Annual Report 2018

BUNDLING ENERGIES

NEW SYNERGIES FROM SYNCHRONISATION

Key figures 2018

K EUR	2018	2017	Change %
Sales	420,936	400,584	5.1%
EBITDA	31,342	41,271	-24.1%
as % of sales	7.4	10.3	–
EBIT	7,314	17,501	-58.2%
as % of sales	1.7	4.4	–
Net profit	3,131	10,159	-69.2%
Earnings per share [1]	0.49	1.58	-69.2%
Equity	124,372	124,904	-0.4%
Equity ratio	43.4	48.8	–
Operating free cash flow	-32,970	-757	–
Total Free Cashflow	-16,751	-9,875	-69.6%
Net cash / Net debt	-39,080	-18,170	-115.1%
Investments [2]	48,671	34,550	40.9%
as % of sales	11.6	8.6	–
Net working capital [3]	53,789	43,890	22.6%
as % of sales	12.8	11.0	–
ROCE	3.6	9.1	–
Number of employees (average) [4]	1,572	1,347	16.7%

1) Average number of shares: 2016: 6,436,209 shares
2) Additions to property, plant and equipment and intangible assets.
3) Excluding advance payments on inventories: see (3) in the notes to the consolidated financial statements. Previous year's figures restated accordingly.
4) Excluding trainees and temporary workers.

Target achievement

EUR million	Target July 2018	Actual 2018
Sales – Group	420–440	420.9
Sales – Pumps and Engine Components	315–330	311.7
Sales – Brake Discs	105–110	109.2
EBITDA – margin	9–10%	9.4% [5]
Net Working Capital Ratio	11–12%	14.7%

5) Prior to non-recurring effects.

With top notch CO_2-relevant vehicle components and trend-setting innovations, SHW is one of the leading suppliers to the automobile industry.

In the past fiscal year we set a new course in a number of fields to exploit potential synergies and grow at a profit.

On the following pages you will not only gain an insight into the new Management Board but also the pioneering cooperation with Pankl Racing Systems AG.

BUNDLING ENERGIES

NEW SYNERGIES FROM SYNCHRONISATION

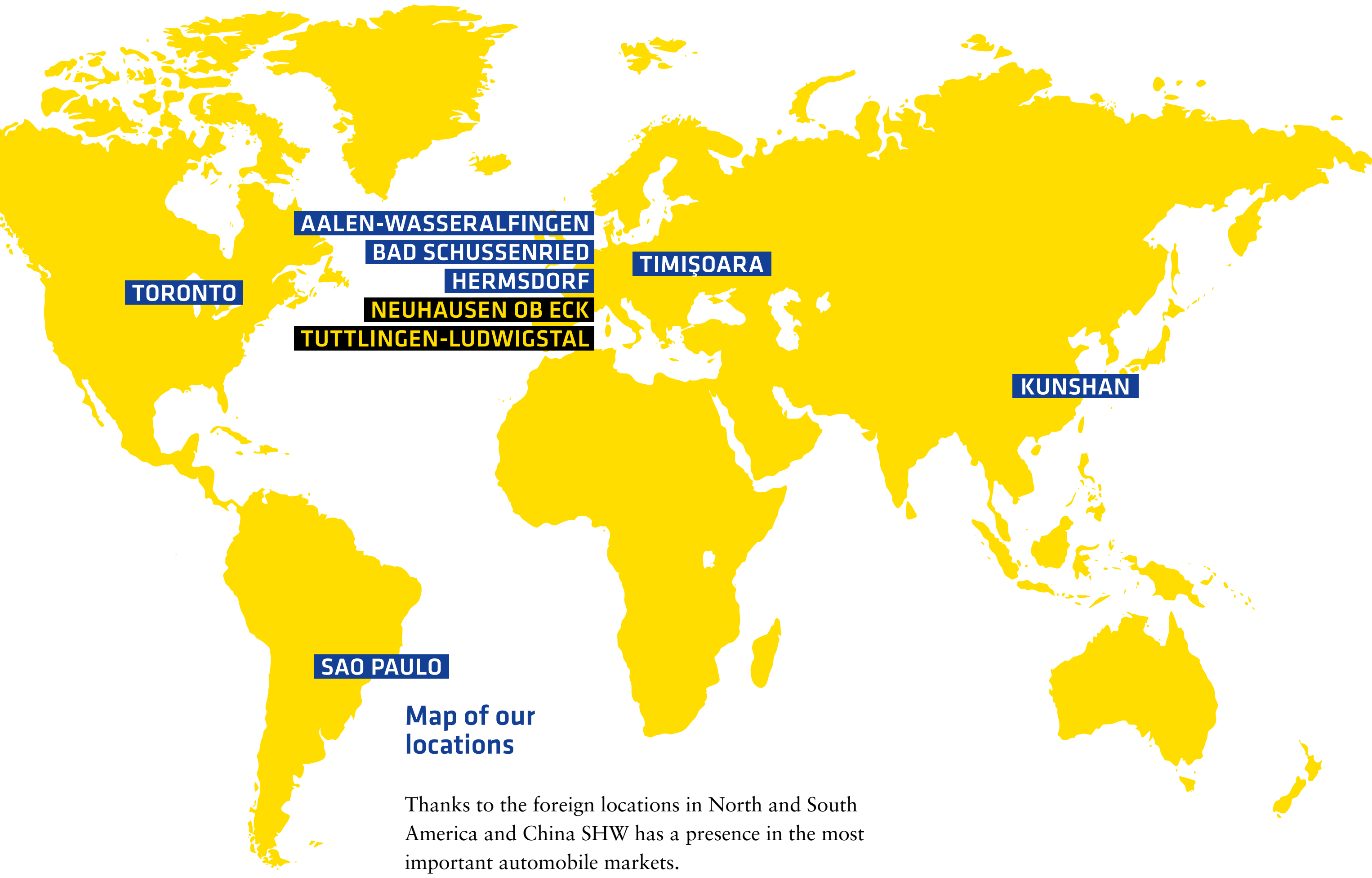
Company Profile

The automobile FUTURE is characterised by a globally increasing need for mobility and a regulatory environment that demands a significant reduction in vehicle emissions. With its extensive portfolio of CO_2 optimising products, the SHW Group can benefit from this trend.

We started to develop trend-setting components for engines and transmissions at an early stage. These components enhance the efficiency of the internal combustion engine and its auxiliaries and reduce fuel consumption. Brake discs from SHW contribute towards reducing the unsprung masses and vehicle weight.

As a reliable partner, we create value-added for our customers and shareholders. We are striving towards becoming one of the global leaders in the production of pumps and engine components for all kinds of powertrains and, with our lightweight composite brake discs, we are seeking greater market penetration – always with the goal of supporting our customers at meeting both current and future CO_2 targets and facilitating environmentally friendly mobility.

The coming years will be dominated by the establishment and expansion of the locations in China, Canada, Brazil and Romania.



Map of our locations

Thanks to the foreign locations in North and South America and China SHW has a presence in the most important automobile markets.

PUMPS AND ENGINE COMPONENTS
BRAKE DISCS

Business Segments

Pumps and Engine Components

In the Pumps and Engine Components business segment the SHW Group develops and produces engine and transmission components for various applications and powertrain concepts. The products for passenger cars include variable engine oil pumps, transmission oil pumps, oil / vacuum pumps with or without balancer shaft and electric pumps. The product range also includes pumps for truck & off-highway applications. The development, industrialisation, production and certification of complex miniaturised electronics and micro-systems technology for the Passenger Car and Truck & Off-High way divisions occurs at the subsidiary Lust Hybrid-Technik. The product portfolio of the Powder Metallurgy division comprises sintered adjustment rings and rotors for variable oil pumps offering reduced consumption, camshaft phaser components out of steel and aluminium powder and backlash-free gearwheel systems. All pumps and engine components are installed in new vehicles.

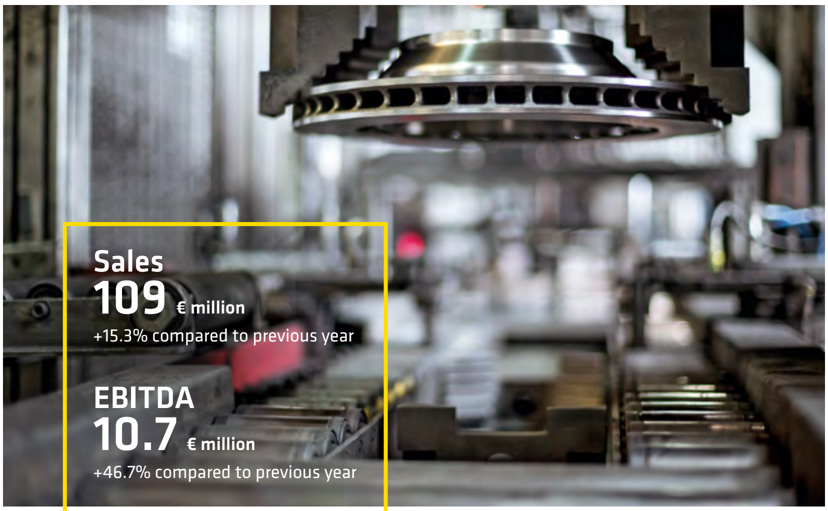
Sales
312 € million
+1.9% compared to previous year

EBITDA
27.2 € million
–27.3% compared to previous year

Employees
1,052 as of 31 December 2018
+16.0% compared to previous year

Brake Discs

In the Brake Discs business segment the SHW Group develops and produces monobloc ventilated brake discs out of cast iron and lightweight composite brake discs made of a combination of an iron friction ring and an aluminium pot. The raw brake discs are firstly cast in the Group's own foundry and then mostly machined by the Group itself. By far the vast majority of production is shipped to OEMs with the remainder used primarily as spare parts in the original equipment service business of the carmakers.



Sales
109 € million
+15.3% compared to previous year

EBITDA
10.7 € million
+46.7% compared to previous year

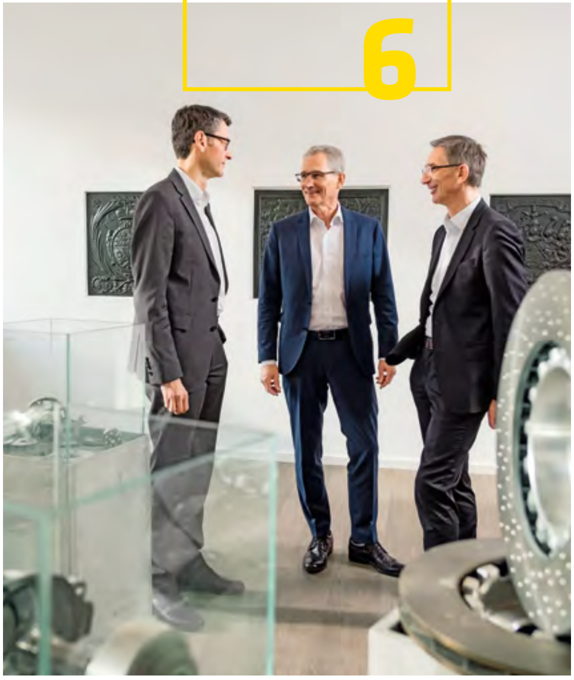
Employees
444 as of 31 December 2018
+11% compared to previous year

Contents

BUNDLING ENERGIES

The Management Board discusses synergies, values and innovation

6

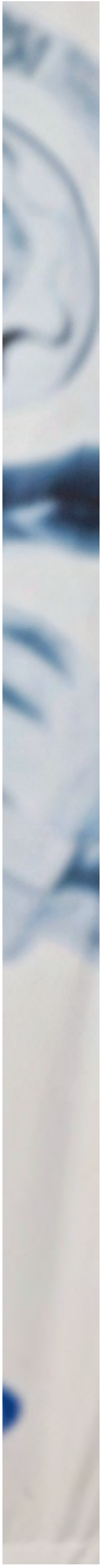


14

WE ARE SHW

Employees provide an insight of their work

27



Letter from the Management Board

DEAR SHAREHOLDERS,
we have reached our targets for consolidated revenue and the EBITDA margin prior to non-recurring effects, based on the adjusted guidance issued in mid-July 2018: group sales of € 420.9 million lie at the lower end of the targeted corridor of between € 420 and € 440 million, while the EBITDA margin prior to non-recurring effects of 9.4 per cent is in the lower half of the targeted range of 9 to 10 per cent.

f. l. t. r.:

Thomas Karazmann
Chief Financial Officer

Wolfgang Plasser
Chief Executive Officer

Andreas Rydzewski
Member of the
Management Board

In terms of the bottom line, the Group's net profit for the year comes to € 3.1 million, which corresponds to earnings per share of € 0.49. The Management Board and the Supervisory Board will propose a dividend of € 0.04 per share to the Annual General Meeting.

Let us turn our gaze to developments in our two business segments:

In the passenger car division of the Pumps and Engine Components business segment, weaker sales for diesel applications were not fully compensated by increasing revenue generated by our foreign entities. The Truck & Off-Highway and Powder Metallurgy divisions both enjoyed a pleasing rise in sales. The decrease in the EBITDA margin prior to non-recurring effects from 12.2 per cent to 9.9 per cent is largely attributable to the negative effects of the product mix. The sales and margin of the Chinese subsidiary were below expectations, mainly due to the flatter than expected start-up curve of one project, the reasons for which lie with the customer.

The Brake Discs business segment set a new record of almost 889,000 units of our lightweight composite brake discs sold. The EBITDA margin was positively influenced by volume and product mix effects and productivity gains.

Our staff of 1,500 employees and their extraordinary commitment have made these results possible. To them, we express our heartfelt thanks.

Since September 2018, SHW AG and Pankl Racing Systems AG have been part of the newly-formed automotive group, Pankl SHW Industries AG, which is also our new majority shareholder. With this firm, which is held by Pierer Industrie AG, we have found the anchor shareholder we have long been looking for.

We initiated close cooperation between SHW AG and Pankl Racing Systems AG in June 2018 to foster further development of the Company and leverage potential synergies. The cooperation mainly relates to purchasing, sales, production, development and financing. We are confident that we will see the first positive results as early as this year.

We have opened a new chapter in the 650-year history of SHW AG and would be most happy if you, dear shareholders, continue to accompany us on the journey ahead.

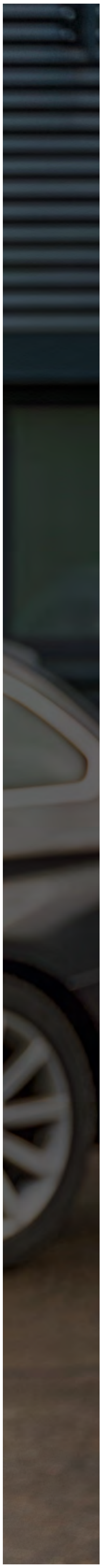
Aalen, March 2019

Yours,

Wolfgang Plasser
Chief Executive Officer

Andreas Rydzewski
Member of the Management Board

Thomas Karazmann
Chief Financial Officer



WE ARE POSITIONING OURSELVES GLOBALLY FOR THE DRIVE-TRAINS OF THE FUTURE.

Wolfgang Plasser
Chief Executive Officer

Stronger together
Wolfgang Plasser on synergies

Since June 2018, SHW AG has been working together with Pankl Racing Systems AG under one roof as the newly formed automotive group Pankl SHW Industries AG. Together with Klaus Rinnerberger, Wolfgang Plasser is on the management board of this new group of companies and is CEO of both companies, which are managed independently. We spoke with Wolfgang Plasser about what currently motivates SHW.

It's a cold Tuesday morning in November, so to warm up we discuss the topic of mobility with Wolfgang Plasser. The CEO of SHW AG is on his way to Aalen-Wasseralfingen. Via his hands-free system, he outlines how much importance he personally places on this issue. "Mobility is a basic human need. But naturally, it is not everything. What excites me is the way the nature of our mobility is constantly developing. Both in everyday life and on the racetrack." During the conversation, he frequently shares his enthusiasm for motor racing: Formula 1, MotoGP and the 24-hour race in Le Mans are familiar territory for Plasser.

This passion is no coincidence. He has been on the management board of Pankl Racing Systems AG since 2004 and became its CEO in 2006. Pankl Racing Systems AG focuses on engine systems, powertrains and lightweight construction for racing cars, luxury cars and aviation. And from there, it is just a short trip to Aalen: "SHW is already extremely well positioned in the fields of mechanical pumps and composite brake discs. Now, under the one roof of the new automotive group, we are focusing our energies all the more on the issue of electronics."

Electronically more adept, greater global presence

The process know-how in electronic circuit boards at Lust Hybrid-Technik GmbH, which was acquired in August 2017, has enabled us to take a great step forward in the development and assembly of integrated e-pumps and strengthened our position in the field of e-mobility. And Plasser is absolutely certain that more milestones will follow this one in the near future. The mission is therefore to build, in a targeted manner, the software and elec-tronic competencies that are in growing demand on the market.

Plasser also sees great potential in SHW's internationalisation. "Romania, Brazil, China and Canada are important locations for us that are anticipated to grow, both in terms of their teams and their orderbooks."

However, Wolfgang Plasser thinks it is important to emphasise that this development is not at the cost of the German locations. So how should we envisage it? "Naturally, labour costs are a decisive factor. But they are neither the sole nor even the most important factor due to the high degree of automation in pump production. SHW is entirely capable of growing on the international stage and simultaneously developing long-term perspectives for the German pump facilities. We have openly communicated this policy, which has been warmly received by the workforce. On the other hand, this also naturally implies that we need to become more agile and efficient in all areas. And that we have to shift up a gear in the speed of development. The continuous improvement in our production processes over recent years has given us an excellent foundation."

»

THE COOPERATION WITH PANKL CREATES THE FOUNDATION FOR FURTHER GROWTH.

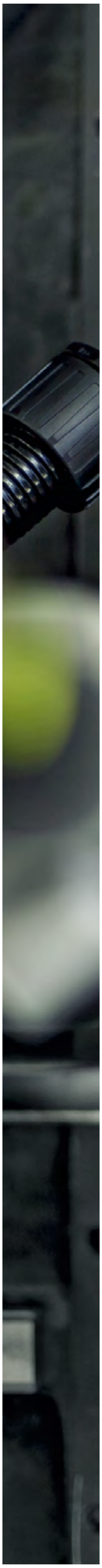
"

Wolfgang Plasser
Chief Executive Officer

Trend-setting cooperation

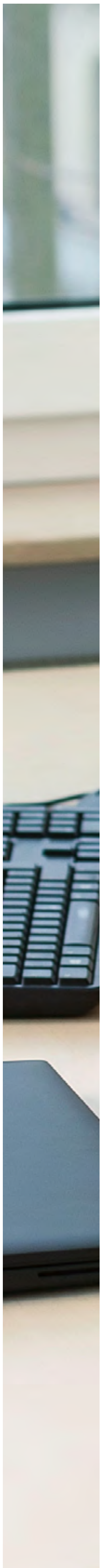
Close cooperation between the two companies, SHW AG and Pankl Racing Systems AG, is also a major factor in the future development of the Company. Wolfgang Plasser lists a whole range of areas in which this cooperation could result in synergies: purchases, sales, production, development and finance, to name just the most significant. "In particular, I would like to stress the international sales and distribution of Pankl Racing Systems. The company enjoys excellent contacts with all manufacturers worldwide. A fantastic aspect of SHW AG, on the other hand, is the high level of its automation expertise. Both companies could learn a lot from each other by cooperating closely in many areas."

In order to leverage these synergies, a working group on "procurement" was created just one week after he was appointed CEO. In the meantime, there are many such interorganisational teams. But even within SHW, Wolfgang Plasser is placing his trust on a clear assignment of tasks and spheres of responsibility – and the motivation of the workforce. "We in the management team view our workforce as a key success factor in this change process. My declared goal is to join them and take this journey together, in step with them."



TOGETHER WITH SHW, WE WILL EXPLORE NEW PATHS.

Thomas Karazmann
Chief Financial Officer



Organising growth
Thomas Karazmann on added value

Since December 2018, Thomas Karazmann has been the new CFO of SHW AG. In addition to his tasks in Aalen, he is also the CFO of the affiliate, Pankl Racing Systems AG. We asked him about his duties and his goals.

MR KARAZMANN, YOU HAVE NOW BEEN THE CFO OF SHW FOR A NUMBER OF WEEKS. WHAT ARE YOUR FIRST IMPRESSIONS?
As anyone who is familiar with the sector knows, SHW has an excellent reputation as a manufacturer of engine and transmission components as well as brake discs. The employees are proud of their 650-year history. In recent decades they have repeatedly put their energy, inventiveness, dedication and business skills to the test and, with their innovations, they have strived to push the envelope of what is technically feasible. In terms of my sphere of responsibility I can say that I have found a team of highly qualified and motivated employees who are well versed in their areas of expertise.

YOU HAVE PREVIOUSLY WORKED FOR AN INTERNATIONAL TECH FIRM AND A GLOBAL LEADER IN THE PROVISION OF HEALTHCARE. WHAT CAN YOU BRING FROM YOUR PAST EXPERIENCE TO HELP YOU WITH YOUR NEW ASSIGNMENT?
For us in the Management Board it is clear that SHW has extraordinary potential. Personally, I would like to apply my “outsider’s view” to the inner workings of the Company. I intend to transport my experience in the fields of energy, transport and health and in international product and project business to SHW and create added value for the future.

HOW DO YOU SEE YOUR NEW ROLE AS CFO?
Whoever makes wise investments will receive the resources they need to keep growing and drive forward new developments. This is actually what is most satisfying and interesting about being a CFO. Finance complements all technological, marketing and strategic endeavours. They all need each other. A CFO or finance department in an organisation is not there for its own ends. It is a vital component, for it represents a part of a unit and must function seamlessly within the organisation as a whole. Generally, I view myself as a team player and as part of a functioning unit.

AS THE CFO OF TWO COMPANIES, WHERE DO YOU SEE THE SYNERGIES?
That is a very interesting question, because both companies are in the automobile industry but come from totally different cultures and backgrounds. Putting the two together is very interesting. It is about taking the “best of both”.

We can become even more appealing as an employer, because we offer an even broader spectrum. At SHW, we in the Management Board will promote a culture of entrepreneurship that is even stronger than before. A culture that motivates each individual to put his or her best into the job and participate in SHW’s long-term success. I think that the close cooperation between SHW AG and Pankl Racing Systems AG will give rise to some refreshingly new input in this regard. This goes both ways and bestows mutual benefits on each side.

HOW IS THIS GOING TO SUCCEED, GIVEN THE CULTURAL, HISTORICAL AND LOCAL DIFFERENCES?
By addressing people openly and directly. I have worked in a number of countries, including France, Malaysia and Germany. You get a lot back when you are open and curious. This has proven itself time and time again.

Realising perfection
Andreas Rydzewski on innovations

SHW has systematically evolved to become the market leader for high-quality lightweight brake discs. For over ten years, Andreas Rydzewski, a member of the Management Board, has been a key figure in this field. We talk to him about his personal history, new development trends and his view of the future.

Like no one else, Andreas Rydzewski embodies the fascination with brake discs at SHW. For him they are not only a central product in the Company's portfolio but also an essential factor in achieving environmentally friendly mobility. "At present the media focus is on diesel vehicles breaching NOx emission limits, with the ensuing ban on diesel cars. However, particulates from tyres and abrasion during braking are just as significant. For this reason, SHW has been researching coatings with which the abrasion of brake discs can be significantly reduced in future."

Another major focal point of development is the reduction of weight by using lightweight brake discs. "We have constantly refined our lightweight brake discs in recent years and increased our production volume at least five-fold since 2008," summarises Rydzewski. "When I became a member of the Management Board in 2008, we were producing roughly 180,000 pieces per year. In the course of this year we will probably pass the one million mark. This makes SHW one of the leading manufacturers of lightweight brake discs."

Andreas Rydzewski knows the reasons for this trend in detail. "Weight reduction of components makes a contribution to reducing CO_2 emissions. With four brake discs per vehicle, this is particularly true. Last but not least, our products exhibit excellent braking performance and have a positive impact on driving dynamics. This makes us the first point of contact for manufacturers of premium vehicles." Rydzewski is especially pleased with the new hall at the Neuhausen location. As a result, SHW has created the necessary foundation to meet rising demand and the high quality standards of its customers, both now and in years to come.

Recuperation brakes recover energy during braking and make it available for later in the trip. One example of how this is possible is by partially charging a battery during the drive. The term **friction brake** includes, among other designs, disc brakes, for which SHW manufactures a critical component, namely the brake disc. The particular specifications in this regard are the high thermal tolerance and mechanical durability of the disc and braking patterns that are both even and reproducible.

