering 619 after 575 and 274 after 252, respectively. The rise in Canada, however, was somewhat more moderate with the number of employees reaching 275 after 261.

In Oberkirch, there were 1,576 employees at the end of the first half after a level of 1,584 employees at the start of the year. This decline was exclusively the result of a lower number of trainees which accepted permanent positions with PWO after successfully passing their final examinations or pursued alternative career paths.

REPORT ON OPPORTUNITIES AND RISKS

The opportunities and risks for the development of the PWO Group and its segments, which were described in the 2013 Annual Report, continue to be valid. The developments in Russia and the Ukraine have brought about a new risk since we also deliver to our customer's sites in Russia from our location in Germany.

The VDA is now much more optimistic with regard to the automotive industry given the favorable development of the international markets. Regarding Germany, projections for a volume of approximately 3 million passenger car registrations remain unchanged since private buyers continue to be cautious. China, on the other hand, should continue to grow strongly, whereas a 4 percent increase in new light vehicle registrations is expected in the US. After four years of decline, the Western European market is projected to grow again for the first time in 2014 and also see a rise of 4 percent.

This will support domestic production, which is expected to grow by 4 percent this year to 5.65 million units. At the same time, the VDA has raised its forecast for German exports for the year from the previously 2 percent to a total of 5 percent and now expects an export volume of 4.4 million units.

If the market forecasts prove to be accurate, this will contribute to the favorable development of our ongoing series productions and also to renewed increases in the volumes of our current start-ups and ramp-ups.

OUTLOOK

Our operating performance in the first half year was below our expectations, but still within the scope of the typical business fluctuations we tend to experience. The rise in revenues initially planned from both start-ups and ramp-ups in the second half of 2014 could have compensated for this deviation. However, the present level of customer call indications are no longer showing this expected acceleration.

Therefore, we have revised our forecast for the current fiscal year as published on July 21, 2014. We now expect revenues of approximately EUR 385 million (previous expectation: approx. EUR 400 million). The corresponding measures to adjust capacity, which have now become necessary, will have a delayed positive impact on EBIT. We also cannot rule out any temporary inefficiency in operations in the course of implementing corrective measures. Thus, we now expect an EBIT in the range of EUR 20 million to EUR 21 million (previous expectation: approximately EUR 25 million).

RESPONSIBILITY STATEMENT

"We hereby confirm to the best of our knowledge, and in accordance with the accounting standards applicable for interim reporting, that the interim consolidated financial statements give a true and fair view of the net assets, financial position, and results of operations of the Group. Furthermore, the interim group management report conveys a fair review of the development of the business including the results and the position of the Group, together with a description of the important opportunities and risks for the expected development of the Group for the remainder of the fiscal year."

Oberkirch, July 25, 2014

The Management Board

Dr. Volker Simon (Speaker)
Bernd Bartmann
Dr. Winfried Blümel

Consolidated Income Statement

	2nd Quarter 2014		2nd Quarter 2013	
	EURk	% share	EURk	% share
Revenue	94,986	96.5	97,458	97.5
Change in finished goods and work-in-progress / other own work capitalized	3,455	3.5	2,505	2.5
Total output	**98,441**	**100.0**	**99,963**	**100.0**
Other operating income	822	0.8	849	0.8
Cost of materials	52,824	53.7	54,389	54.4
Staff costs	26,457	26.9	26,641	26.7
Depreciation and amortization	5,668	5.7	5,424	5.4
Other operating expenses	9,551	9.7	9,134	9.1
EBIT	**4,763**	**4.8**	**5,224**	**5.2**
Financial expenses	1,594	1.6	1,419	1.4
EBT	**3,169**	**3.2**	**3,805**	**3.8**
Income taxes	912	0.9	1,031	1.0
Net income for the period	**2,257**	**2.3**	**2,774**	**2.8**
Earnings per share in EUR [1)]	0.72	—	0.89	—

[1)] The calculation of earnings per share is discussed on page 24.