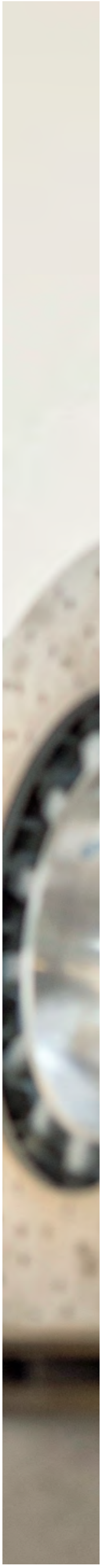
Well thought-out solutions for all kinds of electromobility

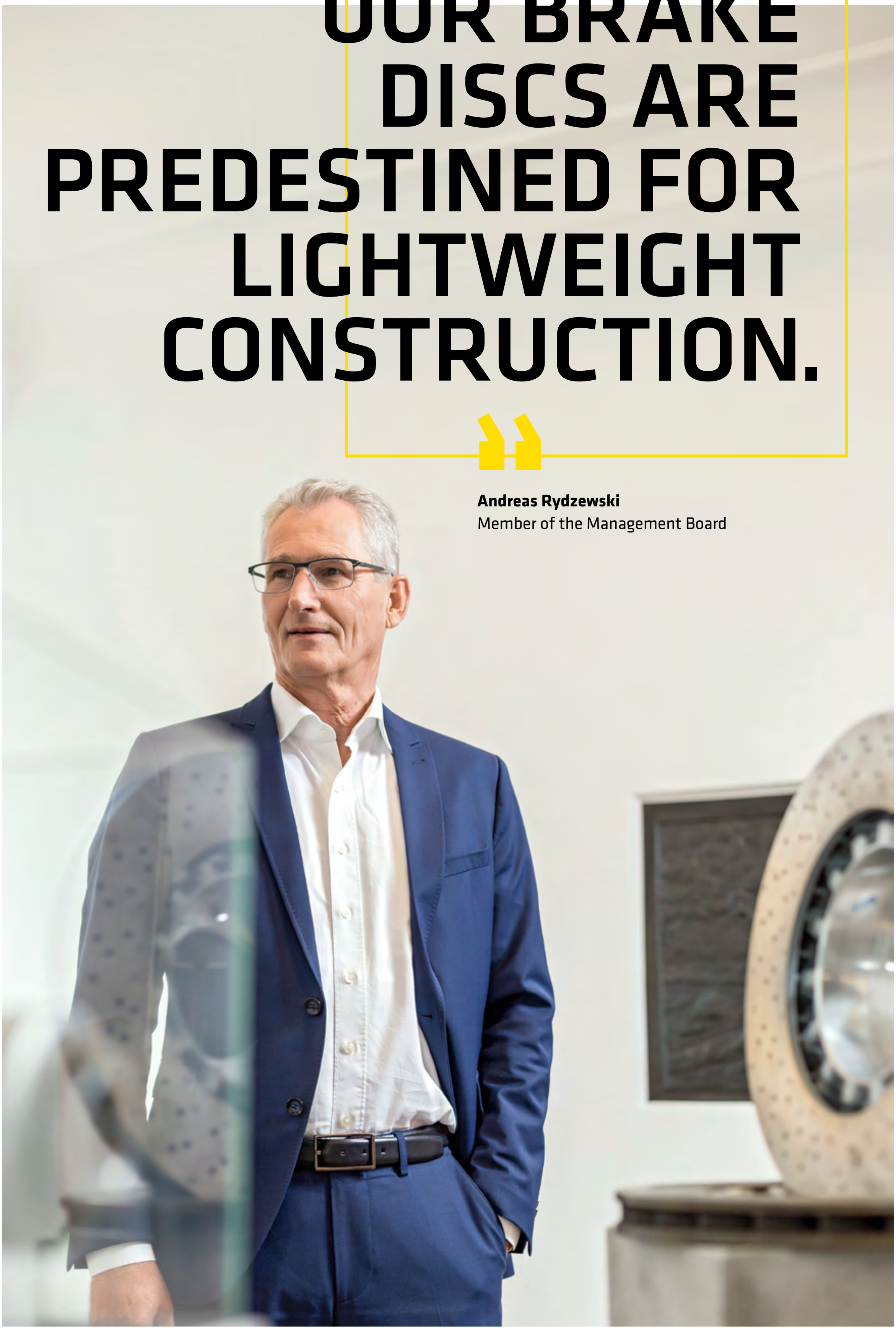
As significant as they are for the Pumps and Engine Components business segment, electric vehicles also present radically new challenges for the production of brake discs in Tuttlingen/Neuhausen. Due to the fact that friction brakes are used less frequently in electric vehicles, the brake discs corrode faster – or at least they do at the moment, because Andreas Rydzewski and his team are working on new coating technologies to prevent this.

His enthusiasm for high-tech brake discs, even after many years at SHW, is still clearly evident. However, a fundamental change is around the corner for him in 2019: after ten years on the Management Board, he will step down on 31 March and begin his well-earned retirement upon reaching the age of 65. He intends to remain in close touch with SHW: "I will be happy to contribute to future projects. At any rate, I will remain close to SHW on a personal level."

OUR BRAKE DISCS ARE PREDESTINED FOR LIGHTWEIGHT CONSTRUCTION.

Andreas Rydzewski
Member of the Management Board





A master in μ
Daniela Palic, grinder/polisher

Daniela Palic works as a grinder/polisher in powder metallurgy. In an interview, she offers insights into her work, which is all about high precision.

MS PALIC, YOU WORK AS A GRINDER / POLISHER AT THE FACILITY IN AALEN-WASSERALFINGEN. HOW DID YOU COME TO SHW AND WHAT DOES YOUR JOB INVOLVE?
I was enthusiastic about cars and technology as a kid already and had a lot of fun repairing anything I could lay my hands on. Four years ago, I seized the initiative and applied for a job at SHW. I was able to start straight away. What I most enjoy is the ability to work on my own initiative and steer the work process. The best thing is that I am really close to the product and immediately learn about any new developments in our company.

0.012 mm

is the tolerance for the components and pumps manufactured by SHW

WHAT PRODUCTS DO YOU MAKE?
Within the powder metallurgy division, I manufacture components for engine and transmission oil pumps as well as electrically driven transmission oil pumps for the stop-start function. The specifications for these components are extremely precise: we must observe a tolerance of 12 μ, or 0.012 mm, without exception. And we have to do that for between 15,000 and 30,000 parts that we process here in the facility per day.

WHAT CHALLENGES DO YOU HAVE TO CONFRONT IN YOUR DAY-TO-DAY JOB?
Remaining concentrated at all times is critical. We have to steer the processes to ensure that each component, from the very first right through to the millionth, lies within the very tight tolerances. Moreover, operating the modern plant and equipment is much more demanding nowadays than it was a few years ago. It is more complicated and equipped with more software. That offers great advantages. For example, errors are now diagnosed remotely by the manufacturer. As a machinist, though, I have to be constantly learning and building up my digital competencies.

HAS ANYTHING ELSE CHANGED FOR YOU ON THE JOB?
Yes, we have steadily automated our processes. Whereas in the past, several of us had to place parts one after the other into the grinding, polishing and washing plants, these steps are now combined into one. Instead of handling the parts four times, we now only handle them twice. To some extent, our machines work autonomously over longer intervals, freeing me up to do other tasks in the interim.

I am also looking forward to the health day that will be launched in 2019. It will be an excellent addition to the events on industrial safety and the opportunities for flexible working hours. To sum up, I would say it is a challenging job that brings great satisfaction.

THANK YOU FOR YOUR TIME!

”

In Powder Metallurgy we ensure that the first piece is manufactured exactly like the one millionth piece. Nowadays this demands greater skills in digitisation.

Every day in the automobile sector is a challenge. This particularly applies to us as a supplier. It is never boring. And we, as controllers, make a contribution to SHW's success.

We give it everything
Sebastian Rotermann, plant controller

Just a few kilometres from the megacity of Shanghai, Sebastian Rotermann is pursuing a career that has changed radically – he tells us about the unique opportunity that led him to China.

When we call Kunshan, SHW's Chinese location for the production of engine oil and transmission oil pumps, in the morning, it is already afternoon for Sebastian Rotermann, due to the time difference. We interview him about his career at SHW and he uses the opportunity to clear up some outdated preconceptions about his job. "Preparing the numbers and interpreting them is naturally part of the job. Thoroughness is also absolutely essential for a controller. But that is not all. It is not just about 'controlling' somebody or something. Nowadays, controllers are consultants and sparring partners for business issues. In close cooperation with the management and the team we develop a roadmap for steering the Company."

He adds: "Many people think that controlling is a desk job. The reality is completely different. We are often out and about and point out potential for optimisation, such as in the use of machines and materials. Specifically at SHW, where components are manufactured to a wide variety of specifications and powertrain concepts, we need to have a fundamental understanding of our products and processes." Rotermann knows that the job of a controller requires extensive understanding of the technicalities and a high level of social skills. "It is in the nature of the job to be informed about almost everything. You need to have a feeling of how to communicate sensitive issues correctly. Quite often, far-reaching decisions are made on the basis of information provided by the controllers. "This is precisely what makes it so exciting, this mix of acting cautiously but with all your energy."

International and family-oriented – the perfect combination

For years, Sebastian Rotermann had sought an international assignment. "In discussions with my superior, I told him that I could easily imagine shifting to Kunshan, even for the long term. Shortly afterwards, I was given the opportunity." As a controller in the growing Chinese automobile market, he feels perfectly positioned. The new situation is also ideal for his family. Together with his wife, who was born in Taiwan, he has found a new home where their bilingual son can grow up.

Sebastian Rotermann is thankful for the opportunity he has been given by SHW. Moreover, he could rely on support from his employer in finding an apartment, a place in a kindergarten for his son and language courses. "SHW made sure that I could quickly find my footing here with my family and feel at home. Prime conditions for making my own contribution to the successful development of our Chinese location."

Last but not least, he has set himself the goal of honing his language and intercultural skills. "For SHW, employees who are at home in both cultures is an asset that cannot be overrated. In this regard, I want to play my part across country borders, initially as a controller."

Finding her true vocation
Sandra Rosenmayer, HR specialist

Career redefined: At the end of the reporting year, Sandra Rosenmayer, Manager of Investor Relations and Corporate Communications, expanded her role to include the function of HR specialist at the Aalen location. We talked to her about her new responsibilities at SHW.

MS ROSENMAYER, YOUR CAREER PATH IS NOT EXACTLY A TYPICAL ONE. TELL US, HOW DID YOU COME TO SHW?
After my first roles in Hamburg and Esslingen, I wanted to return to my home region, the Ostalb. As luck would have it, a position in investor relations was advertised late in the autumn of 2016. An old friend of mine, who had been at SHW for a number of years, encouraged me to apply even though my profile did not really match the job description. At the first job interview, my future boss told me: "actually we were looking for someone completely different".

... AND THEN?
As a graduate Master of Engineering and Bachelor of Business Administration, the capital markets were fairly new territory for me. What finally decided the matter was the professional communication and my commercial background coupled with a technical understanding of our products and businesses. SHW promoted my development and helped me to achieve my goals. The skills I was lacking I managed to acquire after office hours at the Frankfurt School of Finance, where I obtained certification as a Certified Investor Relations Manager.

HOW DID YOU THEN SWITCH TO HUMAN RESOURCES?
During a personal performance review with the member of the Management Board that I reported to, we openly discussed my career opportunities. My current position became free in the course of an expansion of the HR department.

WHAT DISTINGUISHES YOUR PRESENT TASKS FROM WHAT YOU WERE DOING BEFORE?
As an IR manager, my task was to inform investors and analysts of SHW's vision and strategy, as well as its internal developments. Now my tasks are very similar, except that the focus is inwards. I inform our employees and job applicants about SHW's visions and values. I explain the values that apply to their current or future position at the Company and how their daily work can propel us forward as an organisation. It is important that each employee knows the value placed on his or her position at the Company and that we can count on each and every individual. The interregional HR team has many exciting tasks. We regularly swap notes and promote issues such as personal development, digitisation, healthy management and fostering individual health. The collaboration with Pankl Racing Systems is also going fantastically. Thanks to the synergies arising from it, we can offer our employees added value and encourage them to shape the future of SHW together with us.

WHAT DOES THAT MEAN, "SHAPE THE FUTURE OF SHW"?
As a daughter in a family business, I learned at an early stage how important it is to have employees who can show both responsibility and initiative. As the Head of Department, I quickly discovered that I could totally rely on my team and colleagues in the HR department, all of whom perform their daily tasks independently.

It is precisely these people and the associated corporate culture of taking responsibility that will carry SHW forward into the future.

However, for this culture to truly thrive, you need a great deal of trust between management and the workforce. At present, the state of the art in management is to lead by example and bridge the gap between generations and their expectations. Automation and digitisation, by contrast, are changing the way we work together.

Agile management means talking to people as equals about a vision, putting the team at the centre and creating room for creativity. But also about sharing knowledge so that the team gathers self-confidence, becomes more independent and can take on responsibility, which ultimately makes each position more valuable.

"

I would like to contribute to reconciling and aligning employees' needs and interests with the Group's strategy. SHW AG will become more agile and flexible in future.

REPORT OF THE SUPERVISORY BOARD

General remarks

In the reporting year 2018, the Supervisory Board fulfilled its duties as required by law, the Articles of Association and the Rules of Procedure. The Supervisory Board addressed the situation of the Company in depth and continuously monitored and advised the Management Board.

The Management Board regularly, promptly and comprehensively informed the Supervisory Board in both writing and orally about all relevant issues related to corporate strategy, planning, business development, the risk position, risk management and compliance, and involved it in all decisions of particular significance. To this end, the Management Board drew up a monthly report containing, among other items, detailed information about the economic and financial position of SHW AG and its subsidiaries (the SHW Group). In addition, there was comprehensive reporting at the regular meetings of the Supervisory Board at which the course of business, the planning and the corporate strategy were discussed with the Management Board. The members of the Supervisory Board also remained in contact with the Management Board outside the regular meetings of the board, in particular via the respective chairmen of the two boards. In this way, the Supervisory Board was promptly informed of the latest business developments and any significant transactions at all times.

In those cases where the approval of the Supervisory Board or one of its committees was required by the law, the Articles of Association or the Rules of Procedure, a corresponding resolution was passed. In addition to the information provided orally, written explanations were prepared by the Management Board, where needed, containing the information required for decision-making on those measures requiring the approval of the Supervisory Board.

During the reporting period the Supervisory Board carefully reviewed the reports of the Management Board and the draft resolutions prepared for meetings and discussed these in detail at the meetings.

Other than the documents provided to the Supervisory Board, there was no need to inspect other documents of the Company during the reporting period.

Generally, the Supervisory Board only passes resolutions at its meetings. If needed, resolutions are also passed outside of meetings in the course of telephone conferences or in circulation proceedings. Moreover, when needed, the Supervisory Board meets without the Management Board.

Meetings of the Supervisory Board and main issues

There were four ordinary face-to-face meetings of the Supervisory Board during the reporting year and eight extraordinary meetings held as telephone conferences. Apart from two exceptions, all members of the Supervisory Board attended the ordinary face-to-face meetings of the board and the extraordinary meetings held as telephone conferences. Five resolutions were passed by the full Supervisory Board by circularisation in the reporting period.

The Supervisory Board was comprehensively informed about all relevant issues related to corporate strategy, planning, business developments, the risk position, risk management and compliance within the SHW Group by the Management Board in the form of both written and oral reports at the ordinary and extraordinary meetings in the year 2018 which were held on 26 February 2018, 15 March 2018, 03 April 2018, 11 April 2018, 19 April 2018, 8 Maa 2018, 30 May 2018, 7 June 2018, 6 July 2018, 17 September 2018, 20 November 2018 and 23 November 2018. Among other items, the Management Board explained the latest sales and earnings trends of the SHW Group and detailed the business development of the individual business segments taking account of the respective competitive environment. In the reporting year, focus was placed on the following issues:

Recurring matters in the meetings of the Supervisory Board were the implementation and further development of the strategic objectives, the planning of the SHW Group and the business development of the Pumps and Engine Components and Brake Discs business segments. Regular reports were also made on risk management, quality assurance and outstanding customer-related risks. The Supervisory Board also obtained information on strategic issues, such as the strategic alignment of the Brake Discs segment and the reorganisation of the Bad Schussenried location, and addressed the status of the review of a possible cooperation with a partner in Southeast Asia. Furthermore, the Supervisory Board dealt with the status of the subsidiary in Romania and the start of serial production at SHW Kunshan in China. The Supervisory Board also drew up a competence profile for the entire Board and performed an analysis of its own efficiency.

At its meeting to discuss the financial statements and the consolidated financial statements and the combined (group) management report of SHW AG for the year ended 31 December 2017, the Supervisory Board also addressed the proposal for the appropriation of profits and the motions proposed to the Annual General Meeting on 8 May 2018 as well as the Report of the Supervisory Board for fiscal year 2016 and the Corporate Governance Report and Declaration on Corporate Governance for 2017. It also passed resolutions granting discharge to the general managers of subsidiaries and other equity investments.

After members to the Supervisory Board were chosen at a by-election of the Annual General Meeting of SHW AG, the Supervisory Board held its founding meeting for the new period and thereafter elected Mr. Klaus Rinnerberger from among its members as Chairman and Mr. Alfred Hörtenhuber as his Deputy as well as appointing some new members to the committees of the Supervisory Board. Moreover, the Supervisory Board agreed to a concept for a company pension plan for executive management as well as an adjustment to the pensions and vested benefits available to employees effective 1 January 2019. In addition, the Supervisory Board passed a resolution on the measurement base used for the bonus of the new CEO for the transitional year of 2018 (appointed during the course of the year). Moreover, the Supervisory Board of SHW AG approved the shareholder appointments to the Supervisory Board of Schwäbische Hüttenwerke Automotive GmbH. Furthermore, the Supervisory Board approved various amendments made in the 2018 reporting period to the joint Declaration of Conformity issued by the Management Board and Supervisory Board on 15 March 2018, 19 April 2018 and 9 July 2018 on the recommendations of the German Corporate Governance Code pursuant to Section 161 AktG.

At the extraordinary meetings the Supervisory Board of SHW AG addressed the voluntary bid to purchase a stake in SHW Beteiligungs GmbH (now trading as Pankl SHW Industries AG). Unrelated to this, it elected a new Chairman and Deputy Chairman of the Supervisory Board of SHW AG after the premature resignation of Mr. Georg Wolf for personal reasons. Moreover, it was informed of the mutual agreement with Dr. Boshoff and Mr. Simon to terminate their positions on the Management Board and approved the respective severance agreements. Finally, the Supervisory Board approved the budget presented by the Management Board of SHW AG for 2019 and the mid-range planning.

The Supervisory Board also addressed the appointments to fill the vacant posisions on the Management Board left by the premature departure of Dr. Boshoff and Mr. Simon. It appointed Mr. Wolfgang Plasser as the CEO and Mr. Thomas Karazmann as the CFO.

Furthermore, the Supervisory Board approved the conclusion of a contract for consulting services between SHW AG and Pierer Industrie AG under the terms of which the SHW Group will receive support for its business operations. Another resolution passed involved the new Rules of Procedure for the Management Board and Supervisory Board. Finally, the board approved the application submitted for the court appointment of Mr. Friedrich Roithner and Mr. Josef Blazicek to the Supervisory Board, with the involvement of the Nomination Committee.

Work of the committees

To ensure that it performs its work efficiently, the Supervisory Board has established three committees – the Presidential Committee, the Audit Committee and the Nomination Committee. All members of the committees attended the respective face-to-face meetings.

- The ***Presidential Committee*** prepares the meetings of the Supervisory Board. It also performs the duties of a personnel committee and as such prepares the personnel decisions to be taken by the Supervisory Board, in particular, the appointment and dismissal of the members of the Management Board and determination of their remuneration and other personnel issues to be addressed by the Supervisory Board, including the regular review of the remuneration system for the Management Board and the long-term succession planning. Moreover, – except where such matters must be referred to the entire Supervisory Board by law – it passes resolutions in lieu of the Supervisory Board on the conclusion, amendment and termination of employment agreements with the members of the Management Board and other transactions with them and their related parties where the Company is represented in accordance with Section 112 AktG.

  The Presidential Committee also passes resolutions in lieu of the Supervisory Board on granting consent to secondary employment by members of the Management Board and other activities of a Management Board member in accordance with Section 88 AktG, issuing loans to the group of individuals defined in Sections 89 and 115 AktG and its approval to contracts with members of the Supervisory Board pursuant to Section 114 AktG. Lastly, it decides on whether to approve business transactions and measures requiring consent that are passed to it for approval instead of the entire Supervisory Board. Eight resolutions were passed by the Presidential Committee by written circulation proceedings in the reporting period.

- The ***Audit Committee*** prepares the resolutions of the Supervisory Board concerning the Annual Financial Statements and Consolidated Financial Statements as well as the agreements with the auditor, in particular the audit engagement, the determination of the key audit matters and the fee agreement. It also addresses whether the auditor has the required independence. Furthermore, it prepares the decisions of the Supervisory Board regarding the selection of the external auditor to be referred to the regular Annual General Meeting and makes a recommendation on this to the Supervisory Board. It also considers financial reporting issues including monitoring of the accounting process, the effectiveness of the internal control system, risk management and compliance. The Audit Committee convened a total of three times in the reporting period. Two resolutions were passed by the Audit Committee by written circulation proceedings in the reporting period

- The ***Nomination Committee*** will act in a supporting role during the elections of shareholder representatives to the Supervisory Board. It will propose suitable candidates to the Supervisory Board of SHW AG for the list of shareholder representatives nominated for election to the Supervisory Board. The Nomination Committee recommended Mr. Friedrich Roithner and Mr. Josef Blazicek to the court to fill the vacant positions by court appointment.

The supervisory board was regularly and comprehensively informed of the work of the committees at meetings of the entire Supervisory Board. More information on the composition of the committees can be found in the Declaration on Corporate Governance and the Corporate Governance Report that are combined into one uniform document and published at https://en.shw.de/thecompany/corporate-governance/.

Audit of the Annual Financial Statements and the Consolidated Financial Statements

The Annual Financial Statements of SHW AG prepared in accordance with the German Commercial Code (Handelsgesetzbuch – HGB) and the Combined (Group) Management Report for the fiscal year 2018 were audited by the external auditor of the Company, Ebner Stolz GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, 70174 Stuttgart, who issued an unqualified audit opinion thereon. The Consolidated Financial Statements of SHW AG for the fiscal year 2018 and the Combined (Group) Management Report were compiled in accordance with Section 315e HGB on the basis of the International Financial Reporting Standards (IFRSs), as applicable in the European Union. An unqualified audit opinion was rendered on the Consolidated Financial Statements and the Combined (Group) Management Report.

Ebner Stolz GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, 70174 Stuttgart, has audited the Annual Financial Statements and the Consolidated Financial Statements as well as the Combined (Group) Management Reports of SHW AG without interruption since fiscal year 2013. In this period, Mr. Christoph Brauchle and Mr. Christoph Lehmann have taken responsibility as signatories of the audit opinions on the audits of the Annual Financial Statements and Consolidated Financial Statements of SHW AG. The audit firm assigned to audit the Annual Financial Statements and the Consolidated Financial Statements is engaged for the duration of one fiscal year in each case.

The Audit Committee set the audit focus for SHW AG on the recoverability of financial assets and intercompany receivables. The audit focus for the SHW Group was placed on estimates related to the assessment of individual warranties and risks associated with customer projects and product-related risks (provisions), the recoverability of goodwill, revenue recognition, consolidation measures, the completeness of the Notes to the Consolidated Financial Statements and the Combined (Group) Management Report, and, beyond this, pension provisions and major project business.

The Supervisory Board inspected the above documents in detail. All of the financial reporting documents as well as the audit reports issued by the external auditor were provided to the members of the Supervisory Board in good time. The Annual Financial Statements and Consolidated Financial Statements as well as the Combined (Group) Management Report were initially discussed in depth by the Audit Committee and thereafter by the entire Supervisory Board, in each case in the presence of the responsible external auditor. The external auditor reported on the key findings of its audit. Moreover, the external auditor described the scope, focus and costs of the audit.

There were no circumstances that indicated the external auditor was biased in any way. The auditor confirmed its independence to the Audit Committee. The external auditor rendered services to the Company (including its affiliated companies) amounting to €39 thousand in addition to its audit services for the financial statements.

The Supervisory Board approved the findings of the external audit and after its own review came to the conclusion that it had no objections to raise. The Annual Financial Statements and Consolidated Financial Statements compiled by the Management Board and audited by the external auditor as well as the Combined (Group) Management Report were approved by the Supervisory Board. The Annual Financial Statements were thus adopted. Finally, the Supervisory Board reviewed the proposal made by the Management Board for the appropriation of profits and agreed with the proposal, taking particularly into account the profit for the year, the liquidity and the financial planning of the Company.

Review of the Management Board's Report on Relations with Affiliated Companies

On 19 February 2018 Pankl SHW Industries AG, Kapfenberg, (formerly, SHW Beteiligungs GmbH, Wels, Austria) – a subsidiary of Pierer Industrie AG, Wels, Austria, held 49.4 per cent of the voting rights of SHW AG and 50.21 per cent on 19 February 2018, thereby giving it a voting majority. The Management Board has therefore drawn up a report for the past year on its relations to affiliated companies (dependent company report) in accordance with Section 312 AktG. Ebner Stolz GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, 70174 Stuttgart reviewed the dependent company report of the Management Board and issued an audit report thereon pursuant to Section 313 AktG.

The audit did not reveal any grounds for objection. The external auditor issued the following unqualified audit opinion in accordance with Section 313 (3) AktG: “Based on our duly performed audit and assessment, we confirm that (1.) the actual disclosures in the report are accurate, and that (2.) the consideration made by the Company for the transactions listed in the report were not unreasonably high.”

The Supervisory Board reviewed the dependent company report of the Management Board and the associated audit report and approved it in accordance with Section 314 AktG. After concluding its review, the Supervisory Board did not have any objections to the dependent company report and the final declaration of the Management Board it contains, or to the auditor's report.

Conflicts of interest

In the resolution of the Supervisory Board on the bid made by the Pierer Group to acquire some of the shares, both Klaus Rinnerberger and Stefan Pierer withheld their votes on account of a conflict of interest.

There is an agreement for consulting services in place between SHW AG and Pierer Industrie AG on the basis of which Alfred Hörtenhuber, a member of the Supervisory Board, renders consulting services governed by the agreement. The Supervisory Board passed a unanimous resolution on this arrangement, with Alfred Hörtenhuber withholding his vote. The remuneration for the services has been set on the basis of an arm's length comparison.

Corporate governance

The Management Board and the Supervisory Board issued their joint Declaration of Conformity dated 15 March 2018, 19 April 2018 and 9 July 2018 in accordance with Section 161 AktG.

More information on corporate governance can be found in the corporate governance report.

The above declarations have been made permanently accessible to the public on the website of the Company at https://shw.de/unternehmen/corporate-governance/.

With the exception of Nos. 4.2.3 (2) sentence 3, 4.2.3 (6), 5.3.2 (3) sentence 2 and sentence 3, 5.4.1 (2) and (4), 5.4.1 (6) to (8) as well as 7.1.1 (1) sentence 2, SHW AG complied with the recommendations of the German Corporate Governance Code as at the reporting date of 31 December 2018.

Composition of the Management Board and Supervisory Board

Changes to the composition of the Management Board in the reporting period 2018 were as follows:

- Dr. Frank Boshoff stepped down from his position as member of the Management Board and CEO of the Company effective at the end of day on 12 June 2018. Effective 12 June 2018 Mr. Wolfgang Plasser became a member of the Management Board and the new Chief Executive Officer of the Company. His appointed term expires at the end of day on 30 June 2021.

- Mr. Martin Simon stepped down from his position as member of the Management Board effective the end of day on 30 November 2018. Effective 1 December 2018, Mr. Thomas Karazmann became a member of the Management Board. His appointed term expires at the end of day on 30 November 2021.

- Dr. Boshoff and Mr. Simon made sustained improvements to the processes in the Pumps and Engine Components business segment and in finances. They have successfully driven forward the internationalisation of the pump business and put the long-term financing of the Company on a very secure footing. The Supervisory Board would like to convey its gratitude to the two gentlemen and wishes them all the best for their future, both privately and professionally.