Consolidated Income Statement

	1st Half-Year 2014		1st Half-Year 2013	
	EURk	% share	EURk	% share
Revenue	194,747	97.9	191,649	96.8
Change in finished goods and work-in-progress / other own work capitalized	4,183	2.1	6,417	3.2
Total output	**198,930**	**100.0**	**198,066**	**100.0**
Other operating income	1,839	0.9	2,221	1.1
Cost of materials	105,412	53.0	107,137	54.1
Staff costs	54,480	27.4	53,492	27.0
Depreciation and amortization	11,015	5.5	10,476	5.3
Other operating expenses	19,107	9.6	18,138	9.1
EBIT	**10,755**	**5.4**	**11,044**	**5.6**
Financial expenses	2,995	1.5	2,901	1.5
EBT	**7,760**	**3.9**	**8,143**	**4.1**
Income taxes	2,272	1.1	2,162	1.1
Net income for the period	**5,488**	**2.8**	**5,981**	**3.0**
Earnings per share in EUR [1)]	1.76	—	1.91	—

[1)] The calculation of earnings per share is discussed on page 24.

Consolidated Statement of Comprehensive Income

	June 30, 2014	June 30, 2013
	EURk	EURk
Net income for the period	**5,488**	**5,981**
Items that may be reclassified to profit and loss in future periods		
Net gains/losses from cash flow hedges	–112	–446
Tax effect	51	94
Unrealized gains/losses from derivative financial instruments	**–61**	**–352**
Currency translation differences	**–15**	**–139**
Items that will not be reclassified to profit and loss		
Actuarial gains/losses from defined benefit pension plans	–6,431	1,364
Tax effect	1,806	–383
Actuarial gains/losses from defined benefit pension plans	**–4,625**	**981**
Other comprehensive income after tax	**–4,701**	**490**
Total comprehensive income after tax	**787**	**6,471**

Consolidated Balance Sheet

ASSETS	**June 30, 2014**	Dec. 31, 2013
	EURk	EURk
Property, plant, and equipment	145,843	144,470
Intangible assets	12,003	11,814
Non-current portion of other assets	164	164
Non-current portion of income tax receivables	330	330
Deferred tax assets	9,627	7,593
Non-current assets	**167,967**	**164,371**
Inventories	65,556	62,184
Receivables and other assets	84,558	63,001
Other financial assets	3,363	1,232
Income tax receivables	966	525
Cash and cash equivalents	8,869	8,071
Current assets	**163,312**	**135,013**
Total assets	**331,279**	**299,384**

EQUITY AND LIABILITIES	**June 30, 2014**	Dec. 31, 2013
	EURk	EURk
Equity	**97,623**	**102,461**
Interest-bearing borrowings	101,715	47,735
Provisions for pensions	47,935	41,002
Other provisions	2,972	2,904
Non-current portion of other liabilities	0	144
Deferred tax liabilities	1,069	1,056
Non-current liabilities	**153,691**	**92,841**
Current portion of provisions for pensions	1,525	1,525
Current portion of other provisions	1,564	1,546
Trade payables and other liabilities	41,211	40,155
Other financial liabilities	806	865
Interest-bearing borrowings	34,859	59,991
Current liabilities	**79,965**	**104,082**
Total equity and liabilities	**331,279**	**299,384**

Consolidated Statement of Changes in Equity

	Equity attributable to PWO AG shareholders						
					Other components of equity items that may be reclassified to profit and loss in future periods		
EURk	Subscribed capital	Capital reserves	Retained earnings	Defined benefit pension plans	Currency translation differences	Cash flow hedges	**Total equity**
As at Jan. 1, 2013	9,375	37,494	56,078	–9,804	1,741	264	95,148
Net income for the period			5,981				5,981
Other comprehensive income				981	-139	–352	490
Total comprehensive income	**9,375**	**37,494**	**62,059**	**–8,823**	**1,602**	**–88**	**101,619**
Dividend payment			–5,000				–5,000
As at Jun. 30, 2013	**9,375**	**37,494**	**57,059**	**–8,823**	**1,602**	**–88**	**96,619**
As at Jan. 1, 2014	9,375	37,494	64,215	–8,276	–708	361	102,461
Net income for the period			5,488				5,488
Other comprehensive income				–4,625	–15	–61	–4,701
Total comprehensive income	**9,375**	**37,494**	**69,703**	**–12,901**	**–723**	**300**	**103,248**
Dividend payment			–5,625				–5,625
As at Jun. 30, 2014	**9,375**	**37,494**	**64,078**	**–12,901**	**–723**	**300**	**97,623**

Consolidated Statement of Cash Flows

	June 30, 2014	June 30, 2013
	EURk	EURk
Net income for the period	5,488	5,981
Depreciation of property, plant, and equipment, net of write-ups	11,015	10,476
Income tax expense/refund	2,272	2,162
Interest income and expenses	2,995	2,901
Change in current assets	–26,885	–20,872
Change in non-current liabilities (excluding interest-bearing borrowings)	6,082	–190
Change in current liabilities (excluding interest-bearing borrowings)	784	4,389
Income taxes paid	–2,476	–1,664
Other non-cash expenses/income	–6,768	–1,217
Gain/loss on disposal of property, plant, and equipment	39	56
Cash flow from operating activities	**–7,454**	**2,022**
Proceeds from disposal of property, plant, and equipment	18	173
Payments for investments in property, plant, and equipment	–10,452	–8,844
Payments for investments in intangible assets	–992	–729
Cash flow from investing activities	**–11,426**	**–9,400**
Dividends paid	–5,625	–5,000
Interest paid	–2,368	–2,032
Interest received	34	6
Proceeds from borrowings	64,107	17,830
Repayment of borrowings	–31,132	–9,865
Cash flow from financing activities	**25,016**	**939**
Net change in cash and cash equivalents	6,136	–6,439
Effect of exchange rates on cash and cash equivalents	53	–96
Cash and cash equivalents as at January 1	–3,721	2,664
Cash and cash equivalents as at June 30	**2,468**	**–3,871**
of which cash and cash equivalents	8,869	8,016
of which bank borrowings due on demand	–6,401	–11,887

Notes to the Interim Consolidated Financial Statements

ACCOUNTING POLICIES

Basis of presentation

These condensed interim consolidated financial statements as at June 30, 2014 were prepared in accordance with IAS 34 "Interim Financial Reporting". They do not contain all of the information and disclosures required for consolidated financial statements at the end of the financial year, and should therefore be read in conjunction with the annual consolidated financial statements as at December 31, 2013. The interim consolidated financial statements and the interim management report are neither subject to an external audit nor to an auditor's review.

Scope of consolidation

The interim consolidated financial statements as at June 30, 2014 include 6 foreign companies that PWO AG controls either directly or indirectly. No changes have occurred to the scope of consolidation compared to December 31, 2013.

Currency translation

The interim consolidated financial statements are presented in euro, the functional currency of the parent company. The financial statements of the companies within the consolidated Group are prepared using foreign currencies that are translated according to the functional currency concept (IAS 21). Each company within the Group determines its own functional currency.

The items contained in the financial statements of the companies are measured using this functional currency. All balance sheet items of the foreign consolidated entity were translated into euro by applying the relevant mean rate of exchange at the balance sheet date. Expenses and income in the consolidated income statement were translated using the average exchange rate. Net income for the period from the translated income statement was transferred to the balance sheet. Differences are recognized directly in equity as a currency translation difference.

The following exchange rates were used for currency translation purposes within the interim consolidated financial statements:

	Closing rate		**Average rate**	
	30/06/2014	30/06/2013	**1HY2014**	1HY2013
CAD	1.46	1.37	1.50	1.33
CNY	8.47	8.03	8.45	8.13
USD	1.37	1.31	1.37	1.31

Financial instruments

Currency-related derivatives in the form of interest-rate swaps, foreign exchange swaps, options, and foreign exchange forward contracts are carried at fair value both at the time of purchase and as part of subsequent measurement. In the case of derivative financial instruments which do not fulfill the criteria of a hedging transaction, gains or losses from changes in the fair value are reported immediately in profit or loss. Market value changes of derivative financial instruments used to hedge future cash flows (cash flow hedges) are recognized directly in equity in the amount of the effective share of equity, while the ineffective share is immediately recognized in profit or loss. When the hedged transaction takes place, the derivative is transferred from equity to profit and loss. The fair value of exchange-listed derivatives corresponds to the positive or negative market value. If no market values are available, these are calculated using recognized actuarial valuation models, e.g. discounted cash flow model or option price model.