Changes to the composition of the Supervisory Board in the reporting period 2018 were as follows:

- At the application of SHW AG to the court to appoint additional members to the Supervisory Board, Mr. Stefan Pierer and Mr. Klaus Rinnerberger were appointed members of the Supervisory Board by ruling of the local court of Ulm of 2 January 2018

- The Chairman of the Supervisory Board, Georg Wolf, resigned from his position as a member of the Supervisory Board and its Chairman effective 6 April 2018. The Supervisory Board heartily thanks Mr. Wolf for his successful contribution to the Company over many years and wishes him all the best for his professional and personal future.

- With regard to the amendment to the Articles of Association passed by resolution of the Annual General Meeting on 8 May 2018 to expand the Supervisory Board from six members to nine, three additional members had to be elected to the board. Mr. Alfred Hörtenhuber, Mr. Frank-Michael Meißner and Mr. Wolfgang Plasser were elected by the Annual General Meeting of SHW AG as the new members.

- Mr. Wolfgang Plasser resigned from the Supervisory Board effective the end of day on 7 June 2018 in order to take up his position as member of the Management Board and CEO of the Company effective 12 June 2018.

- On the basis of an application filed by SHW AG to the court to appoint additional members to the Supervisory Board, Mr. Josef Blazicek and Mr. Friedrich Roithner were appointed members of the Supervisory Board of SHW AG by ruling of the local court of Ulm of 2 October 2018.

The Supervisory Board extends its thanks the Management Board and to all employees for their commitment and outstanding performance during the past year, which made the stable development of the business of SHW AG possible.

Aalen, March 2019

Yours sincerely,

on behalf of the Supervisory Board

Klaus Rinnerberger
Chairman of the Supervisory Board

THE SHW SHARE

Disappointing year on the international stock exchanges

The FED raised its key lending rate four times, the ECB decided to terminate its asset purchase program, the Chinese economy showed signs of slowing growth, a hard Brexit became more likely and the trade war between the USA and China – all of these were factors that placed a substantial damper on the stock markets in 2018. Positive factors, although somewhat weaker, were the strength of the US economy, the steps towards monetary expansion taken by the Chinese central bank and government and lively merger and acquisition activity.

Against this backdrop, the most important international market indices all recorded a loss. The Shanghai Composite index led the way, with a loss of 24.6 per cent.

Benchmark index outperforms the SHW share

The climate for automobile stocks dimmed steadily starting in the second quarter of 2018. This was mainly triggered by the threat made by the US administration to examine the idea of charging import duties of 25 per cent on foreign-made cars. Automobile stocks were also negatively impacted by changing forecasts for various indices as well as the problems experienced by a number of car makers in making the transition to the WLTP. Overall, the stocks in the DAXsector Automobile Performance index (CXPA) recorded a loss of 27.2 per cent to 1,228 points. The SHW share ended the year 2018 at a share price of €19.74, thus underperforming the DAXsector Automobile Performance index by 13.6 percentage points. The SHW share is currently trading at € 19,38 (as at 22 March 2019).

Pankl SHW Industrie AG becomes new majority shareholder

Within the framework of the voluntary public takeover, which took the form of a partial purchase offer, a total of 53,525 SHW shares or 0.83 per cent of subscribed capital was sold to SHW Beteiligungs GmbH (now registered as Pankl SHW Industries AG, Wels, Austria) before the expiry of the offer on 16 May 2018. Now, with a holding of 50.21 per cent, Pankl SHW Industries AG is the new majority shareholder of SHW AG. According to the latest voting rights notifications, it is followed by Anhui International Holding GmbH (China) with 9.38 per cent and Fidelity Investment Trust (USA) with 3.05 per cent.

Switch to the General Standard – close orientation to the follow-up duties of the Prime Standard

SHW Investor Relations aims to ensure a fair evaluation of the SHW share by the capital market. It does so on the basis of a continuous and open dialogue with all market participants and by providing precise and valuation-relevant information.

SHW was awarded silver in the category of “Automobile & Components” by LACP for its 2017 annual report issued under the title, “Home Base in Swabia – at Home in the World”. This award is one of the largest international competitions for annual reports and is sponsored by the League of American Communications Professionals.

On 22 February 2018 SHW AG switched from the Prime Standard to the General Standard of the regulated market. With the exception of the quarterly statements, SHW AG will fulfil all other follow-up duties of admission to the Prime Standard in future (e.g. languages for the follow-up duties: German and English; analysts’ meeting: at least once a year).

The Company’s Investor Relations team will be pleased to assist you with any questions you may have in relation to SHW AG. A good point of entry is the completely revamped SHW website (https://en.shw.de). Please feel free to request any further information which you may require. SHW Investor Relations looks forward to hearing from you.

Investor Relations contact:

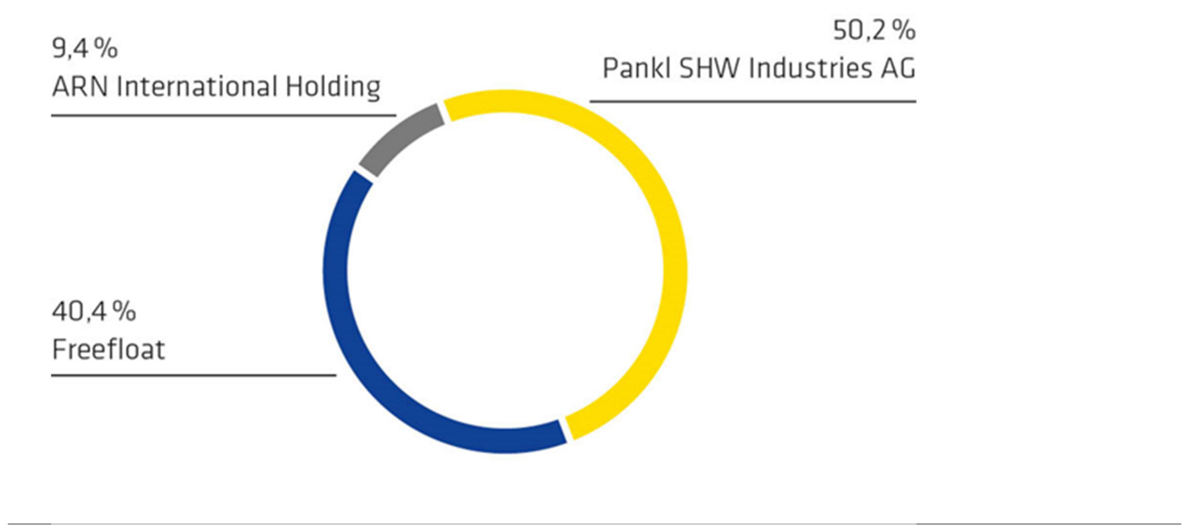
Sandra Rosenmayer, CIRO

Phone: +49 7361 502 – 477
Fax: +49 7361 502 – 852
Email: sandra.rosenmayer@shw.de

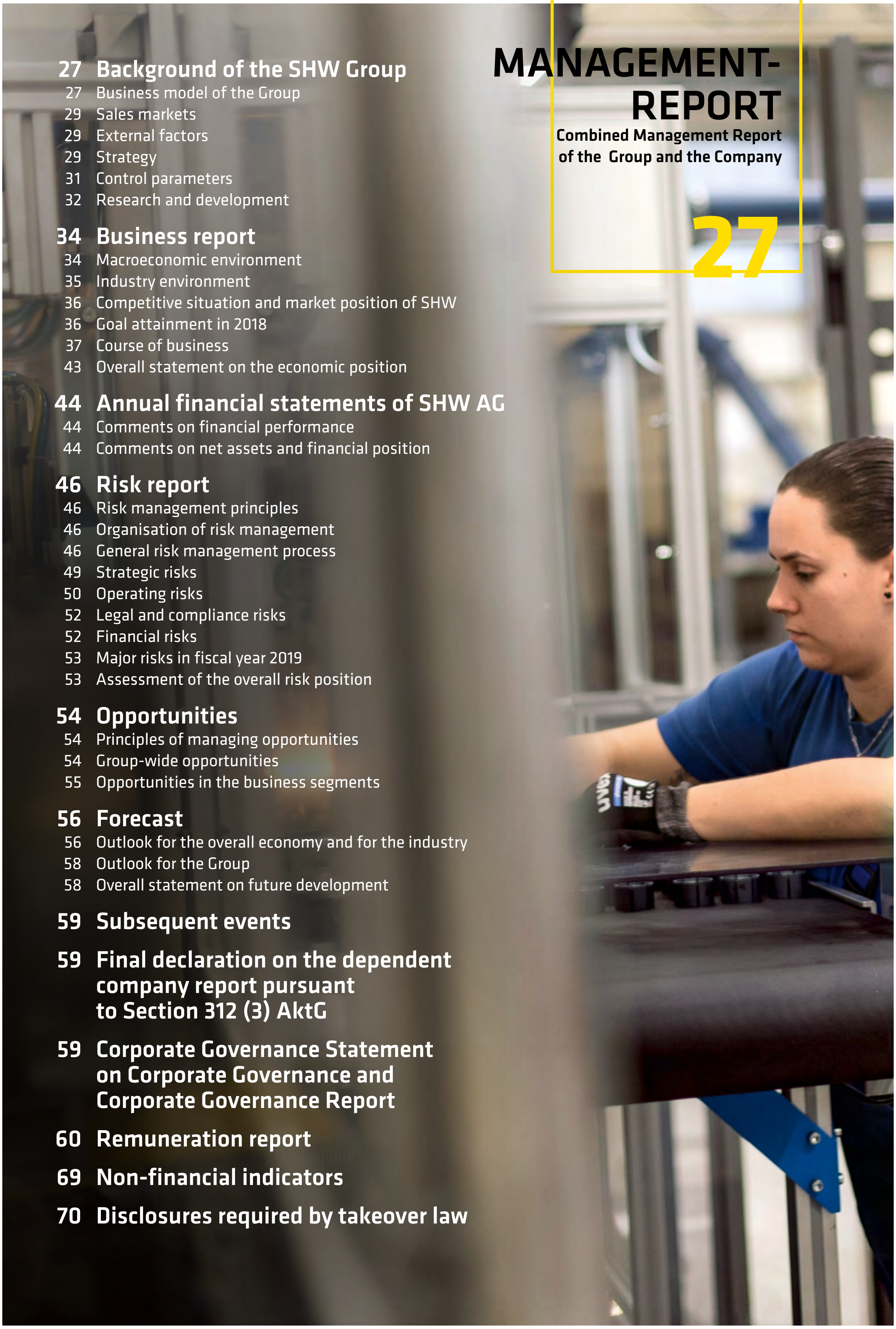
PRICE TREND FOR SHW SHARE AND DAXSECTOR AUTOMOBILE

Source: Bloomberg

SHAREHOLDER STRUCTURE



Source: SHW



MANAGEMENT-REPORT

Combined Management Report of the Group and the Company

27

COMBINED MANAGEMENT REPORT OF THE GROUP AND THE COMPANY

BACKGROUND OF THE SHW-GROUP

Business model of the Group

A group focused on reducing CO_2

In its business activities, the SHW Group focuses on the development and manufacturing of products which help to reduce fuel consumption and therefore CO_2 emissions in the automotive industry. Most of the sales comes from the business with renowned manufacturers of automobiles, commercial vehicles, agricultural machines and construction machines as well as with other automotive suppliers. The group currently has nine facilities in five countries.

Organisational structure of the Group

The operational business is divided into two business segments that also constitute the reportable segments in the sense of IFRS:

- Pumps and Engine Components
- Brake Discs

As the management holding, SHW AG performs the shared services of the Group. These include finance and accounting, taxes, controlling, legal affairs, human resources, investor relations and corporate communications.

On the road to becoming a global player for pumps and engine components

The Pumps and Engine Components business segment is the SHW Group's largest operating segment and has production and development facilities in the three strategically relevant automobile markets, Europe, China, and the Americas.

The Passenger Car division primarily manufactures variable engine oil pumps, transmission oil pumps, oil / vacuum pumps with or without balancer shafts and e-pumps.

In the Truck & Off-Highway division at the Bad Schussenried facility, the SHW Group produces engine oil, transmission oil and fuel pumps for trucks, agricultural and construction machinery, stationary engines and wind turbines.

PUMPS & ENGINE COMPONENTS			BRAKE DISCS
BAD SCHUSSENRIED / HERMSDORF/ TIMIȘOARA KUNSHAN / SÁO PAULO / TORONTO		AALEN - WASSERALFINGEN	TUTTLINGEN-LUDWIGSTAL / NEUHAUSEN OB ECK
Passenger Cars	Truck & Off-Highway	Powder Metallurgy	
Engine oil pumps	Engine oil pumps	Sintered steel or aluminium components for camshaft phasers	Unprocessed monobloc ventilated brake discs
Transmission oil pumps	Transmission oil pumps	Gear sets	Ready-to-install monobloc ventilated brake discs
Oil / vacuum pumps with / without balancer shaft	Fuel pumps	Sintered components for engines and transmissions	Composite brake discs
E – pumps	E – pumps		
Electronics and microsystems technology	Electronics and microsystems technology		

The development, industrialisation, production and certification of complex miniaturised electronics and micro-systems technology for the Passenger Car and Truck & Off-Highway divisions occurs at the location in Hermsdorf.

In the Powder Metallurgy division at the Aalen-Wasseralfingen plant, the Company produces sintered engine and transmission components. In particular, its product range comprises adjustment rings and rotors for variable consumption-optimised engine oil pumps and camshaft phaser components made of steel and aluminium powder, as well as backlash-free gearwheel systems, which are supplied both to external customers and to the Company's Bad Schussenried plant.

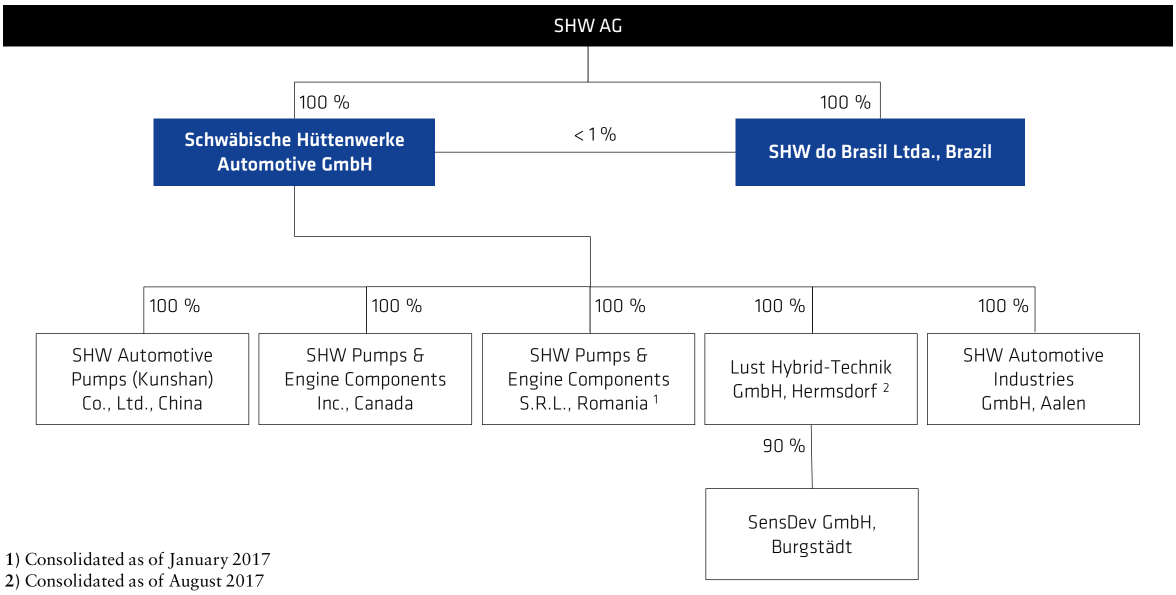
Technology leader in the field of lightweight brake discs

The SHW Group is a technology leader in the manufacturing of brake discs for high-performance vehicles. The Brake Discs business segment develops and produces monobloc ventilated cast iron brake discs and lightweight brake discs (known as "composite brake discs") which consist of a combination of an iron friction ring and an aluminium pot. The Company's own foundry is situated at Tuttlingen-Ludwigstal, while its brake discs are processed nearby at Neuhausen ob Eck.

Legal structure

SHW AG is the parent and holding company of the SHW Group and holds all the shares in SHW Automotive GmbH with its registered offices in Aalen and branches in Aalen-Wasseralfingen, Ludwigstal (Tuttlingen) and Wilhelmshütte (Bad Schussenried). Its shareholdings are presented in the following chart. The operating activities are conducted by SHW Automotive GmbH and its subsidiaries as well as by SHW do Brasil Ltda.

OVERVIEW OF GROUP SUBSIDIARIES



1) Consolidated as of January 2017
2) Consolidated as of August 2017

Sales markets

The business of SHW AG is significantly influenced by the production of light vehicles (vehicles < 6 tonnes) and the related production of engines and transmissions in Europe, China and North America. More information can be found in the section on the Industry environment.

External factors

The European Union is seeking to reduce greenhouse gas emissions in the Union by 80 to 95 per cent by 2050, based on the benchmark of 1990. In this regard, the transport sector should reduce its greenhouse gas emissions by at least 60 per cent by 2050.

The relevant EU regulation has prescribed average CO_2 emissions of 95 g CO_2/km for newly registered passenger cars by 2021. On 17 December 2018, in the course of the trialogue negotiations the representatives of the EU Commission, the EU Parliament and the European Council agreed on a common proposal for regulating CO_2 emissions from cars and light commercial vehicles. Consequently, by 2030 the fleet consumption of passenger cars should be reduced by 37.5 per cent in comparison to the benchmark year of 2021. A reduction of 31 per cent is demanded for light commercial vehicles. As a binding interim goal, a reduction of 15 per cent is called for by 2025 for both light commercial vehicles and passenger cars.

There are also binding CO_2 targets in the other important automobile markets of China and North America, which necessitate substantial reductions from manufacturers in the coming years.

Measures influencing fuel consumption and CO_2 emissions may be categorised as follows:

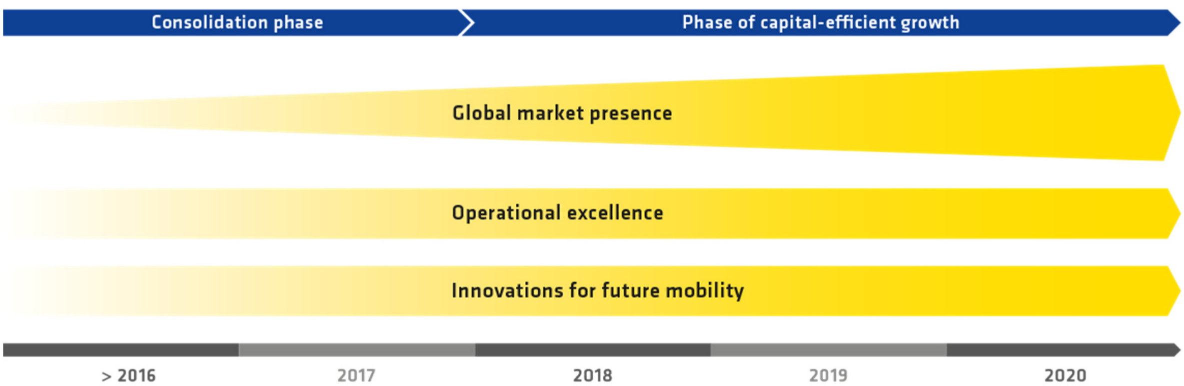
- Measures to raise the efficiency of converting the energy in the original energy source into the mechanical power delivered to the drive wheels.
  - Optimisation of conventional internal combustion engines (direct injection, cooled exhaust gas recirculation, downsizing and turbocharging, variable valve train, cylinder deactivation, variable compression, combustion processes, friction reduction, thermal loss reduction)
  - Optimisation of the transmission (automated manual transmissions, dual clutch transmissions, automatic powershift transmissions or stepped automatic transmissions)
  - Electrification of the powertrain (micro hybrid incl. start-stop function, mild hybrid, full hybrid, plug-in hybrid, electric vehicle)
  - Optimisation of the energy consumed by auxiliaries (alternator, coolant pumps and oil pumps, vacuum pump for brake boosters, power steering, air conditioning compressor, etc.)
- Measures to reduce the energy requirements for vehicle use (tyres with reduced rolling resistance, lightweight construction, aerodynamic optimisation)
- Use of alternative fuels in combustion engines

Thanks to its broad product portfolio of consumption-optimising engine and transmission components for all kinds of drive concepts and its lightweight composite brake discs, SHW is benefiting greatly from the megatrend towards reducing CO_2 emissions.

Strategy

The SHW 2020 strategy has set the course for the development of the Group until 2020.

In the Pumps and Engine Components business segment the focus is on the internationalisation of business activities and in the Brake Discs business segment on a major expansion in the sales volume of lightweight composite brake discs. More information on our targets for the fiscal year 2019 can be found in the forecast under the section on the outlook for the Group.



Corporate strategy

The strategy for the current portfolio comprises three fields: Internationalisation, operative excellence and innovation.

Strategic field: Internationalisation

SHW is present in the three strategically relevant regions in order to satisfy the growing demand from its customers in Europe, North America and China. The scalability of the pump business allows SHW to expand into other countries – pursuing a best-cost-country approach – with relative ease and making efficient use of capital. In this way, it can serve existing customers or new ones who already manufacture engines or transmissions in the country or are planning to open new production operations in the country in question in future.

Within the scope of this defined business strategy, SHW will pursue the targeted expansion of its international presence in its Pumps and Engine Components business segment.

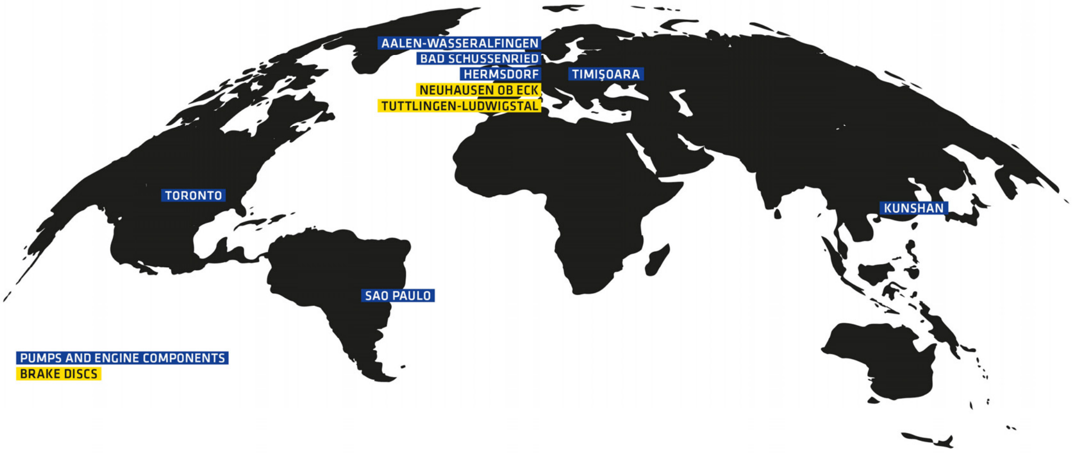
In the fiscal year 2018 the **Canadian subsidiary, SHW Pumps & Engine Components Inc.** started production of variable engine oil pumps for a global engine platform. The start of production for three additional variable engine oil pumps for three and four-cylinder engines produced by the same customer is scheduled for the fiscal year 2019 on the basis of the current planning. SHW Canada will continue to focus on passenger car applications for the market-leading North American automobile manufacturers as well as suppliers of automobile transmissions for further penetration of the North American market. Besides engine oil pumps, electric transmission oil pumps are especially seen as offering further potential. With regard to the latter, the Company is in the bidding phase for numerous projects. In terms of Truck & Off-Highway applications, the Company will intensify its existing relationships to North American manufacturers of agricultural machines and construction machines.

The **Chinese subsidiary SHW Automotive Pumps (Kunshan) Co., Ltd.,** successfully mastered the start of production of four different product lines in fiscal year 2018. These consist of a variable engine oil pump and a variable engine oil pump with balancer shaft for a Chinese-North American joint venture, the Chinese portion of the contract to supply a variable engine oil pump for a global engine platform and an electric auxiliary transmission pump for a European car maker. Production of two new product lines in the transmission oil pumps segment, one of which is an electrically driven transmission oil pump with integrated electric motor, and stepping up the volume of two existing contracts (a variable engine oil pump and an electrically driven transmission oil pump) are on the agenda for fiscal year 2019. In addition to securing the start-of-production, the Chinese subsidiary will focus its energies on winning new contracts.

Since July 2014 engine oil pumps have been produced in Brazil for a major US automobile manufacturer. Production of identical pumps for the European requirements of this customer was ramped up in the fiscal year 2018. The start-of-production of a variable engine oil pump for another North American customer is scheduled for fiscal year 2019.

SHW's Brazilian plant plays an important role in its global production network. Together with its plants in North America and China, SHW has the global footprint that is required, especially by North American vehicle manufacturers.

Optimising the European production network is progressing on schedule with the establishment of a facility in **Timişoara** (**Romania**). The first relocated volumes went into production in the course of fiscal year 2018. In fiscal year 2019 the focus will be placed on commissioning additional assembly lines in accordance with the required quality standards and within the set deadlines and preparing for certification pursuant to IATF 16.949.



Strategic field: Operative excellence

Continuous optimisation of internal processes and production flows is an integral component of our corporate culture. This implies constant adjustment to meet changing customer requirements and to exploit any potential for efficiency gains.

In Powder Metallurgy the focus in fiscal year 2018 was on automation in the moulded parts division, the installation of automated testing as well as expanding capacity in the calibration division. For 2019 the plan is to introduce a new manufacturing execution system (MES) and expand green and precision machining for new projects.

At the Bad Schussenried location, new highly automated assembly lines were put into operation in addition to a number of machining centres. The required space was created by relocating plant and machinery from Bad Schussenried to Timişoara, Romania and shifting machines within the facility.

In terms of "technical cleanliness" a number of construction measures will be implemented in several divisions in fiscal year 2019. Moreover, the Truck & Off-Highway division will drive forward inhouse production by installing new machining centres that are more efficient.

In addition to the plant and machinery from Bad Schussenried, the location in Timişoara, Romania, put the first new automated assembly line for a key customer into operation on schedule. On top of the customer audit already passed, the location also received ISO 9.001 and 14.001 certification.

At the iron foundry at the Tuttlingen location, the moulds and cleaning equipment were equipped with new controls to keep raising efficiency steadily. At the location in Neuhausen ob Eck, an additional hall became available in June 2018 for machining composite brake disks. This measure and another aluminium casting plant now provide the capacity needed for the massive expansion in the sales volume of lightweight composite brake discs that is planned. As part of the continuous improvement of production processes, the first "autonomous transport system" was put into operation.