Measurement of fair value

The Group measures derivative financial instruments at fair value at each reporting date. The fair values of financial instruments carried at amortized cost are presented on page 27.

The fair value is the amount to be achieved upon the sale of an asset in an orderly business transaction between market participants on the valuation date or the amount to be paid for the transfer of a liability. Measuring the fair value assumes that the transaction leading to the sale of the asset or the transfer of the liability takes place on the asset's principal market or the principal market for the transfer of the liability or, if such a principal market is not available, on the most favorable market for the asset or for the transfer of the liability. The Group must have access to either the principal market or the most favorable market.

The fair value of an asset or liability is determined on the basis of assumptions that market participants would take into consideration in the pricing of the asset or liability. It is assumed that market participants act in their own best economic interest.

The Group uses valuation techniques that are appropriate for the respective circumstances and for which sufficient data for measuring the fair value are available. The use of relevant, observable input factors should be kept as high as possible and the use of unobservable input factors should be kept as low as possible.

All assets and liabilities, for which fair value is determined or reported in the financial statements, are allocated to the fair value hierarchy described below based on the input parameters of the lowest level relevant for the overall measurement of the fair value:

› Level 1 – Quoted (unadjusted) prices in active markets for identical assets or liabilities.

› Level 2 – Valuation methods in which the lowest level of input parameters essential for the overall measurement at fair value is either directly or indirectly observable on the market.

› Level 3 – Valuation methods in which the lowest level of input parameters essential for the overall measurement at fair value is not observable on the market.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether reclassifications between the hierarchy levels have taken place by reviewing the classification (based on the input parameters of the lowest level relevant for the overall measurement of the fair value) at the end of each reporting period.

New and amended standards and interpretations

The same accounting methods that were applied in the preparation of the consolidated financial statements as at December 31, 2013 were used in the preparation of the condensed interim consolidated financial statements. The following standards and interpretations that were applied as of January 1, 2014 form an exception to this basic principle:

IFRS 10 – Consolidated Financial Statements

IFRS 10 was published in May 2011 and is to be applied for the first time to fiscal years beginning on or after January 1, 2014. The new standard replaces the existing provisions of IAS 27 Consolidated and Separate Financial Statements for consolidated financial statements and the interpretations of SIC-12 Consolidation – Special Purpose Entities. IFRS 10 established a unified control concept, which applies to all entities, including special purpose entities. In June 2012, the revised transitional provisions to IFRS 10-12 were also published and should facilitate the first-time application of the new standard. Due to the transparent structure of the Group, the amendments introduced by IFRS 10 have no impact on the consolidated financial statements.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 was published in May 2011 and is to be applied for the first time to fiscal years beginning on or after January 1, 2014. This standard sets uniform disclosure requirements for the area of consolidated financial reporting and combines the disclosures on subsidiaries, which were previously governed by IAS 27, the disclosures for jointly controlled and associated companies, which was thus far included in IAS 31 and IAS 28, and for structured companies. The application of the new standard had no impact on the consolidated financial statements.

Amendments to IAS 36 – Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets

These amendments are to be applied retrospectively for fiscal years beginning on or after January 1, 2014 and eliminate the unintended consequences of IFRS 13 on the disclosure requirements in IAS 36. They also require the disclosure of the recoverable amount of the assets or cash-generating units for which impairment losses or reversals of impairment losses were recognized during the course of the year. The amendment leads only to additional or revised disclosures and has no impact on the Group's net assets, financial position, or results of operations.

Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting

The amendments to IAS 39 and IFRS 9 were published in June 2013 and are to be applied for the first time to fiscal years beginning on or after January 1, 2014. Under certain conditions the amendment allows the continuation of the hedging relationship in cases in which derivatives designated as a hedge are transferred to a central counterparty due to legal or regulatory provisions (novation). The amendment is to be applied retrospectively and early adoption is permitted. The amendment had no effects on the Group's net assets, financial position, or results of operations.