In the course of internationalising our business activities, global integration of our IT has also been driven forward.

Strategic field: Innovation

SHW is a success story hallmarked by product innovations that make a significant contribution to the reduction of vehicle fuel consumption and consequently CO_2 emissions. The Company intends to keep its focus on this core competence in future and extend its market leadership in terms of technology and innovations for all types of powertrains. Details on the innovation strategy and current examples can be found in the section on research and development.

Control parameters

The Management Board of SHW AG uses various instruments to assess the Company's current business development and for related future strategic and investment decision-making. Its goal is the optimal utilisation of economic and commercial success potential.

Financial performance indicators

For the SHW Group, EBITDA (defined as consolidated earnings before interest, tax and depreciation and amortisation) is the key performance indicator in addition to its sales trends. The Company is increasingly focusing on its EBITDA margin (EBITDA in relation to group sales). This measures the quality of the Company's sales trend and indicates the level of efficiency achieved in the management of its operating business. The operating result (EBIT) shown in the consolidated income statement is used as the initial value for the calculation of EBITDA. There were no non-recurring effects in fiscal year 2017. The non-recurring effects in fiscal year 2018 mainly comprise litigation, impairment losses and the costs associated with a change in two positions on the Management Board. The non-recurring income from indemnification payments and settlements was offset against non-recurring expenses (see the group management report, course of business, financial performance).

Besides earnings indicators, liquidity-related indicators are highly significant. Accordingly, the SHW Group continuously monitors and manages the key factors influencing net working capital (defined as the total of inventories and trade receivables less trade payables). The net working capital ratio – i.e. the ratio of net working capital to Group sales in the past twelve months – is the key indicator in this respect.

These income-based performance indicators are planned, calculated and monitored both for the SHW Group and for its two operating reporting segments – i.e. its Pumps and Engine Components and its Brake Discs business segments – while its net working capital ratio is only determined at the level of the Company as a whole.

SHW's control system also includes financial management indicators. In particular, the Company focuses on liquidity, the capital structure and possible market price risks, especially on interest rates and currencies.

The business activities of the SHW Group focus on the sustainable increase of its enterprise value and on capital-efficient growth. Its paramount goals are a medium-term and long-term increase in its sales, consolidated earnings before interest, tax and depreciation and amortisation in relation to Group sales (adjusted EBITDA margin) and control of its net working capital ratio.

Non-financial performance indicators

As well as financial goals, the management strategy of the SHW Group also includes a series of non-financial goals. Customer satisfaction plays a key role in the Company's long-term success. SHW's employees provide the Company's customers with optimal support and offer tailored solutions. The goal is to maintain and to achieve further improvements in the Company's high level of customer satisfaction.

Consistently high quality products and adherence to logistics schedules is a prerequisite for a high level of customer satisfaction. Our quality management system ensures that our pumps and engine components and our brake discs are delivered fault-free to our customers. SHW's objective is to maintain the Company's high level of quality and even realise further improvements. We aim to be the global supplier of choice for current customers and for potential new customers.

For more information on other factors see the section on corporate governance, "non-financial indicators".

Research and development

Electrically driven pumps for engine and transmission applications continue to gain ground

Over the past few years, automobile manufacturers have introduced a large number of new CO_2-optimised engine and transmission generations to the market with the support of their automotive suppliers. To improve the conventional internal combustion engine, a series of measures have already been realised in order to optimise both the combustion process and mechanical properties of the engine as well as the level of efficiency of the related pumps. Moreover, considerable progress has been made in optimising the energy use of auxiliaries (alternator, coolant pumps and oil pumps, vacuum pumps for brake boosters, power steering, air conditioning compressors, etc.).

Variable and map-controlled pump systems for engine lubrication are now standard in the new engine generations.

The process of functional integration also continues. SHW was the first company to develop variable oil / vacuum pumps (known as "tandem pumps") which are installed as a single unit in the engine's oil pan. It has been supplying these pumps to a leading European automobile manufacturer since late 2012. In Europe, SHW is the market leader in the field of tandem pumps.

In the field of automated manual, dual clutch, CVT and automatic transmissions, there is likewise a clear trend towards the use of an additional electrically driven transmission oil pump which offers savings potential via start-stop and sailing concepts. This extends the engine's standstill times and thus reduces fuel consumption. While the first generation of start-stop systems only switched the engine off while the vehicle is standing still, in expanded start-stop systems the engine switches off even while the vehicle is coasting to a stop, e.g. leading up to a red traffic light. The start-stop-sailing function turns the engine off as soon as the foot is taken off the gas pedal. Further fuel savings are possible in combination with navigation devices, e.g. by automatically turning off the engine upon entering built-up areas.

In the future, electrically driven pumps will also be used in electrified powertrains, both in plug-in hybrid vehicles (PHEV) and in purely electrically driven vehicles (BEV). Depending on the powertrain concept, they will be used either for shifting and lubricating the transmission or for cooling and lubricating the electric traction engine. SHW is developing suitable electric pumps for these applications.

SHW has developed its electronic drive and control unit expertise to supplement its core hydraulic competence. With the acquisition of LHT, SHW has extended the depth of its value chain for electric pumps. As a provider of Electronics Manufacturing Services (EMS), this company covers the entire contract manufacturing chain for electronic assemblies – from the development of processes and circuit board assemblies through to complex test concepts and global shipment.

Overall, the trend of electrically-driven pumps will enable a further reduction in CO_2 emissions, since this demand-controlled system can switch from "zero" to peak performance regardless of the engine's speed and condition and the situation of the vehicle.

In spite of these electrification trends, greater consideration of real driving emissions (RDE), the specific savings potential of the respective auxiliary and the charge level of the vehicle's battery before and after the test cycle plus general cost pressure from the automobile manufacturers mean that in many cases mechanically driven engine and transmission components continue to make sense in terms of a cost/benefit analysis.

The development department is also pursuing other new concepts which in some cases offer considerable potential for a reduction in fuel consumption.

Development activities are accompanied by the establishment and optimisation of modern product-specific and fully automatic test benches and test facilities. Test laboratories and test stations are also to be established at international sites, to enable a prompt response to customers' inquiries.

SHW's Powder Metallurgy business segment has further expanded its core competences in the manufacturing of sintered parts for low consumption oil pumps, high-precision components for camshaft phasers, backlash-free gearwheels for improved NVH behaviour and lightweight, sintered aluminium parts.

To achieve the reduction of CO_2 emissions required by the regulators, engine manufacturers are placing increasing reliance on low viscosity oils to reduce friction. A direct consequence of this is lower tolerances between the components of hydraulic systems, such as pumps and camshaft phasers, in order to limit leakage. This gives rise to a need for even more precise components in the assembly. At the same time, thinner oils display worse lubrication properties for metal parts that come into contact. This effect can be countered by using more durable materials. SHW has developed solutions for both of these requirements and put them into serial production in 2018 in a number of customer projects.

Moreover, based on the work already performed in recent years in the field of surface densification for gearwheels a number of pleasing new projects have been won and products developed. The combination of flexible shaping provided by powder metallurgy and the performance values of surface densified gearwheels broadens the range of potential applications for this production technology and contributes to its growth.

Projects were also pursued in the advance development stage with the goal of powder metallurgy-based manufacturing of products which mainly have been conventionally produced out of steel to date. The combination of flexible geometry, degrees of freedom and the ability to specifically adjust the material properties results in product enhancements that are relevant for our customers, with the added advantage of a more economical production method.

Demand for lightweight brake discs continues to rise

The Brake Discs business segment has been researching lightweight construction for years. As early as 1994 SHW produced the first composite brake disc, for the BMW M5. The idea is to separate the actual brake friction ring from the "pot", and to produce this pot using aluminium. By using aluminium, a weight reduction of up to 8 kg per vehicle can be achieved. This means a reduction in the unsprung and rotating masses which positively influences the vehicle's driving dynamics while also reducing fuel consumption and CO_2 emissions and increasing the range of electric vehicles.

For a long time, the core issue was which production method to use in order to combine the cast-iron friction ring with the lighter brake disc pot in a low-cost manner. Based on traditional screwing and riveting methods, SHW has created new concepts that are commercially viable. The number of vehicles fitted with SHW composite brake discs has continuously increased over the past few years. As the technology leader, SHW is by far the largest manufacturer of composite brake discs globally today.

The past fiscal year was dominated by a number of application development projects, most of which were related to composite brake discs, but also to conventional monobloc brake discs. In terms of their dimensions, weight and performance, composite brake discs have pushed the design envelope. With a mass of 21 kg, the largest and highest-performance composite brake disc currently featured in SHW's product portfolio has an external diameter of 420 mm and has been designed for a vehicle with an overall weight of approx. 2.9 tonnes and a top speed of 330km/h.

New ground was also broken in relation to the fields of use and application of SHW's composite brake discs. SHW was commissioned by a European maker of premium vehicles in the fiscal year to develop composite brake discs for various electric vehicles.

Moreover, SHW researches and develops technical solutions within the framework of predevelopment and basic research projects to examine such trends as the growing demands placed on future brake discs from electrification. As in the past, the focus here lies on continuing to reduce weight, improve the corrosion resistance of brake discs and reduce particulates caused by braking.

Intellectual property safeguarded on a long-term basis

The SHW Group protects its know-how and intellectual property relating to pumps and other engine components, brake discs, alloys and sintered metal parts through a large number of industrial property rights such as patents, utility models and design patents and by filing registrations for these industrial property rights. These rights are mainly registered in Germany and in various countries of the European Union and, in some cases, in the USA, Canada, Mexico and Asia. Several patents are jointly held with customers (Porsche, BMW and Audi) but may be unrestrictedly used by both parties.

BUSINESS REPORT

Macroeconomic environment

Global economy switches down a gear

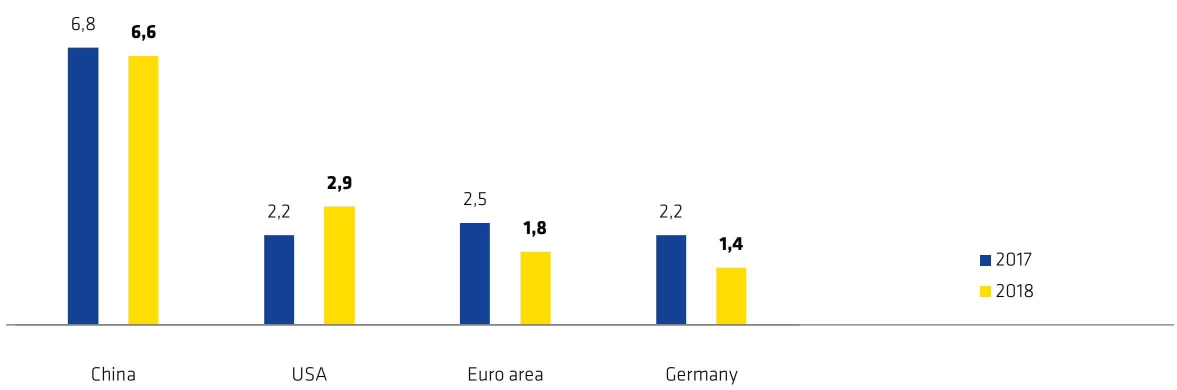
The extremely expansive monetary policies still practised in many regions coupled with the continuing high utilisation of production capacity and stimulus from domestic demand remain favourable conditions for the global economy. Following strong growth in 2017 the economy weakened over the course of 2018. In spring, fiscal stimulus in the US and a stronger upturn in growth in China initially led to rejuvenated global economic growth. However, the trade war initiated by the US and a series of increases in customs tariffs dimmed the mood. The following factors also contributed to a further deterioration in confidence: the persistent uncertainties associated with Brexit, the instability of some state budgets in the euro area and the related worries about the stability of the euro. Some emerging economies which had taken on extra USD debt in recent years suffered from the rise in short-term lending rates in the US. Based on the available data (Bankhaus Lampe, February 2019) the global economy grew by 3.7 per cent (previous year 3.8 per cent).

The economic boom in the US continued in 2018. Gross domestic product grew by 2.9 per cent, noticeably stronger than in the previous year when it grew by 2.2 per cent. The tax reform which came into force at the beginning of the year and higher levels of government spending provided additional growth stimulus. Private consumption, the main pillar of the economy, displayed strong growth until the third quarter, but lost steam thereafter. There was also a further upturn in investment activity in plant and equipment and commercial construction in 2018. The trade conflicts, primarily with China, and the deterioration in the terms and conditions of financing resulted in both companies and private households becoming less optimistic about the future with the economy finally losing a little of its momentum.

The economic boom in the euro area continued in 2018. In comparison to the particularly strong growth rate of 2.5 per cent seen in the previous year, economic activity has nevertheless slowed down noticeably with GDP growth came to 1.8 per cent. After robust growth in the first half-year, a number of extraordinary effects resulted in weaker economic growth in the second half of the year. Firstly the registration problems for German car manufacturers in the course of the roll-out of the WLTP dampened growth noticeably and, secondly, strikes, especially in France, placed a burden on the final quarter and resulted in a sharp downturn in sales. The ultra-expansive policies of the European Central Bank (ECB) that were in place until the end of the year helped buoy up the economy.

The German economy grew for the ninth year in succession. Growth stimulus in 2018 came from domestic consumption, both private and public, as well as investment activity (particularly in plant and equipment and construction). However, growth was much lower than in the previous three years. German exports did not rise as strongly as in previous years. The economic upturn was dampened noticeably, particularly in the second half of the year 2018. This is partly a result of uncertainties surrounding exports (particularly on account of the trade war with the US and Brexit). However, most of all, it is due to extraordinary factors (including the introduction of WLTP). After GDP growth slowed down in the third quarter, the economy stagnated in the final quarter of 2018. As an annual average, GDP rose by 1.4 per cent (previous year 2.2 per cent).

GDP GROWTH BY REGION IN %



Source: Datastream; Forecast for 2018: Bankhaus Lampe Economic Research

According to the official GDP figures for China, economic growth has slowed to 6.6 per cent in 2018 (previous year 6.8 per cent). In the trade war with the US, a number of tit-for-tat increases in customs duties were imposed, which burdened the economy. China's government and central bank reacted quickly, introducing prudent commercial stimulus packages aimed at preventing an even worse slow-down in economic growth. The Chinese administration managed to get to grips with the imbalance in the macro-economy resulting from high levels of over-capacity in industry and also the high credit risks on account of an excessive rise in corporate debt in the previous years.

Industry environment

The key factor for any assessment of the industry environment of SHW is the production of light vehicles (vehicles < 6 tonnes) and the related production of engines and transmissions in Europe, China and North and South America.

Global automobile production slightly down on the previous year

According to data from the research institute IHS, production of light vehicles (vehicles < 6 tonnes) dipped worldwide by 0.5 per cent in 2018, from 95.2 million to 94.7 million units. South America was the only region to see growth.

China reached a production volume of 27.3 million units (down 2.7 per cent). The decrease in Europe can be chiefly attributed to Germany (-8.9 per cent to 5.3 million units), the UK (-9.3 per cent to 1.6 million units) and Turkey (-8.3 per cent to 1.5 million units).

Diesel engines continue to disappear from the market

The production of power trains for light vehicles (< 6 tonnes) decreased worldwide by 0.5 per cent to 94.7 million units in 2018. Production of gasoline engines continued to grow, rising by 0.2 per cent to 75.8 million units. The production of diesel engines, at 17.2 million units, failed to match the level of the previous year by 6.4 per cent. Electric motors recorded a growth rate of 63.8 per cent to 1.4 million units but nevertheless continued to play a minor role.

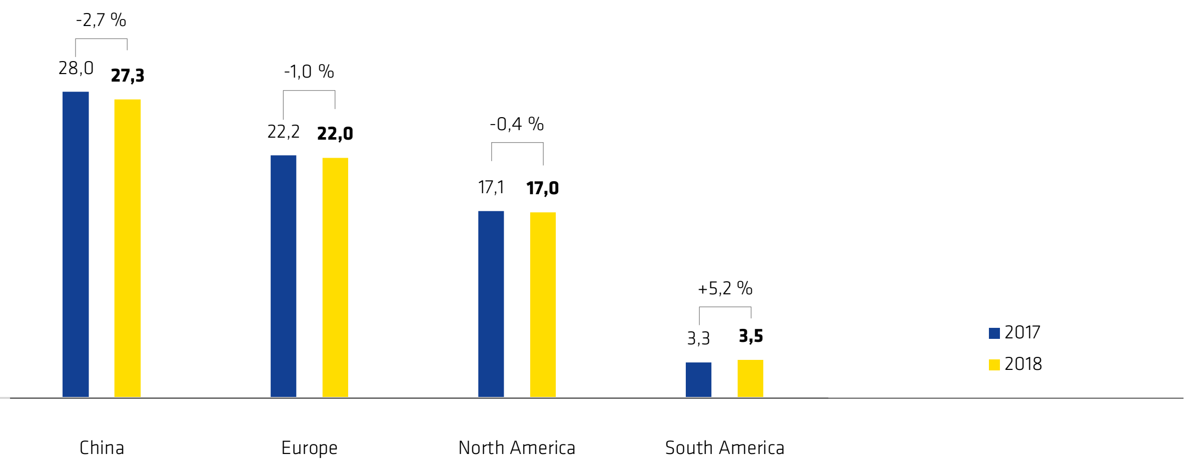
Continuing strong growth in automatic transmissions

In 2018, transmission production decreased worldwide by 0.5 per cent to 94.7 million units. By contrast, production of automatic transmissions rose by 4.5 per cent, from 56.9 million units in the previous year to 59.5 million units.

China was the main source of growth here, with 15.8 per cent growth in automatic transmissions to 13.1 million units.

Production of automatic transmissions in Europe also continued to increase, rising by 1.9 per cent to 9.0 million units. On the other hand, the number of manual transmissions in Europe decreased by 7.4 per cent to 12.5 million units. In North America, production of transmissions rose to 14.4 million units, up 3.5 per cent on the figure of the previous year of 13.9 million units.

LIGHT VEHICLE PRODUCTION BY REGION (IN M UNITS)



Source: IHS – January 2019

Competitive situation and market position of SHW

SHW is one of the leading European manufacturers of engine oil pumps for passenger cars. It has a market share of approx. 25–30 per cent. Its key competitors are Rheinmetall Automotive (Germany), Magna Powertrain (Canada), Mahle (Germany), TCG Unitech (Austria), Stackpole International (Canada) and NIDEC GPM (Japan). In addition, vehicle manufacturers such as Mercedes and VW maintain their own engine oil pump production operations.

In Brazil, Rheinmetall Automotive (Germany), Pricol (India), NIDEC GPM (Japan), Schadek (Brazil) and Aisin (Japan) are the Company's main competitors.

In the NAFTA region, the key competitors of SHW Pumps & Engine Components Inc. are Magna Powertrain (Canada), Stackpole International (Canada) and, to a lesser degree, Melling (USA) and SLPT (USA). Japanese transplants are mainly supplied by the Japanese automotive suppliers Aisin and Yamada.

The other market players facing the Chinese subsidiary, SHW Automotive Pumps Kunshan Ltd., are primarily Magna Powertrain (Canada), Hunan Oil Pumps (China), Fuxin Dare (China), Rheinmetall Automotive (Germany), ZF-TRW (Germany) and Stackpole International (Canada).

In the field of primary mechanical transmission oil pumps, Magna Powertrain (Canada) is the leading competitor worldwide. Other significant competitors include ZF-TRW (Germany), NIDEC GPM (Japan), SLPT (USA) and Aisin (Japan). Our competitors in Asian countries are Hunan Oil Pumps (China) and Youngshin Precision (Korea). In addition, Chrysler maintains its own transmission oil pump production operation.

Competitors in the field of electric auxiliary transmission oil pumps include Magna Powertrain (Canada), ZF-TRW (Germany), Rheinmetall Automotive (Germany), NIDEC GPM (Japan), SLPT (USA) and the German firms Brose, EBM-Papst, Bühler Motor, FTE Automotive and Continental.

In Europe, the Truck & Off-Highway division mainly competes with Rheinmetall Automotive (Germany), NIDEC GPM (Japan), Concentric (Sweden), Rickmeier (Germany) and Kracht (Germany).

In the field of powder metallurgy, GKN (United Kingdom), Miba (Austria), PMG (Germany), Schunk Sintermetalltechnik (Germany), Ames (France), Porite (Taiwan) and Stakepole (Canada) are the main competitors.

In the Brake Discs segment, SHW is an important manufacturer in Europe. Its main competitors are Fritz Winter (Germany), Buderus Guss (Germany), Brembo (Italy), Fagor Ederlan Group (Spain), Lingotes Especiales (Spain) and Fonderia di Torbole (Italy).

Goal attainment in 2018

The group sales of € 420.9 million reported by SHW AG lay at the lower end of the corridor announced in the ad hoc announcement of 10 July 2018 of between € 420 million and € 440 million. The original sales forecast was based on assumed group sales of between € 450 million and € 470 million. However, this had to be adjusted downwards in light of the weaker demand for diesel vehicles, the transition to the WLTP emissions testing procedure and flatter ramp-up curves for various projects.

The Group's EBITDA margin of 9.4 per cent prior to non-recurring effects lay in the lower third of the corridor of 9 to 10 per cent announced in the ad hoc announcement of 10 July 2018. In the original forecast it was assumed that the Group's EBITDA margin would lie between 11 per cent and 12 per cent without any impact from non-recurring effects. This had to be adjusted due to the correction of the sales forecast.

The Group's EBITDA prior to non-recurring effects comes to € 39.4 million, also within the corresponding corridor.

Investments in property, plant and equipment and intangible assets of € 48.7 million are significantly above the high end of the target corridor of € 35 million to € 37 million. Depreciation and amortisation of property, plant and equipment and intangible assets of € 24.0 million is slightly below the planned range of € 25 million to € 27 million.

As an annual average, the net working capital ratio of 14.7 per cent (previous year 14.6 per cent) missed the target of 11 to 12 per cent.

At € 311.7 million, sales of the Pumps and Engine Components business segment missed the lower end of the targeted corridor of € 315 million to € 330 million. The main factor underlying this development was lower unit sales of products for diesel engines.

With sales of € 109.2 million the Brake Discs business segment lies within the higher end of the targeted corridor of between € 105 million and € 110 million. This is primarily due to unit sales outstripping expectations.

Course of business

Financial performance

Group sales up 5.1 per cent

Group sales amounted to € 420.9 million in 2018, 5.1 per cent above the previous year's figure of € 400.6 million. Both business segments contributed to this sales increase.

Cost of sales ratio virtually unchanged

The cost of sales increased in line with sales to € 369.0 million (previous year € 351.1 million). At 87.7 per cent (previous year 87.6 per cent) the cost of sales ratio is virtually unchanged. The gross margin slipped slightly to 12.3 per cent (previous year 12.4 per cent). Non-recurring effects of € 1.9 million, primarily on account of impairment losses recorded on non-current assets and inventories, burdened the cost of sales in 2018.

Selling and administrative expenses influenced by internationalisation and non-recurring effects

Selling expenses increased in fiscal year 2018 by € 0.4 million compared to the previous year to € 12.2 million. The ratio of selling expenses to revenue remains unchanged on the previous year at 2.9 per cent. General administrative expenses increased by € 2.2 million to € 17.1 million. The ratio of administrative expenses to sales therefore rose from 3.7 per cent to 4.1 per cent. Both of these factors are related to the internationalisation strategy of the SHW Group and the establishment and expansion of international locations. In addition, non-recurring effects of € 1.2 million related to the change in two positions on the Management Board reduced the operating result.

Research and development costs increased

Research and development costs expensed through profit and loss of € 11.1 million in fiscal year 2018 matched the level of the previous year. In addition, development costs of € 4.8 million (previous year € 1.4 million) were capitalised as intangible assets, as it is more likely than not that they will be amortised in the price of parts that have already gone into serial production or are about to. The ratio of R&D expenses (including capitalised development costs) to sales increased to 3.8 per cent (previous year 3.1 per cent). Amortisation of capitalised development costs amounted to € 1.5 million in fiscal year 2018 (previous year € 2.3 million). Additional development services were billed within the scope of individually contracted customer orders. Electrically-driven transmission oil pumps are the core area of development in the Pumps and Engine Components business segment. The focus of the Brake Discs business segment lay on the continued development of high-quality composite brake discs and other lightweight concepts, improved corrosion protection and the reduction of particulates released during braking.

Other operating income and expenses

At €-4.2 million, the net balance of other operating expenses and income is € 10.0 million down on the level of the previous year of €+5.8 million. The main factors in this development were non-recurring expenses totalling € 6.3 million from litigation and the associated legal expenses and consulting fees incurred in fiscal year 2018. Reference is made to the comments on legal risks in the risk report of the group management report. Other non-recurring operating income from indemnification payments and settlements of € 1.4 million had a positive effect.

KEY PERFORMANCE INDICATORS: SHW GROUP

K EUR	2018	2017	Change %
Sales	420,936	400,584	5.1%
EBITDA	31,342	41,271	-24.1%
as % of sales	7.4%	10.3%	-
EBIT	7,314	17,501	-58.2%
as % of sales	1.7%	4.4%	-
Net profit	3,131	10,159	-69.2%
Equity	124,372	124,904	-0.4%
Equity ratio	43.4%	48.8%	-
Net working capital [1]	53,789	43,890	22.6%
as % of sales	12.8%	11.0%	-
Investments	48,671	34,550	40.9%
as % of sales	11.6%	8.6%	-

[1] Excluding prepaid expenses for inventories, see Note (3). Reclassification previous year accordingly.

Adjusted EBITDA margin of 9.4 per cent

Consolidated EBITDA came to € 31.3 million in fiscal year 2018 compared to € 41.3 million in the previous year. At 7.4 per cent, the EBITDA margin is below the previous year's figure of 10.3 per cent. The trends in the margins of the two business segments differed. We refer to the comments in the section on the business segments.

The non-recurring effects mentioned above totalling €-8.0 million reduced the EBITDA margin by 2.0 percentage points. Without considering these non-recurring effects, the EBITDA margin would have amounted to 9.4 per cent.

At € 24.0 million, depreciation and amortisation was € 0.3 million or 1.1 per cent above the level of the previous year.

Consolidated EBIT decreased from € 17.5 million to € 7.3 million. The corresponding EBIT margin decreased from 4.4 per cent to 1.7 per cent.

Higher financial expenses

The net financial result comes to a net expense of € 1.5 million. Interest expenses for pension obligations remained at practically the same level as the prior year and were countered by higher interest expenses for the Group's debt finance on account of higher borrowings.