The following new provisions are not applicable to the Group and therefore have no effect on its net assets, financial position, or results of operations:

Description	Applicable as of
IFRS 11 – Joint Arrangements	01/01/2014
Amendments of IFRS 10, IFRS 12, and IAS 27 - Investment Entities	01/01/2014
IAS 27 - Separate Financial Statements (revised 2011)	01/01/2014
IAS 28 - Investments in Associated Companies and Joint Ventures (revised in 2011)	01/01/2014
Amendment of IAS 32 - Offsetting Financial Assets and Financial Liabilities	01/01/2014

Key judgments, estimates, and assumptions

In preparing the interim consolidated financial statements, the Management Board must perform judgments, estimates, and assumptions which affect the application of accounting policies within the Group and influence the recognition of assets and liabilities as well as income and expenses. The actual amounts may differ from the estimated amounts.

NOTES TO THE INCOME STATEMENT

Revenue

The breakdown of Group revenue by location is shown in the segment reporting.

In the first half of 2014, tool sales amounted to EURk 12,782 (p/y: EURk 13,350).

Other own work capitalized

Own work capitalized is comprised of EURk 670 (p/y: EURk 507) of development costs subject to mandatory capitalization according to IAS 38. These development costs are particularly related to the development of steering components.

Other operating income

Other operating income primarily comprises currency gains in the amount of EURk 1,159 (p/y: EURk 1,370).

Other operating expenses

Other operating expenses primarily comprise the following items:

EURk	**1HY2014**	1HY2013
Costs for temporary employees	6,660	5,576
Maintenance costs	2,714	2,983
Outgoing freight	1,561	1,736
Currency losses	1,254	1,120

Income taxes

The income tax reported in the consolidated income statement is comprised as follows:

EURk	**1HJ2014**	1HJ2013
Actual taxes	2,434	2,499
Deferred taxes	–162	–337
Total	**2,272**	**2,162**

Earnings per share

Earnings per share is computed by dividing net income for the period attributable to the shareholders of PWO AG by the weighted average number of shares outstanding. Actions resulting in dilution effects did not occur.

EURk	**2Q2014**	2Q2013
Net income for the period	2,257	2,774
Average number of shares	3,125,000	3,125,000
Earnings per share in EUR	0.72	0.89

EURk	**1HY2014**	1HY2013
Net income for the period	5,488	5,981
Average number of shares	3,125,000	3,125,000
Earnings per share in EUR	1.76	1.91

NOTES TO THE BALANCE SHEET

Cash and cash equivalents

The amount of cash and cash equivalents reported in the consolidated statement of cash flows as of June 30, 2014 of EURk 8,869 (p/y: EURk 8,016) is composed of cash on hand and short-term bank deposits.

Equity

SUBSCRIBED CAPITAL

On May 26, 2010, the Annual General Meeting had resolved to create new authorized and contingent capital.

An amount of EURk 1,875 of the total Authorized Capital I/2010 of EURk 3,000 was utilized by issuing 625,000 new shares via a capital increase in May 2012. As at June 30, 2014, the fully paid-up and subscribed capital amounted to EURk 9,375 (p/y: EURk 9,375), and was divided into 3,125,000 (p/y: 3,125,000) bearer shares.

REMAINING AUTHORIZED CAPITAL

By resolution of the Annual General Meeting of May 26, 2010 and subject to the consent of the Supervisory Board, the Management Board is authorized, until May 25, 2015, to increase the Company's share capital once or several times by up to EURk 1,125 against payment in cash (Authorized Capital I/2010).

By resolution of the Annual General Meeting of May 26, 2010 and subject to the consent of the Supervisory Board, the Management Board is authorized, until May 25, 2015, to increase the Company's share capital once or several times by up to EURk 750 against payment in cash (Authorized Capital II/2010).

The Annual General Meeting of May 26, 2010 has approved a conditional increase in share capital by up to EURk 3,000 (Contingent Capital 2010).

RETAINED EARNINGS AND OTHER EQUITY

As at June 30, 2014, Group equity included income and expenses arising from the currency translation of foreign subsidiaries of EURk –723 (p/y: EURk 1,602) and income and expenses from cash flow hedges of EURk 300 (p/y: EURk –88).

NOTIFICATIONS PURSUANT TO SECTION 21 (1) WPHG

(1) On April 4, 2014 we were notified by Delta Lloyd Levensverzekering N.V., Amsterdam, The Netherlands, that its interest in the voting rights of Progress-Werk Oberkirch AG, Oberkirch, Germany, fell below the threshold of 3% on March 31, 2014 and amounted to 2.79% (87,230 voting rights) on that date.

(2) On April 4, 2014 we were notified by Delta Lloyd Houdstermaatschappij Verzekeringen N.V., Amsterdam, The Netherlands, that its interest in the voting rights of Progress-Werk Oberkirch AG, Oberkirch, Germany, fell below the threshold of 3% on March 31, 2014 and amounted to 2.79% (87,230 voting rights) on that date. These voting rights of 2.79% (corresponding to 87,230 voting rights) were attributable to Houdstermaatschappij Verzekeringen N.V. from the shares held by Delta Lloyd Levensverzekering N.V.

Liabilities

PENSION PROVISIONS

Provisions for pensions and similar obligations are formed on the basis of pension plan entitlements for retirement, invalidity, and survivor dependent's benefits. The retirement benefits are based on salary and length of service. The direct and indirect obligations include those arising from current pensions as well as benefits for pensions and retirement allowances payable in the future. Plan assets to meet pension obligations do not exist.

The provisions for defined benefit plans, of which the vast majority concern PWO AG, are calculated in accordance with IAS 19 using the projected unit credit method. The pension obligations are recognized at the present value of the defined benefit obligations at the measurement date, and take into account likely future increases in pensions and salaries.

The expenses arising from pension obligations are reported under staff costs and the interest expense is recognized under financial expenses.

Defined benefit obligations have been measured on the basis of the following actuarial assumptions:

	June 30, 2014	June 30, 2013
Discount rate	2.8 %	3.5 %
Employee turnover rate	2.5 %	2.5 %
Future salary trend > 40 years	2.5 %	2.5 %
Future salary trend < 40 years (career trend)	3.5 %	3.5 %
Future pension adjustments	2.0 % / 2.5 %	2.0 % / 2.5 %

OTHER PROVISIONS

Other provisions consist of the necessary amounts for employee-related expenses and other identifiable obligations and risks. The provisions recognized in the balance sheet primarily include provisions for employees (obligations for age-related, part-time working and anniversary bonuses) and provisions for contingent losses.

INTEREST-BEARING BORROWINGS/PROMISSORY NOTE LOAN

In April 2014, Progress-Werk Oberkirch AG placed a promissory note loan with a volume of EUR 60 million with fixed and variable rate tranches. The tranches have maturities of 5 and 7 years. Hence, PWO has locked in the favorable prevailing level of interest rates for a longer period of time. The proceeds will be used to secure future growth and existing current bank liabilities will be refinanced over the medium and long term.

Financial instruments

The following table lists financial instruments carried at fair value:

	Level 1		Level 2		Level 3		Total	
EURk	30/06/2014	30/06/2013	30/06/2014	30/06/2013	30/06/2014	30/06/2013	30/06/2014	30/06/2013
Assets carried at fair value:								
Other financial assets	**0**	**0**	**863**	**523**	**0**	**0**	**863**	**523**
of which derivatives with hedge relationship	0	0	863	523	0	0	863	523
of which derivatives without hedge relationship	0	0	0	0	0	0	0	0
Liabilities carried at fair value:								
Other financial liabilities	**0**	**0**	**806**	**998**	**0**	**0**	**806**	**998**
of which derivatives with hedge relationship	0	0	498	712	0	0	498	712
of which derivatives without hedge relationship	0	0	308	286	0	0	308	286

As at June 30, 2014 and as at June 30, 2013, there were no reclassifications between assessments at fair value of Level 1 and Level 2 and no reclassifications into or from values at fair value of Level 3.