Sharp rise in the tax rate

Income taxes amounted to € 2.7 million in 2018 (previous year € 5.0 million). The SHW Group's tax rate amounted to 45.9 per cent for fiscal year 2018, compared to 32.8 per cent in the previous year. The tax rate, which is significantly above the expected tax rate of 28.4 per cent, is due to extraordinary effects in the two fiscal years: in 2017 there was a loss upon deconsolidation that had no tax impact, in addition to the full recognition of deferred tax assets on tax loss carry-forwards at foreign subsidiaries. In 2018, despite a decrease in earnings before tax, the effect of not recognising deferred tax assets on the tax losses of one foreign subsidiary had an even stronger impact on the tax rate. Reference is made to the tax reconciliation and the notes on income taxes in the notes to the consolidated financial statements (Note 21).

Decline in the Group's net earnings

Earnings after tax decreased by € 7.0 million to € 3.1 million due to the (non-recurring) effects outlined above. Earnings per share decreased from € 1.58 to € 0.49. The weighted average number of shares used to calculate earnings per share remained unchanged on the previous year at 6,436,209 shares in fiscal year 2018.

Business segments

Pumps and Engine Components

Sales at € 311.7 million

The Pumps and Engine Components business segment achieved sales of € 311.7 million in fiscal year 2018 (previous year € 305.9 million). Sales in the Passenger Car division declined from € 237.7 million to € 227.0 million. The growing contribution of foreign operations to sales was countered by a decline in sales in Germany. The latter trend is primarily attributable to weaker sales for diesel applications.

The high-margin Truck & Off-Highway division recorded an increase in sales of 13.2 per cent to € 36.9 million (previous year € 32.6 million). The Powder Metallurgy division increased its sales by 8.2 per cent to € 33.1 million (previous year € 30.6 million). Lust Hybrid-Technik GmbH (LHT), which was consolidated for the full year for the first time, contributed € 14.7 million (previous year [consolidated for five months] € 5.1 million) to the sales of the business segment.

KEY PERFORMANCE INDICATORS: PUMPS AND ENGINE COMPONENTS

K EUR	**2018**	2017	Change %
Sales	311,705	305,883	1.9%
EBITDA	27,169	37,375	–27.3%
as % of sales	8.7%	12.2%	-
EBIT	8,941	18,206	–50.9%
as % of sales	2.9%	6.0%	-
Investments	34,377	23,285	47.6%
as % of sales	11.0%	7.6%	-

Sharp decrease in EBITDA and EBITDA margin

The segment EBITDA of € 27.2 million is down € 10.2 million on the previous year (€ 37.4 million). The EBITDA margin decreased from 12.2 per cent to 8.7 per cent.

The main factors causing the lower margin were non-recurring effects, which burdened the Pumps and Engine Components segment by € 3.6 million. Without these non-recurring effects, the EBITDA margin would have amounted to 9.9 per cent.

Mainly due to the flatter than expected start-up curve of a project in China – for which the customer was responsible – the sales and earnings contribution of the Chinese subsidiary were significantly below expectations. The sales and earnings trends for the Group's foreign locations in Canada and Brazil were in line with expectations. The first customer certification of the location in Romania was concluded successfully and production started on the first jobs relocated to the plant. Expenses for the forward-looking establishment and expansion of foreign plants are included in the earnings of the operating segment.

Depreciation and amortisation in the Pumps and Engine Components business segment of € 18.2 million is € 0.9 million below that of the previous year.

Earnings before interest and tax (EBIT) of the Pumps and Engine Components business segment decreased accordingly by € 9.3 million or 50.9 per cent compared to the previous year to € 8.9 million (previous year € 18.2 million). The EBIT margin amounts to 2.9 per cent (previous year 6.0 per cent).

Brake Discs

Sales increased to €109.2 million

In fiscal year 2018, sales in the Brake Discs business segment increased by 15.3 per cent compared with the previous year to €109.2 million (previous year €94.7 million).

In sum, sales of brake discs were up 5.2 per cent on the previous year. The higher-priced composite brake disc product line reached a new sales record of almost 889,000 units (up 48.6 per cent on the previous year).

KEY PERFORMANCE INDICATORS: BRAKE DISCS

K EUR	2018	2017	Change %
Sales	109,231	94,701	15.3%
EBITDA	10,690	7,289	46.7%
as % of sales	9.8%	7.7%	-
EBIT	5,649	3,151	79.3%
as % of sales	5.2%	3.3%	-
Investments	12,823	10,140	26.5%
as % of sales	11.7%	10.7%	-

Improvement in EBITDA and EBITDA margin

The segment's earnings before interest, tax, depreciation and amortisation (EBITDA adjusted) increased by €3.4 million in fiscal year 2018 to €10.7 million. The EBITDA margin amounts to 9.8 per cent (previous year 7.7 per cent). Volume and product mix effects, coupled with improved productivity had a positive impact on the operating result.

Depreciation and amortisation in the Brake Discs business segment of €5.0 million is €0.9 million above that of the previous year (€4.1 million).

Correspondingly, earnings before interest and tax (EBIT) increased by €2.5 million to €5.6 million (previous year €3.2 million). The EBIT margin, measured against sales, increased to 5.2 per cent, compared to 3.3 per cent in the previous year.

Net assets

NET ASSET POSITION

K EUR	2018	2017	Change absolute	Change %
Non-current assets	**163,610**	**139,204**	**24,406**	**17.5%**
of which other intangible assets	11,380	7,509	3,871	51.6%
of which property, plant and equipment	134,742	114,167	20,575	18.0%
of which other (financial) assets	3,836	3,201	635	19.8%
Current assets	**123,184**	**116,893**	**6,291**	**5.4%**
of which inventories[1)]	58,816	44,418	14,398	32.4%
of which trade receivables	50,943	45,825	5,118	11.2%
of which liquid funds	5,003	3,868	1,135	29.3%
Total assets	**286,794**	**256,097**	**30,697**	**12.0%**

[1)] Excluding prepaid expenses for inventories, see Note (3). Reclassification previous year accordingly.

Total assets increased by 12.0 per cent

At the end of the fiscal year 2018 total assets were 12.0 per cent up on the previous year, a rise of €30.7 million.

In particular, internally generated assets associated with development costs led to an increase of €3.9 million in other intangible assets.

A record level of capital expenditure (see cash flows, capital expenditure) led to a rise of €20.6 million in property, plant and equipment.

This was partly financed by the cash of €16.2 million received at the beginning of 2018 to settle the outstanding purchase installment reported under current other financial assets as at 31 December 2017 related to the sale of the share held in the joint venture, SHW Longji Brake Discs (LongKou) Co., Ltd., (which had been consolidated using the equity method) in the fourth quarter of 2017.

An amount of €5.6 million of the disproportionate increase in inventories can be attributed to foreign operations (the Chinese subsidiary in particular) due to the increase in business volume. Short-term fluctuations in the calls placed by customers made it difficult throughout the Group to optimize inventories, for both sales and purchases.

The increase in trade receivables as at the reporting date is largely a result of the significant increase in the November and December sales of the SHW Group compared to the same period of the previous year (up € 3.9 million to € 70.7 million). In addition, longer terms of payment in China also had an effect.

We refer to the cash flow statement for more information on the developments in cash and cash equivalents.

Cash flows

Financial strategy

The three strategic areas of focus (see the section on the background of the Group, goals and strategies) are underpinned by a long-term financial strategy. The consistent objective of this strategy is to safeguard the Company's strategic and operational capacity to act at all times.

Due to its current financial stability, SHW has created financial headroom that gives it a significant competitive advantage over other automotive suppliers and will safeguard its long-term growth options. Based on this financial profile, SHW AG is a trustworthy and respected partner for its customers and business partners worldwide. Its financial strategy consistently respects the following parameters:

- Securing a stable long-term capital structure – an equity ratio of at least 30 to 40 per cent

- Ratio of net financial debt to EBITDA (also in case of non-organic growth): less than 2.5

- Securing a sound cash base: On 4 August 2017 SHW AG entered into a new syndicated loan agreement securing credit lines totalling € 80.0 million. The syndicate is led by Landesbank Baden-Württemberg and UniCredit Bank AG as the joint mandated lead arrangers. The creditor banks are Baden-Württembergische Bank, UniCredit Luxembourg S.A., Commerzbank Aktiengesellschaft, DZ BANK AG and Kreissparkasse Ostalb.

  The syndicated loan agreement has an agreed term of five years and options for renewal. The first renewal option was exercised in fiscal year 2018. The syndicated financing arrangement is not secured. The interest rate is variable and is based on EURIBOR plus an interest margin between 0.7 per cent and 1.4 per cent per annum, depending on the agreed covenants. The covenants relate to (a) net gearing (ratio of net debt to EBITDA) and (b) the equity ratio. Both covenants were complied with as at 31 December 2018. As at 31 December 2018, the credit promised under the existing syndicated loan agreement was drawn on by an amount of € 30.0 million in the form of three short-term loans, overdrafts of € 7.7 million and bank guarantees totalling € 2.4 million.

  In addition, the Company has the opportunity to issue new shares or to buy back its own shares. Details are presented in the section on corporate governance, disclosures required by the law on corporate acquisitions.

- A continuous, results-oriented dividend policy – with distributions amounting to between 30 and 40 per cent of the consolidated net profit for the year, allowing for statutory restrictions and considering the financing requirements of the SHW Group.

SHW met all of the key points of its financial strategy in fiscal year 2018.

FINANCIAL POSITION

K EUR	**2018**	2017	Change absolute	Change %
Equity	**124,372**	**124,904**	**-532**	**-0.4%**
Non-current liabilities and accruals	**47,357**	**40,348**	**7,009**	**17.4%**
of which liabilities to banks	5,409	1,593	3,816	239.5%
of which other financial liabilities	6,046	2,633	3,413	129.6%
Current liabilities and accruals	**115,065**	**90,845**	**24,220**	**26.7%**
of which liabilities to banks	38,674	20,445	18,229	89.2%
of which trade payables and contract liabilities	55,970	46,353	9,617	20.7%
of which other pensions	5,663	10,831	-5,168	-47.7%
Total assets	**286,794**	**256,097**	**30,697**	**12.0%**

Equity ratio at 43.4 per cent

The Group's equity as at 31 December 2018 has increased by the amount of the Group's comprehensive income after tax amounting to € 2.7 million. On the other hand, the profit distribution of € 3.2 million made in 2018 for fiscal year 2017 had the opposite effect. Due to the sharp rise in the balance sheet total, the equity ratio decreased from 48.8 per cent to 43.4 per cent.

Non-current liabilities and provisions increased, primarily due to a long-term loan for a production hall and long-term lease liabilities for land and production and administration buildings in Romania.

Current liabilities, provisions and accruals increased, liabilities to banks in particular, on account of the use of the syndicated bank loan. The increase in trade payables and contract liabilities mainly results from the much higher level of business and investing activity in November and December 2018 in comparison to the last two months of the previous year. The utilization of provisions recognized for business-related obligations led to a corresponding decrease in current other provisions.

Net working capital ratio slightly above the target corridor

The net working capital ratio, measured against sales of the last twelve months, increased from 11.0 per cent in the previous year to 12.8 per cent and therefore lies within the mid-term targeted corridor of 11 per cent to 12 per cent.

NET WORKING CAPITAL

K EUR	2018	2017	Change absolute	Change %
Inventories [1]	58,816	44,418	14,398	32.4%
Trade receivables	50,943	45,825	5,118	11.2%
Trade payables	-54,521	-46,353	-8,168	17.6%
Contract liabilities	-1,449	0	-1,449	-
Net working capital	**53,789**	**43,890**	**9,899**	**22.6%**
as % of sales	12.8%	11.0%	-	-

[1] Excluding prepaid expenses for inventories, see Note (3). Reclassification previous year accordingly.

Operating cash flow significantly below previous year's level

At € 7.0 million, cash flow from operating activities in fiscal year 2018 was significantly below the previous year's level of € 31.4 million. This is chiefly attributable to the increase in working capital.

The cash flow from investing activities related to property, plant, and equipment and intangible assets of € 40.0 million was approximately € 7.8 million above the figure of the previous year, mainly on account of strategic investments, developments and assembly lines for customer projects in Germany and at the foreign locations.

Free cash flow from operations decreased by € 32.2 million to €-33.0 million (previous year €-0.8 million).

Total free cash flow of €-16.8 million (previous year €-9.9 million) was affected by the cash payment of € 16.2 million received at the beginning of 2018 from the sale of the investment in the Chinese joint venture. In 2017, total free cash flow was affected by two major cash payments: the first installment of the purchase price paid for the subsidiary, LHT, and a second capital injection made to the Chinese joint venture (which has since been sold).

DERIVATION OF THE CHANGE IN NET LIQUIDITY

K EUR	2018	2017
Cash flow from operating activities	6,988	31,433
Cash flow from investing activities (intangible assets and property, plant and equipment)	-39,958	-32,190
Operating free cash flow	**-32,970**	**-757**
Cash flow from investing activities (subsidiaries, financial assets)	16,219	-9,118
Total free cash flow	**-16,751**	**-9,875**
Other items (particular dividend payments)	-4,159	-9,928
Change in net liquidity	**-20,910**	**-19,803**

Net financial liabilities of €-39.1 million

The change in net liquidity led to net financial liabilities of € 39.1 million as at 31 December 2018 (previous year € 18.2 million).

In addition to the total free cash flow described above (€-16.8 million), dividend payments (€-3.2 million) and payments for finance leases (€-0.9 million) results in a decrease of € 20.9 million in net liquidity.

As at 31 December 2018, the SHW Group had cash and cash equivalents of € 5.0 million (previous year € 3.9 million). Liabilities to banks of € 44.1 million (previous year € 22.0 million) consist of three short-term loans amounting to € 30.0 million and overdrafts of € 7.7 million drawn under the syndicated loan agreement as well as four bullet loans amounting to € 6.4 million. We refer to Notes (34) and (38) in the notes to the consolidated financial statements for more information.

Capital expenditure at a record level

Additions to property, plant and equipment and intangible assets amounted to € 48.7 million in fiscal year 2018 (previous year € 34.6 million). The discrepancy between the reported additions from property, plant and equipment and intangible assets and payments made in the consolidated cash flow statement reflects the deferral of payments beyond the reporting date and non-cash asset additions funded by finance leases.

The Pumps and Engine Components business segment recorded additions of € 34.4 million (previous year € 23.3 million), including investments for research and development amounting to € 4.8 million (previous year € 1.4 million). These investments focused on new assembly lines and test stations as well as the production and administration buildings in Romania. The Brake Discs business segment invested a total of € 12.8 million (previous year € 10.1 million) with the focus placed on composite brake discs and included a new aluminium casting foundry, a coating plant and a new production hall.

In addition to the cash flow from operating activities planned for fiscal year 2019, there are sufficient financing sources available from the syndicated bank loan and permitted baskets, such as additional long-term debt financing, to finance the investments already commissioned (purchase obligations for non-current assets) and the investments planned for fiscal year 2019.

ROCE down on account of reduced earnings and expansion

ROCE

K EUR	**2018**	2017
Goodwill	7,441	7,441
Customer base	826	923
Other intangible assets	11,380	7,509
Property, plant and equipment	134,742	114,167
Deferred tax assets	5,385	5,963
Other (financial) assets (non-current)	3,836	3,201
Inventories	58,816	44,418
Trade receivables	50,943	45,825
Income tax assets	1,425	0
Other (financial) assets	6,997	22,782
Capital employed asset item	**281,791**	**252,229**
Deferred tax liabilities	–3,015	–2,247
Other pensions (non-current)	–45	–45
Other financial liabilities (non-current and non-interest bearing)	–326	–330
Other liabilities (non-current)	–643	–1,034
Trade payables	–54,521	–46,353
Contract liabilities	–1,449	0
Other financial liabilities (current and non-interest bearing)	–5,032	–4,602
Income tax liabilities	–99	–74
Other pensions (current)	–5,663	–10,831
Other liabilities (current)	–8,523	–8,211
Capital employed liability item	**–79,316**	**–73,727**
Capital employed	202,475	178,502
EBIT	7,314	17,501
Profit of joint ventures accounted for using the equity method	0	–1,170
EBIT including profit of joint ventures accounted for using the equity method	7,314	16,331
ROCE	**3.6%**	**9.1%**

Due to the uniform presentation within the Group, (see Note (3) in the notes to the consolidated financial statements) service anniversary bonuses and semi-retirement obligations are no longer considered as a credit item in the calculation of capital employed. The calculation of ROCE for the previous year was adjusted accordingly.

The return on capital employed (ROCE) decreased from 9.1 per cent to 3.6 per cent in fiscal year 2018.

The decrease in ROCE is chiefly due to the increase in non-current assets and working capital on account of the continued expansion of the SHW Group. Moreover, non-recurring effects also had a burden on earnings in fiscal year 2018.

Overall statement on the economic position

Given the circumstances, the Management Board of SHW AG considers the group's business performance in 2018 to be satisfactory on the whole. As previously announced, the group's sales of € 420.9 million (previous year € 400.6 million) and the EBITDA margin prior to non-recurring effects (9.4 per cent) lie in the lower half of the range expected for the fiscal year. After taking account of the slight increase in depreciation and amortisation, EBIT of € 7.3 million was generated in the year (previous year € 17.5 million).

After deducting financial expenses and taxes on income, the net earnings of the Group come to € 3.1 million (previous year € 10.2 million).

The net working capital ratio, measured against sales of the last twelve months, comes to 12.8 per cent (previous year 11.0 per cent) and therefore lies slightly above the targeted corridor of 11 per cent to 12 per cent.

With an equity ratio of 43.4 per cent and net financial liabilities of €-39.1 million, SHW's financial profile remains above average for its industry with sufficient free credit lines available to it.

With its innovative product portfolio and its current orders, the Management Board of SHW AG considers the group to be well positioned to achieve stronger growth than the underlying automobile market from 2019 onwards. Moreover, the Group has various equity and debt instruments at its disposal to build on its market position in selected fields of business and regions, also via acquisitions and partnerships.

ANNUAL FINANCIAL STATEMENTS OF SHW AG

The combined management report of the Group and of SHW AG for fiscal year 2018 has been combined in accordance with Section 315 (5) of the German Commercial Code (HGB) in conjunction with Section 298 (2) HGB. The annual financial statements and the combined management report of the Group and of SHW AG are simultaneously published in the Federal Gazette (Bundesanzeiger).

The following figures and comments refer to the annual financial statements of SHW AG prepared in accordance with the German Commercial Code (HGB) and the German Stock Corporation Act (AktG).

Comments on financial performance

INCOME STATEMENT

K EUR	**2018**	2017
1. Sales	**1,000**	**1,000**
2. Cost of sales	-1,000	-1,000
3. Gross profit	**0**	**0**
4. General administrative expenses	-4,546	-3,378
5. Other operating income	1,671	729
6. Other operating expenses	-1,651	-827
7. Income from investments	9,715	18,611
8. Income from tax levies paid by controlled companies	660	2,570
9. Income from loans of financial assets	59	39
10. Other interest and similar income	1,004	663
11. Interest and similar expenses	-211	-442
12. Income taxes	-1,448	-5,774
13. Earnings after tax	**5,253**	**12,191**
14. Other taxes	-23	-26
15. Net profit for the year	**5,230**	**12,165**
16. Profit carried forward	59	12
17. Net retained profit	**5,289**	**12,177**

Earnings after income tax decreased from € 12.2 million in the previous year to € 5.3 million. This is largely attributable to the following factors:

- Increase in general administrative expenses due a change in two board positions
- The decrease in investment income is on account of the lower profits transferred by SHW Automotive GmbH.
- Improvement in the financial result on account of higher receivables from SHW Automotive GmbH.

Income from profit and loss transfers, shown under investment income, was affected, in particular, by the effects on the result of operations outlined above in both business segments. In this respect, we refer to our comments on the financial performance of the Pumps and Engine Components and Brake Discs business segments.

Comments on net assets and financial position

STATEMENT OF FINANCIAL POSITION (SUMMARISED)

K EUR	**31.12.2018**	31.12.2017
Non-current assets	146,159	144,339
Current assets, including deferred expenses	31,176	30,711
Total assets	**177,335**	**175,050**
Equity	175,232	173,220
Accruals and liabilities	2,103	1,830
Total capital	**177,335**	**175,050**

Fixed assets mainly comprise the unchanged equity investment held in SHW Automotive GmbH of € 141.3 million.

Current assets mainly comprise receivables from profit transfers of € 9.7 million (previous year € 18.6 million) as well as an interest-bearing loan extended to SHW Automotive GmbH of € 18.9 million (previous year € 11.0 million). CIT and VAT credits increased from € 0.5 million to € 2.0 million.

SHW AG's equity increased by € 2.0 million compared with the reporting date of the previous year. This increase resulted from the net profit for fiscal year 2018 of € 5.2 million less a dividend payment to the shareholders of € 3.2 million. The corresponding equity ratio slipped slightly from 99.0 per cent to 98.8 per cent.

Provisions, liabilities and accruals have improved marginally on account of withheld capital gains tax.

Since SHW AG only performs a holding function, its key performance indicators are limited to its investment income.

In terms of its business, SHW AG is essentially subject to the same risks and opportunities as the SHW Group. In general, SHW AG participates in its subsidiaries' risks and opportunities in line with its respective ownership interest. These are outlined in the "Risk report" and "Opportunities report" sections.

Der Jahresüberschuss 2018 lag – wegen zuvor dargestellter Effekte – unter den Erwartungen.

For 2019 we are forecasting a much higher net profit in comparison to 2018 on account of the fact that extraordinary administrative burdens incurred in 2018 no longer apply and an improvement in the earnings of SHW Automotive GmbH is budgeted. Due to the interdependences of SHW AG with the group companies, we refer to our comments on the SHW Group in the "Outlook" section.

RISK REPORT

Risk management principles

A large number of risks and opportunities arise for the SHW Group within the scope of its business activities which may both positively and negatively affect its results of operations, net assets and financial position.

We understand risk to mean possible future developments or events which could result in a negative divergence from a forecast or target for the Company. We present the most important risks in this risk report, broken down into four risk categories and rated on the basis of their probability and potential financial impact.

Organisation of risk management

The Management Board of SHW AG is responsible for risk management and for setting the risk management principles. It decides on how to manage risks and the scope of the risks to be borne by SHW.

The Management Board regularly notifies the Supervisory Board in writing of the day-to-day development of business and the material risks of the Company as well as risk management issues.

A Group Risk Manager is responsible for the centrally controlled risk management process. This officer monitors all risk management activities, aggregates risks at group level and reviews the plausibility and completeness of the reported risks. In addition, he is responsible for the continuous development of the risk management system. The Group Risk Manager reports directly to the Management Board.

At the business segment or plant level, risk officers – who are generally managers below the Management Board level – are responsible for the management and monitoring of individual risks.

To ensure that our risk management system is as effective as possible, we utilise an integrated risk management system which identifies, assesses, manages, monitors and systematically reports risks. The core objective of our risk management system is to safeguard and raise the Company’s enterprise value.

General risk management process

SHW’s risk management process comprises four steps:

- Risk identification and risk inventory
- Risk assessment
- Risk management
- Risk monitoring and reporting

Risk identification and inventory

In order for risks to be recorded as completely as possible, risk categories and areas have been defined for the whole group and persons assigned responsibility for recording these risks (risk officers).

The risk officers are required to identify any risks of relevance for SHW four times a year and to document these risks in a formal risk inventory. Significant changes in risks identified over the course of the year are communicated to the Management Board by means of established reporting channels.

Risk assessment

The risk officers also assess risks by means of the formal risk inventory. The expected loss is determined for each risk in both gross and net terms. The first value indicates the expected financial impact on EBITDA before any risk-mitigating measures. The second value indicates the expected financial impact after implementation of risk-mitigating measures.

Risk management

Within their respective areas of responsibility, the risk officers are responsible for developing and implementing risk-mitigating measures. Decisions on implementation are made either by the risk officers in consultation with the Management Board or by the Management Board alone. Four different approaches are applied in this respect:

- Risk avoidance
- Risk reduction, with the goal of minimising the financial impact or the probability of occurrence
- Risk transfer to third parties
- Risk acceptance

Risk monitoring and reporting

Within their area of responsibility, each risk officer is required to monitor current and potential risks so as to be able to react promptly if necessary. Risk reporting comprises:

- Regular reporting on the risk situation
- Ad hoc risk reporting

Regular risk reporting comprises a two-step process. In the first step, the risk officers report risks to corporate risk management on a quarterly basis. In the second step, the corporate risk management of the SHW Group aggregates the reported risks and likewise provides the Management Board of SHW AG with a consolidated quarterly group-wide report based on the data provided by the risk officers. If there are any significant changes to previously reported risks or newly identified risks, reporting is also made on an ad hoc basis, outside the scope of this routine quarterly reporting. This also applies if matters are identified which must be brought to the notice of the Management Board immediately on account of their seriousness. For its part, the Management Board reports to the Supervisory Board of SHW AG on a quarterly basis.

The SHW Group guidelines on risk management and control instruments are regularly reviewed and refined.

Internal monitoring and risk management system in relation to the SHW Group's financial reporting process – disclosures in accordance with Sections 289 (4), 315 (4) HGB and related explanations

Pursuant to Sections 289 (4) and 315 (4) HGB, SHW AG is obliged to describe the key characteristics of its internal monitoring and risk management system in its management report and combined group management report, particularly in relation to the Group's financial reporting process.

The reporting-related internal monitoring and risk management system is intended to ensure that all events and transactions are fully included and correctly estimated and calculated within the scope of the Company's financial accounting and are presented in the financial reporting of SHW AG and its subsidiaries in accordance with statutory and contractual requirements as well as internal guidelines. Group-wide compliance with statutory and internal rules and regulations is a prerequisite for this.

The Management Board determines the scope and orientation of the systems implemented for this purpose based on SHW AG's specific requirements. These requirements are regularly reviewed and updated if necessary. However, it should be noted that despite adequate and functioning systems it is not possible to guarantee complete certainty in identifying and managing risks.

Almost all of the SHW Group's accounting processes are centralised at the Company's headquarters in Aalen. This facilitates the application of standardised and uniform processes and the use of standardised systems for financial accounting.

The corporate accounting department compiles the consolidated financial statements for the SHW Group – with the exception of LHT – as well as the annual financial statements for all German group companies and reports consolidated financial information to the Management Board every month. The foreign group companies each compile their annual financial statements locally in SAP. Where necessary, more complex issues affecting the financial statements are assessed with the assistance of external consultants. In addition, the principle of dual control (segregation of duties) applies to all accounting processes.

The controlling department regularly reviews the completeness and accuracy of the information detailed in the financial statements as well as any deviations from the business plan and forecasts made during the year and reports the results to the Management Board each month.