ADDITIONAL INFORMATION

Related party disclosures

Related parties include the Group's parent company, Consult Invest Beteiligungsberatungs-GmbH, Böblingen, as well as the members of the Management Board and Supervisory Board. In the first half of 2014, there were no transactions between the Group and the parent company. There were no relationships with related parties with regard to the supply of goods or the rendering of services.

Additional information on the statement of cash flows

In the statement of cash flows, cash flows are presented on the basis of IAS 7. Cash funds reported in the cash flow statement comprise cash and cash equivalents as well as bank borrowings due on demand. The bank borrowings payable on demand, amounting to EURk 6,401 (p/y: EURk 11,887) have been included in the balance sheet as "interest-bearing borrowings".

Segment reporting

In line with the Group's internal management system, the individual production sites provide the basis for the segment reporting. The Group's main decision-making body is defined as the Management Board of PWO AG. The segments are determined on the basis of the location of the Group's assets. Accordingly, the revenues of these segments are also allocated according to the location of assets. The regions are categorized as Germany, Rest of Europe, NAFTA Area, and Asia. The NAFTA Area is comprised of the locations in Canada and Mexico.

Earnings, assets, liabilities, depreciation and amortization among the individual segments are eliminated in the column "consolidation effects". This column also contains items that cannot be allocated to individual segments. Segment data is calculated in accordance with the accounting policies applied in the interim consolidated financial statements. The segment assets and segment liabilities correspond to the values from the financial statements of the single Group companies.

As at June 30, 2014 and as at June 30, 2013, no customers were identified with whom the Group had achieved 10 percent or more of revenues.

Segment information by location 1st Half-Year 2014	Germany EURk	Rest of Europe EURk	NAFTA Area EURk	Asia EURk	Consolidation effects EURk	Group EURk
Total revenue	127,328	26,728	42,774	6,785	0	203,615
Inter-segment revenue	-6,117	-1,517	-73	-1,161	0	-8,868
External revenue	**121,211**	**25,211**	**42,701**	**5,624**	**0**	**194,747**
Total output	**129,169**	**28,662**	**42,437**	**7,524**	**-8,862**	**198,930**
Other income	1,773	200	514	401	-1,049	1,839
Other expenses (aggregated)	118,084	23,854	38,987	7,972	-9,898	178,999
Depreciation and amortization	6,449	1,456	2,592	645	-127	11,015
Earnings before interest and taxes (EBIT)	**6,409**	**3,552**	**1,372**	**-692**	**114**	**10,755**
Financial income	392	22	0	2	-383	33
Financial expenses	1,978	497	552	384	-383	3,028
Earnings before taxes (EBT)	**4,823**	**3,077**	**820**	**-1,074**	**114**	**7,760**
Income taxes	1,748	85	449	0	-10	2,272
Net income for the period	**3,075**	**2,992**	**371**	**-1,074**	**124**	**5,488**
Assets	194,139	58,015	68,683	39,392	-28,950	331,279
of which non-current assets	69,392	26,127	37,486	24,902	-61	157,846
Liabilities	22,435	18,265	24,413	43,846	124,697	233,656
Investments	8,460	989	2,983	308	0	12,740

Segment information by location 1st Half-Year 2013	Germany EURk	Rest of Europe EURk	NAFTA Area EURk	Asia EURk	Consolida-tion effects EURk	Group EURk
Total revenue	126,198	21,658	46,491	5,908	0	200,255
Inter-segment revenue	-7,013	-1,391	-202	0	0	-8,606
External revenue	**119,185**	**20,267**	**46,289**	**5,908**	**0**	**191,649**
Total output	**130,065**	**22,779**	**47,614**	**6,082**	**-8,474**	**198,066**
Other income	1,972	299	590	533	-1,173	2,221
Other expenses (aggregated)	118,826	19,155	43,322	7,276	-9,812	178,767
Depreciation and amortization	6,014	1,255	2,735	512	-40	10,476
Earnings before interest and taxes (EBIT)	**7,197**	**2,668**	**2,147**	**-1,173**	**205**	**11,044**
Financial income	278	0	0	2	-274	6
Financial expenses	1,598	617	577	389	-274	2,907
Earnings before taxes (EBT)	**5,877**	**2,051**	**1,570**	**-1,560**	**205**	**8,143**
Income taxes	1,702	-94	504	0	50	2,162
Net income for the period	**4,175**	**2,145**	**1,066**	**-1,560**	**155**	**5,981**
Assets	162,667	48,753	62,112	40,852	-13,910	300,474
of which non-current assets	64,849	25,456	33,859	24,590	-198	148,556
Liabilities	25,800	6,992	15,962	42,674	112,427	203,855
Investments	6,439	599	2,505	1,352	0	10,895