SHW AG already has an appropriate system of internal controls comprising various internal guidelines which cover compliance issues, authorisation concepts for orders and contracts, signing authorities and internal accounting guidelines.

The internal accounting guidelines contain the framework for a uniform group-wide reporting system for consolidation purposes to ensure uniform accounting treatment in the SHW Group. These guidelines are updated on a regular basis. Within the course of its monitoring activities, the Supervisory Board regularly addresses key accounting issues and the related system of internal controls and the risk management system.

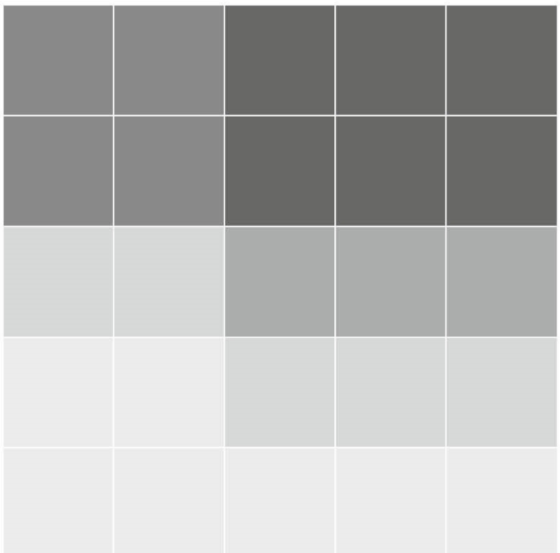
Types of risk	Probability	Financial impact
Strategic risks		
Macroeconomic and industry risks	Medium	High
Market structure risks	High	High
Risks of consolidation in the industry and competition	Low	Medium
Operating risks		
Market penetration risks	Low	High
Customer risks	Low	High
Delivery call-off risks	High	High
New product launches and project risks	Low	High
Cost risks	Medium	Medium
Supplier risks	Low	High
IT risks	Low	High
Acquisition and integration risks	Low	Medium
Environmental risks	Very low	Medium
Legal and compliance risks		
Legal risks	Low	High
Compliance risks	Very low	High
Tax risks	Low	Low
Financial risks		
Counterparty credit risk	Very low	Low
Financing risks	Very low	High
Currency risks	Low	Medium
Interest risks	Very low	Minimal
Impairment risks	Very low	High

PROBABILITY

Very low	Low	Medium	High	Very high
< 10 %	≥ 10 % to < 30 %	≥ 30 % to < 50 %	≥ 50 % to < 80 %	≥ 80 %

FINANCIAL IMPACT

Existential Harmful effects on business development, results of operations, net assets and financial position	> € 10.0 million
High Considerable effects on business development, results of operations, net assets and financial position	≤ € 10.0 million
Medium Some effects on business development, results of operations, net assets and financial position	≤ € 5.0 million
Low Limited effects on business development, results of operations, net assets and financial position	≤ € 1.0 million
Minimal Minor effects on business development, results of operations, net assets and financial position	< € 0.25 million



Strategic risks

Macroeconomic and industry risks

The business development of the SHW Group as a supplier for the automobile industry is directly and substantially dependent upon the production of new vehicles as well as engines and transmissions. For the year 2019, the IHS research institute currently predicts a very moderate increase in the number of light vehicles, engines and transmissions produced worldwide (see the Forecast, Outlook for the Overall Economy and for the Industry).

The Pumps and Engine Components business segment is dependent to a great extent on the production of vehicles, engines and transmissions by its customers in Europe, North and South America, China and on their export activity. The Brake Discs business segment is almost completely dominated by the vehicle production of its customers in Europe. An economic downturn in these sales markets could have a negative impact on consumers' purchasing behaviour and dim the growth outlook of these business segments as a result.

Moreover, various automobile manufacturers intend to expand their own engine and transmission production activities in countries such as China, Brazil and the USA / Mexico. In addition, it remains to be seen to what extent the protectionist aspirations declared through the political decision-making processes – such as Brexit and US economic policies – will actually be implemented and dampen exports. In all three cases, there is a risk that the installed production and manufacturing capacities of the German, Chinese, North and South American locations of the business segments cannot be fully utilised.

To reduce this risk, the SHW Group is working on expanding its pumps and engine components business in Brazil, North America and China (see the section on the background to the Group, strategic field: internationalisation).

Despite these factors, the SHW Group is well prepared for a slump in vehicle production similar to that seen in 2009. As successfully practised in 2008 and 2009, the Company would react by adjusting its capacities and cost-structures accordingly throughout the entire value chain in order to safeguard the SHW Group's financial and earnings position.

As things currently stand, a sharp decline in the production figures of new vehicles, engines and transmissions in the three key automobile markets – China, North America and Europe – is not considered likely in 2019. However, the risks of an economic downturn have risen, particularly on account of US economic policies, the continuing sovereign debt crisis in some euro countries and the upcoming BREXIT.

Market structure risks

SHW's customers are exposed to increasingly demanding regulatory CO_2 limits for their vehicle fleets on all important automobile markets. At the end of the year 2018, binding ambitious targets were set by the European Union for the years 2025 and 2030 (see Background of the SHW Group, external factors).

Breaches of the limits set for NOx emissions and the associated ban on diesel cars from the year 2019 led to a sudden slump in demand for diesel vehicles in Europe in fiscal year 2018 and a corresponding announcement by car makers that they would adjust their product portfolios accordingly.

The trend is towards increasingly powerful and simultaneously more fuel-efficient and less-polluting engines as well as alternative drive solutions, such as hybrid and electrical vehicles. In the short and medium term this will give rise to structural changes on the market for internal combustion engines in Europe, North America and China.

SHW's future success thus depends above all on the Company's ability to focus on the right developments and to translate these into new and improved low-carbon products for all drive technologies and to bring these to market in good time.

For example, SHW supplied the electric transmission oil pump for the first European hybrid vehicle, back in 2008. This technology is now being broadly used in the start-stop function for vehicles with automatic transmissions, with remarkable savings in consumption and emissions. SHW was the first company to develop variable oil/vacuum pumps (referred to as tandem pumps), which it has shipped to a European car maker since the end of 2012, and is the European market leader in this field. At present, SHW is developing e-pumps for electric powertrains and has extended its expertise in drive and control technology. The vertical depth of the value chain for electric pumps was extended with the acquisition of LHT in August 2017. As a result, SHW is convinced that it will be a long-term player in the development of the electromobility market.

The risks arising from the structural shifts are also being countered by expanding our locations in China and North America – two markets with a very high share of gasoline engines, which is likely to remain so in future – and therefore a more balanced product portfolio.

Demand for lightweight brake discs continues to rise, independent of the powertrain technology in use. As the technology leader in this field, SHW was commissioned by a European manufacturer of premium cars in 2017 to develop composite brake discs for various electric vehicles.

Risks of consolidation in the industry and competition

The SHW Group is exposed to risks associated with the continuing market consolidation in the field of engine and transmission components. A persistently competitive environment in Europe – which is currently SHW's key vehicle market – might jeopardise capital-efficient growth. To reduce this risk, SHW is seeking to broaden its footing through internationalisation as well as through partnerships (extending the vertical depth of the value chain). Thought is being given to further acquisitions.

Operating risks

Market penetration risks

SHW is driving forward the internationalisation of its business activities in the field of pumps and engine components by means of wholly-owned subsidiaries in Brazil, North America, China and Romania. This entails various risks for SHW. On the one hand, there is a danger of the Company not being awarded follow-up projects in these regions or only being awarded such projects to an inadequate extent. On the other hand, start-up costs may deviate from the budgeted figures, both in terms of timing and volume. Other risks could arise from the local requirements or potential intercultural problems.

To limit these risks, investments in property, plant and equipment are only made – and skilled personnel are only hired – when there is a specific customer contract in place.

Customer risks

Customer risks arise due to SHW's dependence on key customers (key accounts) which are able to exploit their bargaining power. This might put considerable pressure on margins. These risks apply not only due to the relative size of our largest customers but also due to the relatively limited possibilities of influencing their business.

In the past fiscal year, the SHW Group generated sales with two customers which exceeded 10 per cent of group sales. The share of sales realised with SHW's largest customer decreased from 41.9 per cent to 38.1 per cent. To reduce these risks, SHW aims to ensure that its sales are evenly distributed among its customers. In this respect, in addition to developing new markets (particularly China, North and South America) and fields of application, as well as winning new customers, acquisitions and partnerships are also on the agenda.

An important aspect in strengthening the SHW Group's relative cost position is the optimisation of its production network with the new plant in Romania.

In sum, as things currently stand and based on the existing contracts (which are mainly long-term) and the Company's long-established customer relationships, the complete loss (or even the partial loss) of one of the Company's key customers over the next few years is somewhat unlikely, especially since SHW supplies each individual customer with a large number of wide-ranging products or many different engine, transmission and vehicle types.

Delivery call-off risks

An unexpected and significant short-term reduction in key customers' scheduled call-off volumes – due to economic factors, reputation-related changes in end users' demand or a premature, unscheduled curtailment or end of a customer project – which results in deviations from the Company's sales planning, there might be, depending on the duration and scope of the reduction in call-off volumes, a risk to the Company's profitability on account of redundant fixed costs and a corresponding negative impact on its financial performance, financial position and cash flows.

In the second half of fiscal year 2018 a reduction in call-off volumes was recorded which can be mainly attributed to the weaker demand for diesel vehicles, the transition to the new WLTP emissions testing cycle and the flatter ramp-up curves for a range of projects, for which the customers are responsible.

In order to be able to react flexibly to such changes in levels of demand, the SHW Group takes on temporary workers as needed, as part of its capacity management.

On the other hand, the SHW Group is exposed to risks associated with unforeseeable increases in the volume of calls made on standing orders beyond the contractually agreed volumes. This can create significant problems throughout the supply chain and impose a considerable additional burden. The SHW Group seeks to secure compensation from customers for any resulting cost burdens.

New product launches and project risks

SHW is exposed to risks related to the planning, cost calculation, execution and completion of new product launches and projects. There is a danger of delays, unexpected technical complications, underestimated complexity, capacity problems, bottlenecks, quality problems or higher start-up costs or a failure to meet the budgeted production costs. Delays in obtaining approvals and setting billing dates may also eventuate.

To keep these risks under control, the relevant SHW departments (in particular, production, purchasing, sales, quality assurance and development) and the relevant customer and supplier departments maintain a close process of consultation and coordination during the start-up phase. Although these risks can be mitigated by means of professional project management, project milestones, reviews of the respective project phases, extensive quality management and appropriately structured contracts, they cannot be fully ruled out.

Cost risks

To produce pumps and engine components as well as brake discs, the SHW Group purchases materials including scrap iron, raw aluminium, aluminium and steel powder and coke from raw materials suppliers. Iron, aluminium and coke prices tend to be subject to strong price fluctuations. In many cases, the SHW Group has concluded agreements with the automobile manufacturers it supplies to adjust the sales prices of its products on a monthly, quarterly or semi-annual basis in line with short-term and medium-term fluctuations in raw material prices for raw aluminium, aluminium powder, steel powder and scrap iron. In these cases, in addition to the agreed sales prices, the SHW Group charges material surcharges to the automobile manufacturers. In relation to price fluctuations for coke, SHW has agreed on an energy surcharge with a number of customers. This is regularly renegotiated and adjusted to match the new price levels.

After material expenses, personnel costs are the second-largest cost item for the SHW Group. In the event that wage and salary increases agreed on within the scope of future collectively bargained industrial agreements significantly exceed productivity gains, this might weaken the relative competitiveness of SHW and negatively affect its ability to reach its earnings goals.

Supplier risks

The SHW Group is dependent upon timely delivery of raw materials and of the components necessary for production from its suppliers. Late deliveries may have a significant impact on the business operations of the SHW Group.

SHW maintains long-lasting business relationships with most of its suppliers. SHW addresses possible risks resulting from delayed deliveries or the loss of key suppliers by means of regular on-site reviews which include a credit assessment. At the same time, SHW maintains close contacts and business relationships worldwide with alternative suppliers for key purchased parts.

Through its use of a modern enterprise resource planning system, the SHW Group has put the tools in place to ensure the timely availability of adequate quantities of the necessary materials.

IT risks

The growing threats to companies' information security also pose risks for the SHW Group in terms of the integrity of the information systems and networks and the availability and confidentiality of corporate data. An outage or damage to our information systems may disrupt our entire value chain and therefore entail negative cost effects.

The SHW Group has implemented a large number of measures in order to reduce these IT risks as far as possible. Key corporate data are mirrored at the Company's data centre. In addition, we protect ourselves against the risk of data loss using back-up systems. Moreover, the SHW Group has contingency plans which temporarily safeguard the functionality of its production and logistics operations even without a connection to its IT system.

We steadily invest in security software to protect our IT systems from unauthorised external access. Internally, employee access to confidential corporate data is ensured by the ability to escalate authorisation rights.

Acquisition and integration risks

Acquisitions and possible partnerships are an important element of the growth strategy to improve the market position or to complement existing business and tap new fields of business. Potential targets and cooperations are assessed by means of standardised processes, e.g. comprehensive due diligence, and a careful analysis of opportunities and risks and assessed with regard to their risks and returns. After passing all the stages of the approval process, the Management Board and the Supervisory Board of SHW decide on whether to execute the acquisition or cooperation project.

However, the objectives pursued by an acquisition or cooperation, namely, to exploit potential synergies and realise cost savings, might not be reached, or not to the extent expected. The integration of technologies, products, processes and employees bears risks. The integration process could prove to be more complicated, take more time and be more cost-intensive than initially assumed. New risks might arise in the course of the business activities of the newly acquired company or cooperation that were not foreseen or not considered to be significant.

Environmental risks

The facilities of the SHW Group are subject to a large number of environmental regulations, such as emission limits and standards for the treatment, storage and disposal of waste and hazardous materials. In particular, the foundry of the Brake Discs business segment at the Tuttlingen-Ludwigstal facility is subject to a number of such environmental obligations. Compliance with these environmental regulations and with the mandatory obligations within the scope of the SHW Group's operating permits entails operating costs and requires ongoing investments. Failure to comply with environmental regulations may result in consequences under civil, criminal or public law, in particular fines and claims for damages due to property damage or bodily harm or else a temporary or permanent shutdown.

Legal and compliance risks

Legal risks

One of the main legal risks is products liability. The components manufactured by SHW might be defective, in spite of the comprehensive quality controls conducted. Defective products may lead to damages or losses for the OEMs' end customers, which may result in them asserting compensation and product-liability claims. It could also culminate in the SHW Group or customers of the SHW Group being obliged to initiate a recall campaign.

The Company has in place appropriate quality assurance systems in order to avoid and reduce these risks. The SHW Group maintains the customary level of insurance coverage – with appropriate deductibles – to protect it against claims for damages due to faulty products. The risk position with regard to product liability has not changed to any material extent compared to the previous year. At present, no lawsuits with customers are pending.

With regard to the dispute between SHW and a French supplier related to cancellation costs asserted by the supplier, which has since gone to the appeals court, a preliminary payment was made to the supplier in fiscal year 2018. However, as it has since become more likely than not that the supplier will become insolvent, the amount in excess of the provision recognised as at 31 December 2017 for this risk was fully expensed through profit or loss in the second quarter of 2018. In the fourth quarter of 2018 the higher regional court upheld the judgement passed down by the lower court and ordered that an independent expert quantify the exact damages. SHW is currently investigating lodging an appeal with the Cour de Cassation.

Legal defence, in this case patent opposition proceedings, were also initiated immediately in August 2017 upon SHW receiving notice of a suit brought by a competitor for alleged breach of patent in which the plaintiff sought a cease and desist order and payment of damages. After a legal review of the matter, SHW and its legal counsel initially were of the opinion that it was more likely than not that a successful defence could be made against the claims asserted by the competitor. Based on the latest legal developments in June 2018, SHW decided as a precautionary measure after consulting its legal counsel to enter into an agreement with the competitor to settle the dispute. This agreement which provides for damages for the past and a licence to the disputed patent for the future was concluded at the end of 2018 and implemented accordingly. In keeping with the terms of the agreement, the competitor has withdrawn its suit and SHW has cancelled its legal defence.

The litigation presented above relates entirely to the Pumps and Engine Components business segment.

Compliance risks

The purpose of the compliance organisation of the SHW Group is to ensure that all group entities and all employees comply with the law and to ensure an appropriate reaction to any potential or actual breaches of internal or external rules and regulations. It serves to avoid liability risks, prosecution, fines, loss of reputation and other financial losses and disadvantages that could arise for the SHW Group as a result of misconduct or a breach of the law. The financial impact of non-compliance is difficult to estimate as it depends on the circumstances of each particular case, which can vary widely. The risk of illegal conduct by individuals cannot be fully ruled out, despite extensive guidelines and multi-level review and control mechanisms. Suspicious cases are actively examined. In the event that it comes to an official investigation, we cooperate with the applicable authorities. Any evidence of misconduct bears consequences for the persons concerned and entails an adjustment to the organisation.

Tax risks

Tax risks may arise from changes to the legal or tax structures of the SHW Group and from tax periods that have not yet been finally assessed. Tax field audits can result in back-taxes when the fiscal authorities come to a different assessment of the issues. In addition, there is a risk that changes to tax legislation or new court judgements might lead to an additional tax burden for the SHW Group.

Financial risks

Counterparty credit risk

Continuing growth in key vehicle markets has resulted in the earnings of the global customers of the SHW Group remaining healthy in the calendar year 2018. The risk of bad debts has not increased for these customers. Where necessary, the terms of payment and the credit limits are adjusted and regularly monitored. On the supplier side, there has been no significant change in the economic situation. Due to our multiple-supplier strategy, we believe the risk of losing a key supplier remains low.

Financing risks

With an equity ratio of 43.4 per cent, net liquidity as at 31 December 2018 of €-39.1 million and sufficient free credit lines, the financial base of the SHW Group is robust.

The new syndicated financing agreement concluded in fiscal year 2017 for an amount of € 80.0 million is presented in the section on the economic situation, financial position and financial strategy. The applicable financial covenants were complied with in fiscal year 2018.

As SHW can fall back on additional debt and equity instruments (see the section on the economic situation, financial position and financial strategy and the section on corporate governance - disclosures required by the law on corporate acquisitions) sufficient finance has been secured to fund the planned growth of the SHW Group by means of both organic growth and further acquisitions.

Currency risks

The SHW Group is not exposed to any significant currency risks, since its sales and costs are mainly billed in euros on almost all of its production factor and goods markets. This also applies to the new location in Romania. Even with the start of deliveries to customers in Brazil, China and Canada (Pumps and Engine Components business segment), no additional currency translation risks have arisen for the SHW Group since sales and costs are generated primarily in the local currency. Translation risks will primarily arise from the development of the exchange rates of the Brazilian real, the Chinese renminbi or the Canadian dollar against the euro.

Interest risks

Changes in market interest rates affect future interest payments for floating rate liabilities. Significant interest rate increases may therefore affect the profitability, liquidity and the financial position of the SHW Group.

To reduce its interest rate risks and to safeguard its financial flexibility, SHW still seeks to finance almost all of its investments from its operating cash flow. In 2018, interest rates in the euro area remained at a very low level. The European Central Bank has announced that it will keep its key lending rate at its current level until at least the summer of 2019 and in any case as long as it needs to keep inflation at a level of below, but close to 2 per cent for the mid-term. We therefore do not envisage any significant interest rate rises in the near future.

Impairment risks

Some of the assets carried by the SHW Group are intangibles, including goodwill. As at 31 December 2018, goodwill reported in the balance sheet of the SHW Group amounted to approx. €7.4 million. Of this amount, €4.6 million related to the Pumps and Engine Components business segment and €2.8 million to the Brake Discs business segment. The goodwill impairment test as at 31 December 2018 was conducted based on the planning for the period from 2019 to 2023, and assumptions regarding future developments.

While the SHW Group's goodwill was classified as non-impaired as at 31 December 2018, even after considering the scenario analyses, the need for impairment at a future date cannot be ruled out in principle.

Major risks in fiscal year 2019

With regard to the risk categories described above, we perceive significant risks in the current year with regard to the following: macroeconomic and industry risks, market structure risks, delivery call-off risks and cost risks.

Assessment of the overall risk position

In our view the SHW Group's overall risk situation is manageable at the present time. There are currently no discernible risks which could, in isolation or in aggregate, lead to a long-term deterioration in the financial position, financial performance and cash position of the Group. Nor are any risks apparent which might jeopardise the SHW Group's continued existence.

Overall the risks have increased on the previous year. These mainly relate to more stringent regulations to reduce vehicle emissions and fuel consumption, changes to the product portfolio on account of changes in the market structure (market structure risks) as well as the possible implementation of new trading tariffs and other forms of protectionism (macroeconomic and industry risks). In light of the fact that there are still major risks in the macroeconomic environment and wider industry, setbacks on the way to realising the desired goals for growth and profitability cannot be fully ruled out.

Unless otherwise indicated in the description of risks, the outlined risks do not specifically refer to individual segments.

OPPORTUNITIES

Principles of managing opportunities

We understand opportunities to mean possible future developments or events that may result in a positive deviation from a forecast or target for the SHW Group. Our opportunities management system is based upon the goals and strategies of the two business segments, Pumps and Engine Components and Brake Discs. The operational management of these business segments has direct responsibility for early and regular identification and analysis of opportunities.

Opportunities management is an integral part of the SHW Group's planning and management systems. The market and competition, relevant cost components and key success factors are intensively examined in this regard. Specific goals for the business segments are then derived and set.

The Company's development and sales departments play a key role within the scope of opportunities management. They continuously seek out possibilities for optimising existing pump and engine components and brake discs as well as new areas of application and sales opportunities. Opportunities frequently result from product innovations which arise through the development of new, more efficient and cleaner engine and transmission generations and weight-optimised brake discs. SHW thus aims to be involved in the vehicle manufacturer's development process at the earliest possible opportunity.

The key opportunities for SHW are presented below.

Group-wide opportunities

Significant efforts still required in order to achieve the ambitious emission targets

The vehicle manufacturers must undertake further considerable efforts in order to achieve the average emission target of 95g CO_2/km set by the European Commission for the year 2021. Even more ambitious targets for 2025 and 2030 were set at the end of 2018 (see Background of the SHW Group, external factors).

The automobile industry has various means of achieving these targets. The focus is on optimising the conventional combustion engine (direct injection, cooled exhaust gas recirculation, downsizing and turbocharging, variable valve trains, cylinder deactivation, variable compression, combustion processes), transmission optimisation (sailing, hybridisation, optimised power transfer, partial electrification of oil pumps) and reducing vehicle weight. It is also investing considerable resources in the development of hybrid and fully electric vehicles and adjustments to its product portfolio.

Within the scope of its existing technological methods, the Pumps and Engine Components business segment has developed a large number of success-critical solutions which are making a contribution towards reduced fuel consumption and thus lower CO_2 emissions. SHW's product range strongly reflects the increasing variety of powertrain concepts. With the acquisition of LHT, the SHW Group has extended its expertise in electronic drives and controls and optimised the depth of its value chain in the field of electrically driven pumps.

The Brake Discs business segment also helps to reduce CO_2 with its composite brake discs. The resulting weight saving is approximately 2 kg per brake disc or around 8 kg per vehicle.

Based on its innovative product portfolio and its current order book, SHW is well positioned to achieve stronger growth than the market for engines, transmissions and light vehicles. Besides organic growth – a number of new orders are going into production in the Pumps and Engine Components business segment in fiscal year 2019, particularly at the foreign locations (see Background of the SHW Group, Strategic field: Internationalisation) – the continuing process of consolidation in the Engine and Transmission Components division represents an additional growth opportunity. SHW is financially well placed to expand its market position in selected fields of business and regions.

With the Pierer Group of companies an industrial anchor shareholder has held the majority of the shares of SHW AG since May 2018. As part of a reorganised automotive group numerous opportunities arise in strategic cooperations and developments within the Group, in addition to the operating synergies (particularly in sales or purchases).

Opportunities in the business segments

Besides the growth potential in the field of transmission oil pumps, SHW sees additional opportunities in the area of variable coolant pumps. In this regard, the Company has shipped prototypes to a European car maker.

SHW sees the increasing electrification of auxiliaries in combination with the hybridisation of the powertrain and the introduction of the 48V wiring system as an area of development which offers additional market potential.

Another possibility is the insourcing of selected steps in the value chain of the Pumps and Engine Components business segment.

The Brake Discs business segment is benefiting from the trend towards lighter vehicle parts. With its composite brake disc, SHW has an innovative product in its portfolio which combines weight reduction with an improvement in braking performance. Through further automation of its production process and ongoing development activities in composite brake discs, the Company intends to reduce its production costs and will thus also be able to supply competitive products for upper mid-range and mid-range vehicles in future.

FORECAST

Outlook for the overall economy and for the industry

Global economy: slower GDP growth, moderate inflationary pressure

According to the economists of Bankhaus Lampe, the global economy will lose steam in 2019. Owing to a lack of new fiscal stimulus and the burden of the trade wars between the USA and its major trading partners, as well as the move away from ultra-expansive monetary policies by many of the major central banks, global GDP growth should slow to 3.4 per cent (2018: 3.7 per cent). Consequently, the climate for export business is less favourable than in the previous year. In light of the high level of utilization of production capacity in the wider economy, domestic consumption remains an important pillar of the economy in many countries. However, the global economy is still exposed to significant risks. These include a further escalation of the trade conflicts. Developments in some emerging markets are also a cause for concern. In Europe there is still no clarity as to whether there will be an orderly outcome to Brexit or not. Political developments and the high level of sovereign debt pose risks to the stability of the monetary union.

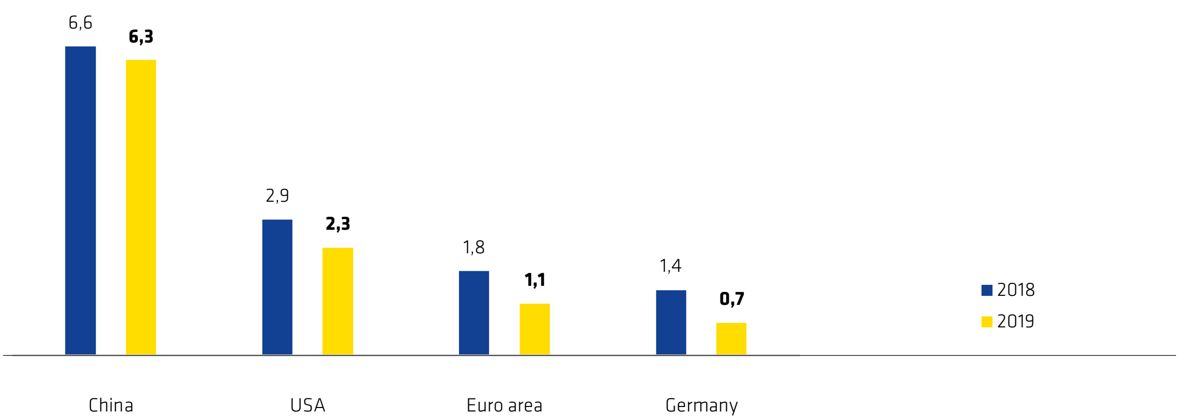
In the USA GDP growth is expected to slow noticeably in 2019 to 2.3 per cent (previous year 2.9 per cent). Fiscal stimulus is rapidly waning. In addition, the rises in the lending rates set by the Fed and the associated deterioration in the terms of financing are other factors dampening growth. Other risks to the economy lie in the trade wars, which are having an increasing impact on the real economy. The unusually long government shut-down is another factor burdening the economy. With inflationary pressures remaining moderate, the Fed is likely to discontinue its policy of raising the key rate in 2019.