As at December 31, 2013 and as at December 31, 2012 respectively, assets were composed as follows:

	Germany EURk	Rest of Europe EURk	NAFTA Area EURk	Asia EURk	Consolida-tion effects EURk	Group EURk
Segment assets as at December 31, 2013	159,472	50,622	63,155	41,856	–15,721	299,384
of which non-current assets	67,382	26,632	36,850	25,609	–189	156,284
Segment assets as at December 31, 2012	151,055	46,761	59,265	34,436	–12,214	279,303
of which non-current assets	64,614	26,133	34,573	23,225	–238	148,307

Events subsequent to the balance sheet date

At the meeting on July 21, 2014, the Management Board analyzed and evaluated the current business development and the present level of customer call indications for the second half of the year. Since these indications no longer show the previously expected acceleration in start-ups and ramp-ups in the second half of the year, we have revised our forecasts for revenues and EBIT for fiscal year 2014 accordingly. These revisions was published immediately in an ad hoc announcement.

Report of the Supervisory Board's Audit Committee

The interim financial report for the second quarter and first half of 2014 was presented to the Supervisory Board's Audit Committee, and explained by the Management Board. The Audit Committee concurred with the interim financial report.

Oberkirch, July 25, 2014

The Chairman of the Audit Committee

Dr. Georg Hengstberger

Governing bodies | Financial calendar | Contacts

GOVERNING BODIES

With the conclusion of the Annual General Meeting on May 21, 2014, the former Executive Officer, Karl M. Schmidhuber, resigned from the Management Board and entered retirement. Dr. Volker Simon was appointed as his successor. Dr. Simon assumed responsibility for the areas of Market and Technology and accepted the role of Speaker of the Management Board as of July 1, 2014.

Members of the Management Board

Dr. Volker Simon (Speaker)
Bernd Bartmann
Dr. Winfried Blümel

Members of the Supervisory Board

Dieter Maier (Chairman)
Dr. Gerhard Wirth (Deputy Chairman)
Dr. Georg Hengstberger
Herbert König *
Ulrich Ruetz
Katja Ullrich *

* Employee representatives

FINANCIAL CALENDAR

November 04, 2014 | Interim financial report 3rd Quarter/9 Months of 2014
November 25, 2014 | German Equity Forum, Frankfurt
April 07, 2015 | Presentation of the 2014 Annual Report
May 06, 2015 | Interim financial report Q1 2015
May 19, 2015 | Annual General Meeting 2015

CONTACTS

Bernd Bartmann | Member of the Board (Administration & Finance)
Telephone: +49 7802 84-347 | E-Mail: ir@progress-werk.de

Charlotte Frenzel | Investor Relations
Telephone: +49 7802 84-844 | E-Mail: ir@progress-werk.de

Progress-Werk Oberkirch AG
Industriestraße 8
77704 Oberkirch
www.progress-werk.de

Forward-looking statements and forecasts

This interim financial report contains forward-looking statements that are based on current assumptions, expectations, estimates, forecasts and other information currently available to the PWO Management Board, and on assumptions, expectations, estimates, forecasts and budgets that are derived from these. The forward-looking statements should not be understood as guarantees of future developments and results that are mentioned therein. Various known and unknown risks and uncertainties as well as other factors may result in actual developments and results diverging significantly from estimates that are mentioned here explicitly or are contained implicitly. These factors include those that PWO has described in published reports, and which are available on the PWO website at www.progress-werk.de. Irrespective of statutory regulations, PWO accepts no obligation to update such forward-looking statements, and to adjust them to future events or developments.