In the euro area the economic boom phase should continue in 2019. Nevertheless, GDP growth will fall back to 1.1 per cent (previous year 1.8 per cent) The slower growth of the global economy and the waning fiscal support from the ECB is not likely to leave the economy of the EMU unscathed. Uncertainties about the nature of Brexit and the unresolved trade dispute with the USA, which could hit the European automobile industry particularly hard, constitute an additional risk for the economic outlook. On the other hand, economic growth will be boosted by a return to slightly more expansive fiscal policies and private consumption, which is profiting from an improved labour market and further wage increases. Although domestic demand is expected to remain buoyant, export trade is not likely to provide any growth stimulus. After concluding its asset purchase program in December 2018, the ECB is not likely to raise interest rates before autumn of the current year.

According to all of the latest forecasts, the boom phase of the economy is expected to continue into 2019. The effects of a decline in automobile production, which heavily burdened the prior year, are expected to be overcome in the first six months of 2019. Private consumption should continue to make a contribution to growth, driven by rising wages and employment figures. Investing activity will also make a contribution. This latter factor should profit from the high utilization of capacity and higher levels of public spending. There is not expected to be any growth impulse from exports on account of the sluggish state of the global economy. GDP growth of 0.7 per cent is forecast (previous year 1.4 per cent).

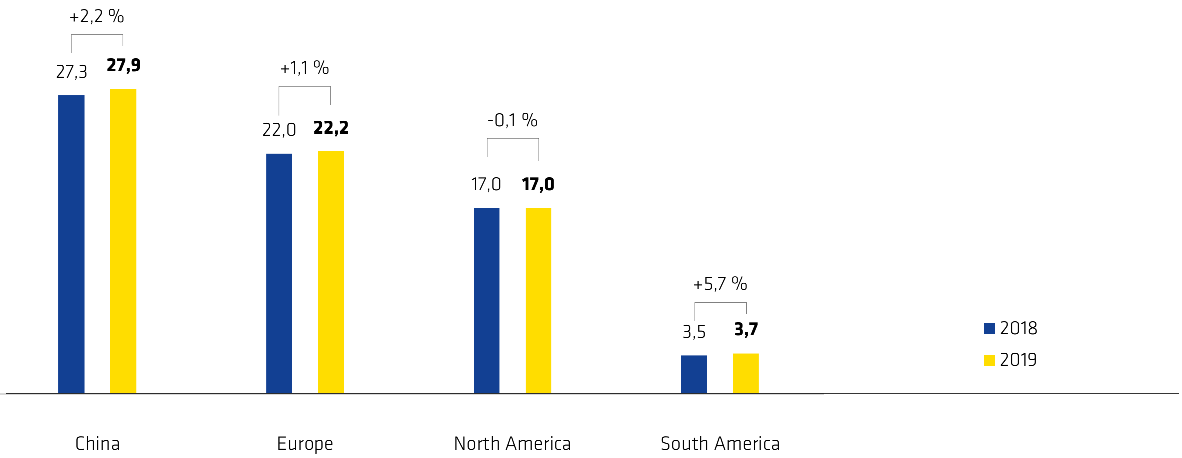
In China, a further slow-down in GDP growth in expected. The economists at Bankhaus Lampe predict growth of 6.3 per cent in 2019, compared to 6.6 per cent in 2018. To prevent a more serious downturn, the Chinese government and central bank are likely to launch further precautionary stimulus packages, as in the previous year. Large-scale overcapacity and high debt levels, particularly in the private sector, continue to represent a latent risk for the economic outlook, which the government should nevertheless manage to keep under control.

BIP GROWTH BY REGION IN %



Quelle: Forecast for 2018/19: Bankhaus Lampe Economic Research

LIGHT VEHICLE PRODUCTION BY REGION (IN M UNITS)



Source: IHS – January 2019

Very moderate rise in vehicle production

The IHS market research institute expects global light vehicle production (vehicles < 6 tonnes) to increase slightly by 1.4 per cent in 2019, from 94.7 million vehicles to 96.0 million vehicles.

In Europe stronger production growth is forecast in Russia (+8.4 per cent to 1.8 million units) and the Slovak Republic (+9.5 per cent to 1.1 million units). Production in Italy is forecast to contract by 10.1 per cent to 950 thousand units.

German automobile production, by contrast, is expected to remain more or less unchanged at 5.3 million units.

With regard to China, IHS assumes there will be a slight increase in vehicle production. In South America, by contrast, rapid growth of 5.7 per cent to 3.7 million vehicles is expected. Most of this growth should be generated in Brazil.

Diesel engines continue to lose market share

Based on the expected production figures for light vehicles, global engine production is expected to enjoy slight growth of 1.4 per cent to 96.0 million units. The growth will be accounted for by gasoline engines (+1.3 per cent to 76.8 million units) and electric engines (+45.1 per cent to 2.0 million units). A slight decrease in the volume of diesel engines to 16.9 million units is anticipated (-1.7 per cent on the previous year).

In China, engine production will increase by approx. 2.0 per cent to 28.2 million units. The largest volume growth will be in electric motors, which are expected to see growth of 39.9 per cent to 1.1 million units. Production of gasoline engines should increase by 1.0 per cent to just under 25.2 million units (previous year 24.9 million units).

With growth of 196.3 per cent to 400 thousand units, the production of electric motors in Europe will also enjoy strong growth. However, in a wider context this type of powertrain will continue to play a subordinate role.

In sum, gasoline engines account for 80.0 per cent of the total market, followed by diesel engines, which account for 17.6 per cent. The remainder is accounted for by electric motors.

SHW remains well positioned, with its product solutions for internal combustion engines – both diesel and gasoline – as well as electric engines, to exploit any growth opportunities that arise.

Automatic transmissions continue to gain market share

As in the previous year, growth in the production volume of transmissions can be attributed to automatic transmissions. Global production should increase by 4.3 per cent to 62.1 million units in 2019. Transmission production in China will play a decisive role in this development. IHS expects growth in automatic transmission production of 15.1 per cent to 15.1 million units there. In Europe production of automatic transmissions is expected to grow by 7.1 per cent to 9.7 million units.

Based on estimates by the IHS research institute, production of manual transmissions will decline by 5.6 per cent worldwide. This will particularly affect China (down 10.3 per cent to 8.0 million units) and Europe (down 6.0 per cent to 11.7 million units).

Thanks to its product portfolio in the primary and electric auxiliary transmission oil pumps segment, SHW is optimistic that it will be able to benefit from this positive growth trend for automatic transmissions.

Source: IHS – January 2019

Outlook for the Group

Sales expected to range between € 440 million and € 480 million

Based on the economic and industry environment and considering the potential risks and opportunities, the Management Board of SHW AG anticipates group sales to lie in a range between € 440 million to € 480 million in the fiscal year 2019.

Of this total, the Pumps and Engine Components business segment is forecast to generate sales of between roughly € 320 million and € 355 million and the Brake Discs business segment sales of between € 120 million and € 125 million, with the share of higher-value composite brake discs continuing to increase in 2019.

EBITDA margin expected to range between 8.5 per cent to 10 per cent

SHW anticipates an EBITDA margin in a range between 8.5 per cent and 10 per cent for the fiscal year 2019. This forecast is based particularly on the higher sales and earnings contributions generated by the foreign locations and a higher share of sales and earnings contributed by the Brake Discs business segment. EBITDA should range between roughly € 37.4 million and € 48.0 million accordingly.

Net working capital ratio in a range of 11 per cent to 12 per cent targeted

The optimisation of the Company's working capital remains a further area of focus for the Management Board in fiscal year 2019. It aims – against the backdrop of the expansion of the global production network – to achieve a sustainable net working capital ratio – i.e. the ratio of net working capital to sales – on a monthly basis of 11 to 12 per cent.

Investment volume increased for strategic reasons

In order to support its strategic goals, the Company is planning investments in a range estimated between € 40 million and € 45 million for fiscal year 2019 in connection with its development of new markets in China and North America as well as the expansion of the new production site in Romania.

The investments mainly relate to the development of the Group's production capacities at its international sites as well as its assembly lines and foundry and processing centres in Germany.

Depreciation and amortisation should range between roughly € 27 million and € 29 million.

Dividend policy: sustainable pay-out ratio of 30 to 40 per cent

The SHW Group is pursuing a sustainable, performance-oriented dividend policy. While complying with statutory restrictions and considering the financing requirements of the SHW Group, the Company plans to continue to distribute between 30 per cent and 40 per cent of its reported group net profit for the year to the Company's shareholders as a dividend.

Overall statement on future development

In the absence of a significant change in the business environment for the current fiscal year, the Management Board of SHW AG envisages sales of € 440 million to € 480 million together with an EBITDA margin of 8.5 per cent to 10 per cent. In fiscal year 2019, the Management Board will also put particular focus on expanding the global production network.

SUBSEQUENT EVENTS

The report on significant events after the balance sheet date must be included in the notes to the consolidated financial statements in accordance with Section 314 (1) No. 25 HGB. Accordingly, please refer to Note (X) in the notes to the consolidated financial statements.

FINAL DECLARATION ON THE DEPENDENT COMPANY REPORT PURSUANT TO SECTION 312 (3) AKTG

SHW AG is a dependent company of Pierer Konzerngesellschaft mbH, Wels, Austria. In its dependent company report (pursuant to Section 312 AktG), SHW AG issued the following final declaration, a copy of which is reprinted here:

"The Management Board declares that SHW AG, Aalen, received appropriate consideration for each of the transactions listed in this report on relationships with affiliated companies based on the circumstances of which the Management Board was aware when the legal transaction was executed. Measures subject to mandatory reporting were not taken or refrained from."

CORPORATE GOVERNANCE STATEMENT ON CORPORATE GOVERNANCE AND CORPORATE GOVERNANCE REPORT

The Statement on Corporate Governance pursuant to Sections 289f and 315d HGB primarily consists of the Declaration of Conformity required by Section 161 AktG, relevant disclosures on corporate governance practices and a description of the methods of the Management Board and Supervisory Board as well as the composition and working methods of their committees and comments related to diversity concepts for the composition of the Management Board of Management and Supervisory Board. In the Corporate Governance report pursuant to No. 3.10 of the German Corporate Governance Code, SHW reports on other issues related to corporate governance. Both are available as a single uniform document on the SHW website at https://www.shw.de/unternehmen/corporate-governance/.

REMUNERATION REPORT

Remuneration report

The following remuneration report constitutes an element of the combined (group) management report. It describes the structure of the remuneration of the members of the Management Board and the Supervisory Board as well as their individual remuneration components. This report complies with the requirements of the German Commercial Code (HGB) as well as the International Financial Reporting Standards (IFRS). It also considers the recommendations of the German Corporate Governance Code (GCGC).

Management Board

Remuneration system

In accordance with the requirements of the German Stock Corporation Act (AktG) and the recommendations of the German Corporate Governance Code, the remuneration of the members of the Management Board consists of fixed (non-performance-related) and variable (performance-related) components.

With regard to the CEO, Wolfgang Plasser, and Thomas Karazmann, another member of the board, the variable compensation in the reporting year consists solely of a capped annual bonus based on the criteria set by the Supervisory Board, which were met during the year. For the other board member, Andreas Rydzewski, the variable remuneration consists of an annual bonus, which makes up 40 per cent, and a rolling sustainability bonus that makes up 60 per cent, half of which is determined on a two-year assessment basis and the other half on a three-year assessment basis.

In the course of 2019 a new bonus system for the entire Management Board will be decided on.

Non-performance-related remuneration components

The members of the Management Board receive a fixed annual remuneration which is paid out in twelve equal monthly installments. In the case of the CEO, Wolfgang Plasser, and Thomas Karazmann, this is based on the scope of their service which comprises three working days a week within the SHW Group. In addition, the members of the Management Board receive fringe benefits in the form of a company car, subsidised insurance policies and insurance cover taken out by the Company in favour of board members (with the Company paying the premiums). Both Wolfgang Plasser and Thomas Karazmann have company chauffeurs at their disposal. The fringe benefits paid to Andreas Rydzewski are capped at an annual limit of € 200 thousand. There is no such cap for Wolfgang Plasser und Thomas Karazmann. Rather, the benefits are related to the amount incurred.

In the event of the death of a member of the Management Board, their widowed spouse or surviving dependants are entitled to receive the fixed remuneration for the month of the member's death and the following two months.

Variable remuneration components

For the performance-related remuneration, a target bonus has been determined in each Management Board member's employment contract corresponding to full (100 per cent) target achievement.

In the contracts with Wolfgang Plasser and Thomas Karazmann, the annual bonus is tied 100 per cent to attaining the targets set anew for each respective year by the Supervisory Board in agreement with the member of the board. At the end of the fiscal year, the Supervisory Board decides on the amount the annual bonus to be paid out based on the targets achieved and after the annual financial statements have been ratified. For Wolfgang Plasser the bonus is capped at €250 thousand and at €69 thousand for Mr. Karazmann.

70 per cent of the annual bonus of Wolfgang Plasser is tied to the development of EBIT (SHW Group) and 30 per cent to the development of total free cash flow of the SHW Group. Key benchmarks for measuring his target achievement, given the fact that he joined the Company during the year, are whether the EBIT and total free cash flow of the SHW Group as defined in the annual budget approved by the Supervisory Board for the relevant fiscal year are achieved.

In light of the fact that Thomas Karazmann also joined the Company during the year the annual bonus for 2018 is guaranteed for December 2018 on a pro rata basis.

The contract with Andreas Rydzewski contains two variable performance components. The first element is the annual bonus for the respective fiscal year, which makes up 40 per cent of the target bonus. This is determined on the basis of the achievement of targets which refer to defined performance indicators of the Company and its subsidiaries and affiliated companies (jointly the SHW Group). 70 per cent of this is dependent on the development of EBITDA and 30 per cent on the development of the SHW Group's average monthly working capital ratio. Key benchmarks for measurement of the level of target achievement are the EBITDA and the average monthly working capital ratio targets for the SHW Group defined in the annual budget approved by the Supervisory Board for the relevant fiscal year.

The annual bonus payable for a fiscal year is determined on the basis of the audited and ratified consolidated financial statements of SHW AG and paid out subsequently in the following year. In determining the level of target achievement, the Supervisory Board may appropriately consider any extraordinary developments. If the target level is exceeded, the annual bonus paid to Andreas Rydzewski may exceed the applicable pro rata target bonus. However, this may not exceed twice the pro rata target bonus.

The second variable remuneration component in the agreement with Andreas Rydzewski is the "sustainability bonus", which accounts for 60 per cent of the target bonus. For its part, half of the sustainability bonus is calculated on a two-year assessment basis and the other half on a three-year assessment basis. Its amount reflects the Company's share price development in relation to the benchmark index DAX sector Automobile Performance in the current fiscal year and a following year (two-year assessment basis) or in the current fiscal year and two following years (three-year assessment basis). The relevant share price is determined as a 90-day average price at the end of the respective year. Full target achievement occurs if the stock exchange price development matches the performance of the benchmark index in the relevant period. The sustainability bonus will be increased or reduced in relation to the pro rata target bonus to the same extent as the share price of the SHW share outperforms or underperforms the benchmark index in the relevant period. However, it is capped at 150 per cent of the pro rata share of the target bonus. The calculated sustainability bonus will be paid out two months after expiry of the relevant assessment period.

Post-retirement benefits

There were pension commitments in place in fiscal year 2018 for three members of the Management Board. Reference is made to the section on "Benefits upon termination of employment contracts" for more information on the pension arrangements with Dr. Boshoff and Martin Simon.

In his contract, Andreas Rydzweski has agreed to the following arrangement: The pension commences on the date of retiring from the Management Board upon reaching the age of 65, or earlier with corresponding deductions. In the event of occupational disability or disability before reaching retirement age, the member of the Management Board will receive an invalidity pension equal to his or her pension entitlement. In the event of death, his or her widow is entitled to a widower's pension of 60 per cent and a dependent child a dependent child's pension of 15 per cent or an orphan's pension of 30 per cent of the pension entitlement respectively. The collective benefits paid to surviving dependants may not exceed the amount paid to the pensioner, or that would have been paid. If the total benefits exceed this amount, the individual amounts are reduced proportionally. If a surviving dependant no longer qualifies as a recipient, the benefits paid to the other surviving dependants increase accordingly up to the maximum amount.

The point of departure for calculating the benefits can be found in the individual contractual clauses on length of service, the annual premium and the applicable annuity table.

The amount of the individual benefit is calculated on an annual contribution of 18.50 per cent of the fixed remuneration paid for the services of the respective member of the Management Board in the respective calendar year and an age-related annuity (annual pension component). The parameters underlying the age-related annuity are reviewed regularly every three years and adjusted as needed. The (annual) pension is the sum of all fixed pension components over the length of service used to determine the pension until a triggering event for the pension occurs. In the case of Andreas Rydzewski, his vested benefit (annual pension) as at 31 December 2018 amounts to € 5 thousand.

After a triggering event, the pensions are raised by 1.25 per cent per annum. If the board member leaves the company before the age of retirement, the vested benefit earned up until the date of departure remains intact. To cover its pension obligations, the Company can take out insurance policies.

The defined benefit obligation for Andreas Rydzewski amounts to € 131 thousand (pension expense in 2018 € 69 thousand).

There is a vested pension commitment towards the former Chairman of the Management Board, Dr. Krause, based on his contract for management services from the year 2000. It essentially comprises the same provisions. The employment relationship with the former Chairman of the Management Board, Dr. Krause, was terminated with effect from 30 April 2013 and thus before he reached the age of 65; his pension entitlement was reduced accordingly. This entitlement has become vested in accordance with statutory provisions. As of the reporting date, the pension obligation to Dr. Krause described above gave rise to liabilities of approx. € 84 thousand, measured in accordance with IAS 19.

Management Board remuneration in 2018 in accordance with the German Corporate Governance Code

In accordance with the recommendations of the German Corporate Governance Code (GCGC) as amended on 7 February 2017, the benefits provided and payments (received) are presented for the reporting year 2018 and the preceding year in the tabular format proposed and recommended by the GCGC.

BENEFITS GRANTED TO THE MANAGEMENT BOARD FOR THE FISCAL YEAR

K EUR	Wolfgang Plasser Chief Executive Officer (CEO) Joined: 12 June 2018				Dr Frank Boshoff Chief Executive Officer (CEO) Joined: 1 July 2015 Stepped down: 30 June 2018				Andreas Rydzewski Member of the Management Board Joined: 1 October 2008			
Benefits granted	2017	2018	2018 (Min)	2018 (Max)	2017	2018	2018 (Min)	2018 (Max)	2017	2018	2018 (Min)	2018 (Max)
Fixed compensation	-	137[1)2)]	137	137	323[3)]	958[3)4)]	958	958	250	250	250	250
Fringe benefits	-	0	0	0	20	10	10	10	16	16	16	16
Total	**-**	**137**	**137**	**137**	**343**	**968**	**968**	**968**	**266**	**266**	**266**	**266**
One-year variable compensation												
Annual bonus 2017	-	-	-	-	108[*)]	-	-	-	60[*)]	-	-	-
Annual bonus 2018	-	139[*)1)]	0	139	-	0[4)]	0	0	-	60[*)]	0	120
Multiple-year variable compensation												
Sustainability bonus 2017 (2-year period)	-	-	-	-	81[**)]	-	-	-	45[**)]	-	-	-
Sustainability bonus 2017 (3-year period)	-	-	-	-	81[**)]	-	-	-	45[**)]	-	-	-
Sustainability bonus 2018 (2-year period)	-	-	-	-	-	0[4)]	0	0	-	45[**)]	0	68
Sustainability bonus 2018 (3-year period)	-	-	-	-	-	0[4)]	0	0	-	45[**)]	0	68
Total	**-**	**276**	**137**	**276**	**613**	**968**	**968**	**968**	**416**	**416**	**266**	**522**
Pension expense	-	-	-	-	226[8)]	40[4)]	40	40	55[9)]	69	69	69
Total compensation	**-**	**276**	**137**	**276**	**839**	**1,008**	**1,008**	**1,008**	**471**	**485**	**335**	**591**

*) These figures correspond to the target value (i.e. 100 per cent target achievement) for the annual bonus.

**) These figures correspond to the target value (i.e. 100 per cent target achievement) for the sustainability bonus at the time it was granted (see the section "Remuneration report – Management Board – Variable remuneration components" for more information on the calculation of the sustainability bonus).

1) Pro rata temporis; board member since 12 June 2018.

2) With reference to the supplementary industrial agreement agreed on for the Bad Schussenried facility, Wolfgang Plasser has voluntarily waived his 2,272 per cent fixed remuneration since October 2018.

3) With reference to the supplementary industrial agreement agreed on for the Bad Schussenried facility, Dr. Frank Boshoff has voluntarily waived his 2,272 per cent fixed remuneration since January 2017.

4) Of which pro rata temporis remuneration until his departure on 30 June 2018 of € 161 thousand, a severance payment of € 700 thousand, a non-recurring payment of € 340 thousand (of which € 243 thousand had been accrued in previous years) and a settlement for his company pension plan of € 180 thousand (paid out of the pension expense for 2017 and 2018). Due to his termination, a non-recurring severance payment of € 700 thousand was agreed on with Dr. Frank Boshoff to remunerate him for a non-competition clause for 24 months after his departure and to settle all his claims from vacation accrued. The non-recurring payment covers the sustainability bonus attributable to fiscal year 2016, which has a three-year measurement base, the sustainability bonus attributable to fiscal year 2017, which has both a two and a three-year measurement base, the sustainability bonus attributable to fiscal year 2018, which has a two and a three-year measurement base, as well as his annual bonus. The severance payment, the non-recurring payment and the settlement of his company pension entitlements fell due for payment in June 2018. The pro rata pension expense incurred for the pension plan for 2018 amounted to € 40 thousand.

5) Pro rata temporis; board member since 1 December 2018.

6) Of which fixed remuneration until his departure on 31 December 2018 of € 230 thousand, a severance payment of € 500 thousand, a non-recurring payment of € 36 thousand and a settlement for his company pension plan of € 144 thousand pension (paid out of the pension expense for 2017 and 2018). Due to his termination, Mr. Martin Simon received a non-recurring severance payment of € 500 thousand, which remunerates him for a non-competition clause for 24 months after his departure and to settle all his claims for vacation accrued. The non-recurring payment covers the sustainability bonus attributable to fiscal year 2017, which has both a two and a three-year measurement base, the sustainability bonus attributable to fiscal year 2018, which has a two and a three-year measurement base, as well as his annual bonus. Half of the severance payment (€ 250 thousand) fell due for payment in December 2018. A provision was recognised for the remaining half of the severance payment (€ 250 thousand) and settlement of his company pension entitlements (€ 144 thousand). The second half of the severance payment, the non-recurring payment and settlement of his pension plan were paid out in January 2019. The pro rata pension expense incurred for the pension plan for 2018 amounted to € 66 thousand.

7) For fiscal year 2018 Mr. Thomas Karazmann was promised a pro rata temporis fixed annual bonus of € 6 thousand, which was paid out in April 2019.

8) The pension agreement was concluded in 2017. The pension expense for Dr. Frank Boshoff for 2017 amounts to € 89 thousand.

9) The pension agreement was concluded in 2017. The pension expense for Mr. Andreas Rydzewski for 2017 amounts to € 55 thousand (see the section "Remuneration report – Management Board – Pension commitments").

10) The pension agreement was concluded in 2017. The pension expense for Mr. Martin Simon for 2017 amounts to € 63 thousand.

	Thomas Karazmann Chief Financial Officer (CFO) Joined: 1 December 2018				Martin Simon Chief Financial Officer (CFO) Joined: 1 September 2016 Stepped down: 31 December 2018			
	2017	2018	2018 (Min)	2018 (Max)	2017	2018	2018 (Min)	2018 (Max)
	-	13[5)]	13	13	230	766[6)]	766	766
	-	0	0	0	16	16	16	16
	-	**13**	**13**	**13**	**246**	**782**	**782**	**782**
	-	-	-	-	48*)	-	-	-
	-	6*)7)	6	6	-	0[6)]	0	0
	-	-	-	-	36**)	-	-	-
	-	-	-	-	36**)	-	-	-
	-	-	-	-	-	0[6)]	0	0
	-	-	-	-	-	0[6)]	0	0
	-	**19**	**19**	**19**	**366**	**782**	**782**	**782**
	-	-	-	-	85[10)]	66[6)]	66	66
	-	**19**	**19**	**19**	**451**	**848**	**848**	**848**

The following table shows the payments made to the individual members of the Management Board and to former board members for fiscal year 2018 and in the previous calendar year:

PAYMENTS TO THE MANAGEMENT BOARD FOR THE FISCAL YEAR

K EUR	Wolfgang Plasser Chief Executive Officer (CEO) Joined: 12 June 2018		Dr Frank Boshoff Chief Executive Officer (CEO) Joined: 1 July 2015 Stepped down: 30 June 2018		Andreas Rydzewski Member of the Management Board Joined: 1 October 2008		Thomas Karazmann Chief Financial Officer (CFO) Joined: 1 December 2018		Martin Simon Chief Financial Officer (CFO) Joined: 1 September 2016 Stepped down: 31 December 2018	
Payment	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Fixed compensation	137[1)2)]	-	1,381[3)4)]	323[4)]	250	250	13[5)]	-	516[6)]	230
Fringe benefits	0	-	10	20	16	16	0	-	16	16
Total	**137**	**-**	**1,391**	**343**	**266**	**266**	**13**	**-**	**532**	**246**
One-year variable compensation*)										
Annual bonus 2017	-	-	-	68	-	38	-	-	-	30
Annual bonus 2018	110	-	0[3)]	-	11	-	6[7)]	-	0[6)]	-
Multiple-year variable compensation**)										
Sustainability bonus 2015 (3-year period)	-	-	-	-	-	33[8)]	-	-	-	-
Sustainability bonus 2016 (2-year period)	-	-	-	106	-	59[8)]	-	-	-	20[9)10)]
Sustainability bonus 2016 (3-year period)	-	-	0[3)]	-	46	-	-	-	-	
Sustainability bonus 2017 (2-year period)	-	-	0[3)]	-	30	-	-	-	0[6)]	-
Total	**247**	**-**	**1,391**	**517**	**353**	**396**	**19**	**-**	**532**	**296**
Pension expense	-	-	0[3)]	226[11)]	69	55[12)]	-	-	0[6)]	85[13)]
Total compensation	**247**	**-**	**1,391**	**743**	**422**	**451**	**19**	**-**	**532**	**381**

*) These figures include the annual bonus paid out in the respective reporting year. The bonuses for the respective reporting year are paid out in the following year, i.e. the annual bonus for 2017 is paid out in 2018 and the bonus for 2018 is paid out in 2019.

**) These figures include the amount paid out for the sustainability bonus, whose assessment period ended in the respective reporting year. The relevant amounts are paid out in the following year, i.e. the payments for the sustainability bonus 2015 on the basis of a 3-year assessment period or for the sustainability bonus 2016 on the basis of a 2-year assessment period were made in 2018. The payments for the sustainability bonus 2016 with a 3-year assessment period and for the sustainability bonus 2017 with a 2-year assessment period were made in 2019. For the arrangements for Dr. Frank Boshoff und Mr. Martin Simon please see footnotes 3 and 6.

1) Pro rata temporis; board member since 12 June 2018.

2) With reference to the supplementary industrial agreement agreed on for the Bad Schussenried facility, Wolfgang Plasser has voluntarily waived his 2,272 per cent fixed remuneration since October 2018.

3) Of which pro rata temporis remuneration until his departure on 30 June 2018 of € 161 thousand, a severance payment of € 700 thousand, a non-recurring payment of € 340 thousand and a settlement for his company pension plan of € 180 thousand. Due to his termination, a non-recurring severance payment of € 700 thousand was agreed on with Dr. Frank Boshoff to remunerate him for a non-competition clause for 24 months after his departure and to settle all his claims from vacation accrued. The non-recurring payment covers the sustainability bonus attributable to fiscal year 2016, which has a three-year measurement base, the sustainability bonus attributable to fiscal year 2017, which has both a two and a three-year measurement base, the sustainability bonus attributable to fiscal year 2018, which has a two and a three-year measurement base, as well as his annual bonus. The severance payment, the non-recurring payment and the settlement of his company pension entitlements fell due for payment in June 2018.

4) With reference to the supplementary industrial agreement agreed on for the Bad Schussenried facility, Dr. Frank Boshoff has voluntarily waived his 2,272 per cent fixed remuneration since January 2017.

5) Pro rata temporis; board member since 1 December 2018.

6) Of which fixed remuneration until his departure on 30 June 2018 of € 230 thousand, a severance payment of € 500 thousand, a non-recurring payment of € 36 thousand and a settlement for his company pension plan of € 144 thousand. Due to his termination, Mr. Martin Simon received a non-recurring severance payment of € 500 thousand, which remunerates him for a non-competition clause for 24 months after his departure and to settle all his claims for vacation accrued. The non-recurring payment covers the sustainability bonus attributable to fiscal year 2017, which has both a two and a three-year measurement base, the sustainability bonus attributable to fiscal year 2018, which has a two and a three-year measurement base, as well as his annual bonus. Half of the severance payment (€ 250 thousand) fell due for payment in December 2018. A provision was recognised for the remaining half of the severance payment (€ 250 thousand) and settlement of his company pension entitlements (€ 144 thousand). The second half of the severance payment, the non-recurring payment and settlement of his pension plan were paid out in January 2019.

7) For fiscal year 2018 Mr. Thomas Karazmann was promised a pro rata fixed annual bonus of € 6 thousand, which was paid out in April 2019.

8) The target sustainability bonus amounted to € 82.5 thousand for all periods ending on or before 31 December 2015 and to € 90 thousand since 1 January 2016.

9) Pro rata temporis; board member since 1 September 2016.

10) For fiscal year 2016, Mr. Martin Simon was promised a non-performance-related bonus totalling € 40 thousand; half of this amount (€ 20 thousand) was paid out after the close of 2016. The other half (€ 20 thousand, shown in "Sustainability bonus 2016 (2 or 3-year period)") was paid out after the close of 2017.

11) The pension agreement was concluded in 2017. The pension expense for Dr. Frank Boshoff for 2017 amounts to € 89 thousand.

12) The pension agreement was concluded in 2017. The pension expense for Mr. Andreas Rydzewski for 2017 amounts to € 55 thousand (see the section "Remuneration report – Management Board – Pension commitments").

13) The pension agreement was concluded in 2017. The pension expense for Mr. Martin Simon for 2017 amounts to € 63 thousand.

Total remuneration of the Management Board

Total remuneration of the Management Board for fiscal year 2018 and the preceding fiscal year (Sec. 314 (1) No. 6 HGB) is presented below:

TOTAL REMUNERATION OF THE MANAGEMENT BOARD FOR THE FISCAL YEAR

K EUR	Wolfgang Plasser Chief Executive Officer (CEO) Joined: 12 June 2018		Dr Frank Boshoff Chief Executive Officer (CEO) Joined: 1 July 2015 Stepped down: 30 June 2018		Andreas Rydzewski Member of the Management Board Joined: 1 October 2008		Thomas Karazmann Chief Financial Officer (CFO) Joined: 1 December 2018		Martin Simon Chief Financial Officer (CFO) Joined: 1 September 2016 Stepped down: 31 December 2018		Total	
Non-performance-related remuneration components	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	**2017**	**2018**
Fixed compensation	0	137	323	161	250	250	0	13	230	230	803	791
Fringe benefits	0	0	20	10	16	16	0	0	16	16	52	42
Total	**0**	**137**	**343**	**171**	**266**	**266**	**0**	**13**	**246**	**246**	**855**	**833**
Performance-based compensation												
Annual bonus	0	110	68	0	38	11	0	6	30	0	136	127
Sustainability bonus	0	-	162	0	90	90	0	0	72	0	324	90
Total	**0**	**110**	**230**	**0**	**128**	**101**	**0**	**6**	**102**	**0**	**460**	**217**
Annual compensation	**0**	**247**	**573**	**171**	**394**	**367**	**0**	**19**	**348**	**246**	**1,315**	**1,050**

Please see the earlier section on "Post-retirement benefits" for more information on pension obligations.

Benefits upon termination of employment contracts

In the event of premature termination of the appointment of a member of the Management Board for due cause, their employment contract provides that the Company may at the Supervisory Board's discretion either release the relevant Management Board member from their work duties – subject to continued payment of their fixed remuneration (and offsetting this against any annual leave entitlement not yet utilised) – or prematurely terminate their employment contract subject to payment of a settlement at an amount of two years' remuneration (including additional benefits), but not exceeding the level of remuneration for the remaining term of their contract.

The employment contract of Dr. Frank Boshoff was terminated by mutual agreement upon expiry of 30 June 2018 ("termination date"). Dr. Boshoff stepped down from the Management board and his position as Chief Executive Officer effective 12 June 2018 (end-of-day). His employment contract continued to apply, as before, in the period up to the termination date and he was paid his fixed monthly remuneration accordingly. Based on the severance agreement, Dr. Frank Boshoff received a non-recurring severance payment of € 700 thousand to remunerate him for a non-competition clause for 24 months after his departure and to settle all his claims from vacation accrued. A non-recurring payment of € 340 thousand was made to compensate him for the sustainability bonuses attributable to fiscal years 2017 and 2018 (pro rata), which have a two and a three-year measurement base, the sustainability bonus attributable to fiscal year 2016, which has a three-year measurement base.

The severance payment and the non-recurring payment were made in June 2018. In order to settle his entitlements from the company pension plan, Dr. Boshoff received the net present value of his pension entitlements vested by the date of his departure of € 180 thousand.

TOTAL REMUNERATION PAID TO BOARD MEMBERS WHO STEPPED DOWN IN FISCAL YEAR 2018

K EUR	Non-performance-related remuneration components		Performance-based compensation		Annual compensation
Name	Fixed annual compensation	Fringe benefits	Annual bonus	Sustainability bonus	Total
Dr. Frank Boshoff	977[1)]	0	0[1)]	0[1)]	977
Martin Simon	680[2)]	0	0[2)]	0[2)]	680
Total	**1,657**	**0**	**0**	**0**	**1,657**

[1)] Of which a non-recurring severance payment of € 700 thousand, a non-recurring payment of € 340 thousand (of which € 243 thousand had been accrued in previous years) and a settlement for his company pension plan of € 180 thousand. Due to his termination, a non-recurring severance payment of € 700 thousand was agreed on with Dr. Frank Boshoff to remunerate him for a non-competition clause for 24 months after his departure and to settle all his claims from vacation accrued. The non-recurring payment of € 340 thousand covers the sustainability bonus attributable to fiscal year 2016, which has a three-year measurement base, the sustainability bonus attributable to fiscal year 2017, which has both a two and a three-year measurement base, the sustainability bonus attributable to fiscal year 2018, which has a two and a three-year measurement base, as well as his annual bonus. All of the amounts listed above were due for payment in June 2018. Provisions had already been recognised for the bonus payments for previous years and the settlement of pension entitlements from the company pension plan and these were drawn on accordingly. The settlement of the pension entitlements from the company pension plan counts as a component of his total remuneration for fiscal year 2018.

[2)] Of which a non-recurring severance payment of € 500 thousand, a non-recurring payment of € 36 thousand and a settlement of the his entitlements from the company pension plan of € 144 thousand. Due to his termination, Mr. Martin Simon received a non-recurring severance payment of € 500 thousand, which remunerates him for a non-competition clause for 24 months after his departure and to settle all his claims for vacation accrued. The non-recurring payment of € 36 thousand covers the sustainability bonus attributable to fiscal year 2017, which has both a two and a three-year measurement base, the sustainability bonus attributable to fiscal year 2018, which has a two and a three-year measurement base, as well as his annual bonus. Half of the severance payment (€ 250 thousand) fell due for payment in December 2018. A provision was recognised for the remaining half of the severance payment (€ 250 thousand) and settlement of his company pension entitlements (€ 144 thousand). The second half of the severance payment, the non-recurring payment and settlement of his pension plan were paid out in January 2019. A provision had already been recognized for the settlement of entitlements from the pension plan and this was utilized accordingly. The settlement of the pension entitlements from the company pension plan counts as a component of his total remuneration for fiscal year 2018.

The employment contract with Martin Simon was terminated by mutual agreement effective at the end-of-day, 31 December 2018 ("termination date"). He stepped down from his position as a member of the Management Board effective 30 November 2018 (end-of-day). His employment contract continued to apply without change in the period up to the termination date and he was paid his fixed monthly remuneration accordingly. In accordance with the severance agreement entered into, Martin Simon was paid a non-recurring severance payment of € 500 thousand. This was paid out in two instalments of € 250 thousand each, one in December 2018 and the other in January 2019. A provision was recognised for the second instalment and the settlement of entitlements from the company pension plan. The severance payment also contains compensation for a ban on competition clause for a period of 24 months after termination and a settlement of all claims for vacation accrued. A non-recurring payment of € 36 thousand was made to compensate him for the annual bonus for fiscal year 2018 and the sustainability bonuses attributable to fiscal years 2017 and 2018, which have a two and a three-year measurement base. The corresponding bonus provisions were released at the same time. In order to settle his company pension entitlements, Mr. Simon was paid an amount equivalent to the net present value of his pension entitlements that were vested by the date of his termination of € 144 thousand in January 2019.

Supervisory Board

The remuneration of the Supervisory Board is determined by the Annual General Meeting and is regulated in Article 14 of the Company's Articles of Association as follows:

Members of the Supervisory Board receive fixed annual remuneration of € 30 thousand for each full fiscal year of their membership, which shall fall due upon expiry of the fiscal year. The Chairman of the Supervisory Board receives € 100 thousand and his deputy € 40 thousand.

In addition, members of the Supervisory Board belonging to a committee of the Supervisory Board receive an attendance fee of € 0.5 thousand for their attendance of a face-to-face meeting of the committee in question. The chairman of the respective committee receives twice this amount (€ 1 thousand). If a member of the Supervisory Board attends multiple committee meetings on a single day (also for different committees), he will only be paid one attendance fee for this day. In derogation from this provision, the Chairman of the Supervisory Board and the Chairman of the Audit Committee do not receive any attendance fee for their service on committees of the Supervisory Board. The fixed annual remuneration of the Chairman of the Audit Committee will instead be increased to € 50 thousand. In the case of the Chairman of the Supervisory Board, the fixed annual remuneration already covers his service on committees of the Supervisory Board.

Contrary to the requirements of the Articles of Association, irrevocable declarations of waiver regarding the fixed remuneration were issued by the following members of the Supervisory Board at the ordinary meeting of the Supervisory Board on 16 October 2018 towards the SHW Group.

- Klaus Rinnerberger waived the amount in excess of € 40 thousand.
- Stefan Pierer waived the amount in excess of € 20 thousand.
- Alfred Hörtenhuber: partial waiver of the amount in excess of € 30 thousand.
- Prof. Dr. Jörg Franke waived the amount in excess of € 20 thousand.
- Edgar Kühn: partial waiver of the amount in excess of € 20 thousand.
- Friedrich Roithner: partial waiver of the amount in excess of € 5 thousand.

Josef Blazicek: partial waiver of the amount in excess of € 5 thousand.

In addition, Wolfgang Plasser, issued a full waiver for the amount accruing to him for his membership of the Supervisory Board from 8 May 2018 to 7 June 2018.

The Company will also reimburse the members of the Supervisory Board for their expenses incurred in the exercise of their Supervisory Board mandate and any value-added tax applicable on their remuneration and expenses.

TOTAL REMUNERATION OF THE SUPERVISORY BOARD FOR THE FISCAL YEAR

		Fixed annual compensation		Attendance fees Presidential and Audit Committee		Total[1]	
K EUR		**2018[2]**	2017	**2018**	2017	**2018**	2017
Klaus Rinnerberger	(from 02.01.2018) Deputy Chairman Supervisory Board (10./11.01.-18.04.2018) Chairman Supervisory Board (since 19.04.2018) Chairman Presidential Commitee Chairman Audit Commitee Chairman Nominating Commitee (since 08.05.2018)	40[2]	0	0	0	40	0
Georg Wolf	Chairman Supervisory Board Chairman Presidential Commitee (until 06.04.2018)	26	100	0	0	26	100
Alfred Hörtenhuber	(from 08.05.2018) Deputy Chairman Supervisory Board (since 23.05.2018)	26[2]	0	0	0	26	0
Josef Blazicek	(from 02.10.2018)	5[2]	0	0	0	5	0
Prof. Dr Jörg Ernst Franke		20	30	1	0	21	30
Stefan Pierer	(from 02.01.2018) Deputy Chairman Supervisory Board (19.04.-22.05.2018)	20	0	0	0	20	0
Wolfgang Plasser	(08.05.-07.06.2018)	0	0	0	0	0	0
Friedrich Roithner	(from 02.10.2018)	5	0	0	0	5	0
Christian Brand	Deputy Chairman Supervisory Board Chairman Audit Commitee (until 31.12.2017)	0	50	0	0	0	50
Kirstin Hegner-Cordes	(until 31.12.2017)	0	30	0	1	0	31
Edgar Kühn		20[2]	30	0	0	20	30
Eugen Maucher		20[2]	30	0	0	20	30
Frank Michael Meißner	(from 08.05.2018)	20[2]	0	0	0	20	0
Total		202	270	1	1	203	271

[1] Excluding any amounts qualifying as out-of-pocket expenses or remuneration/out-of-pocket expenses on which VAT is payable.

[2] According to the partial waiver of fixed remuneration - resolution of the ordinary meeting of the Supervisory Board on 16 October 2018.

As a member of the Supervisory Board, Mr. Alfred Hörtenhuber received consulting fees of € 66 thousand in the reporting year, including out-of-pocket expenses, from SHW AG or one of its subsidiaries for services he personally rendered (see the Report of the Chairman of the Supervisory Board). SHW AG did not provide the members of the Supervisory Board with any loans or advance payments in the reporting year.

In the reporting year, all of the members of the Supervisory Board of SHW AG in office as at 31 December 2018, with the exception of Eugen Maucher, Friedrich Roithner and Josef Blazicek, also belonged to the Supervisory Board of Schwäbische Hüttenwerke Automotive GmbH, a subsidiary of SHW AG.

For periods in which members of the Supervisory Board of SHW AG are also members of the Supervisory Board of Schwäbische Hüttenwerke Automotive GmbH, the latter company only pays them an attendance fee for their attendance of Supervisory Board meetings of Schwäbische Hüttenwerke Automotive GmbH instead of the Supervisory Board remuneration otherwise payable. This attendance fee amounts to € 0.5 thousand for ordinary members of the Supervisory Board; the Chairman of the Supervisory Board receives twice this amount and his deputy one-and-a-half times this amount. As at 31 December 2018, the Chairman and the Deputy Chairman of the Supervisory Board of Schwäbische Hüttenwerke Automotive GmbH were also the Chairman and Deputy Chairman of the Supervisory Board of SHW AG

NON-FINANCIAL INDICATORS

Non-financial statement of the Group

The non-financial statement of the Group pursuant to Section 289b (3) and Section 315b (3) HGB is published at the same time as the combined management report of the group and of the company, SHW AG. It can be found on the SHW website using the following link: https://www.shw.de/unternehmen/nachhaltigkeit/

Headcount continues to rise:

Over the past year the number of employees in the SHW Group (excluding apprentices and hired temps) rose from 1,347 to 1,538 employees as an annual average.

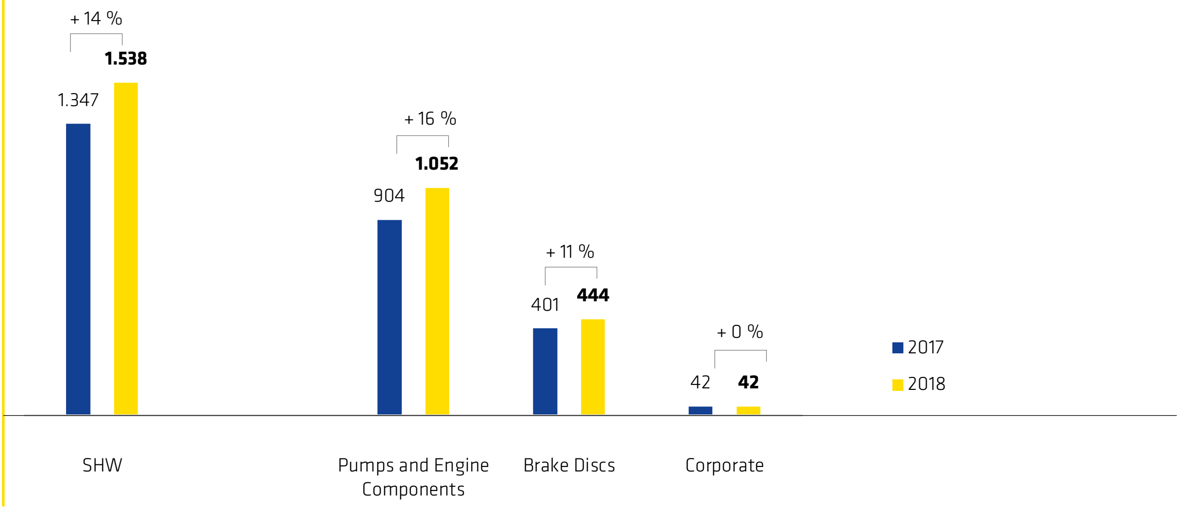
The average headcount at the locations of the Pumps and Engine Components business segment came to 1,052. An annual average of 444 staff were employed at the two locations of the Brake Discs business segment.

Wages and salaries at the German locations, with the exception of Bad Schussenried, increased by 4.3 per cent from 1 April 2018 on account of collectively bargained industrial agreements. At Bad Schussenried the wage and salary increase took effect on 1 December 2018 due to a supplementary agreement to the industrial agreement.

As at 31 December 2018, the SHW Group had 34 apprentices spread across all of its plants. New hirings were focused on apprenticeships for industrial mechanics.

In the year 2018 one employee celebrated his 50th year of service, four employees their 40th year of service, two employees their 25th year of service and 30 employees their 10th year of service.

EMPLOYEES IN THE SHW GROUP



DISCLOSURES REQUIRED BY TAKEOVER LAW

Disclosures required by takeover law and related comments

This chapter includes the disclosures required pursuant to Section 289a (1) and Section 315a (1) HGB as well as the Management Board's explanatory report in accordance with Section 176 (1) Sentence 1 AktG.

Composition of subscribed capital

The Company's subscribed capital amounted to €6,436,209.00 as at 31 December 2018, divided into 6,436,209 no-par value bearer shares each with a pro-rata share in issued capital of € 1.00 per share. The shares are fully paid in. There is only one class of shares. All of the shares entail the same rights and obligations. Each share confers one voting right at the Annual General Meeting.

Limitations relating to voting rights or the transfer of shares

The Management Board is not aware of any limitations relating to the voting rights or the transfer of shares.

Equity interests exceeding 10 per cent of the voting rights

To the best of the company's knowledge, Mr. Stefan Pierer, Wels, Austria, the ultimate controlling party of Pankl SHW Industries AG Kapfenberg, Austria (formerly: SHW Beteiligungs GmbH, Wels, Austria), – a subsidiary of Pierer Industrie AG, Wels, Austria, held capital in SHW AG on 31 December 2018 that granted it 50.21 per cent of the voting rights. Otherwise, no shareholder held an equity interest which exceeded 10 per cent of the voting rights.

Shares with special rights conferring powers of control

No shares with special rights conferring powers of control have been issued.

Form of controlling voting rights where employees hold equity interests and do not directly exercise their rights of control

No procedure for the control of voting rights applies in the event of employees holding equity interests and not directly exercising their rights of control.

Statutory regulations and provisions of the Articles of Association concerning the appointment and dismissal of members of the Management Board and the amendment of the Articles of Association

According to the Company's Articles of Association, the Management Board of SHW AG consists of one or more members (Article 6 (1) of the Company's Articles of Association). The Supervisory Board determines the number of Management Board members and appoints and dismisses them. They are appointed for a maximum period of five years. They may be reappointed or their term of office may be extended for a maximum period of five years (see Section 84 (1) sentences 1 to 4 AktG).

The appointment of Management Board members requires in each case a simple majority of the votes passed on the Supervisory Board. In case of a tied vote, the chairman of the Supervisory Board shall have the casting vote (Article 11 (7) of the Company's Articles of Association). If more than one person is appointed as a member of the Management Board, the Supervisory Board may appoint one of these members as Chief Executive Officer (Section 84 (2) AktG, Article 6 (2) of the Company's Articles of Association) and a further member of the Management Board as deputy chairman (Article 6 (2) of the Company's Articles of Association). In the absence of a required Management Board member, the court shall appoint a member in urgent cases upon the request of a party involved (Section 85 (1) (1) AktG). The Supervisory Board may revoke the appointment of a member of the Management Board and the appointment as Chief Executive Officer for cause (see Section 84 (3) (1) and (2) AktG).

As a rule, amendments to the Articles of Association must be resolved by the Annual General Meeting (Section 179 (1) (1) AktG). At SHW AG, a resolution of the Annual General Meeting amending the Articles of Association requires a simple majority of the votes cast and the share capital represented at this resolution (Section 179 (2) AktG in conjunction with Article 20 (2) of the Articles of Association), unless a larger majority is required in accordance with mandatory statutory provisions. For instance, this applies in case of a change to the Company's object of business (Section 179 (2) (2) AktG) or the creation of authorised capital (Section 202 (2) (2) AktG) or contingent capital (Section 193 (1) (1) AktG), for which a majority of at least three-quarters of the capital represented at this resolution is required. The Supervisory Board is authorised to resolve amendments to the Articles of Association which merely affect its wording (Section 179 (1) (2) AktG in conjunction with Article 13 of the Company's Articles of Association).

Powers of the Management Board to issue or repurchase shares

The Management Board is thus authorised by resolution of the Annual General Meeting dated 12 May 2015, subject to the consent of the Supervisory Board, to increase the Company's share capital one or more times in the period up to and including 11 May 2020 up to a sum total of €3,218,104.00 in return for contributions in cash and / or in kind by issuing up to 3,218,104 new no-par value bearer shares (Authorised Capital 2015). With the consent of the Supervisory Board, the Management Board is authorised to determine further details of capital increases on the basis of the Authorised Capital 2015 as well as their execution. Under the law, shareholders have a fundamental right of subscription when new shares are issued. The Management Board is authorised with the consent of the Supervisory Board to exclude the subscription right of the shareholders in whole or in part in those cases specified in further detail in the resolution of the Annual General Meeting.

Furthermore, by resolution of the Annual General Meeting dated 10 May 2016, the Management Board is authorised, with the approval of the Supervisory Board, to issue bearer and / or registered convertible and / or warrant bonds (hereinafter jointly referred to as "bonds") with a limited or unlimited term, on one or more occasions in the period up to and including 9 May 2021 for a total nominal amount of up to €65,000,000.00 and to grant conversion or warrant rights to the bearers / creditors of bonds entitling them to subscribe to up to 1,250,000 new bearer or – if the existing shares in the Company are registered at the time that the new shares are issued – registered no-par value shares with a pro-rata share in issued capital of up to € 1,250,000.00 in accordance with the more detailed provisions of the terms and conditions of the convertible / warrant bonds and / or afford the Company corresponding conversion rights. Under the law, shareholders have a fundamental right of subscription when bonds are issued. The Management Board is authorised with the consent of the Supervisory Board to exclude the subscription right of the shareholders in whole or in part in those cases specified in further detail in the resolution of the Annual General Meeting.

Furthermore, by resolution of the Annual General Meeting dated 10 May 2016, the Company's share capital is contingently increased by up to €1,250,000.00 by issue of up to 1,250,000 new bearer or – if the existing shares in the Company are registered at the time that the new shares are issued – registered no-par value shares (Contingent Capital 2016). The purpose of the contingent capital increase is to grant shares to bearers / creditors of convertible bonds and to bearers of warrant rights arising from warrant bonds which are issued on the basis of an authorisation pursuant to a resolution of the Annual General Meeting on 10 May 2016, valid until 9 May 2021 (inclusive), of SHW AG or a domestic or foreign company in which SHW AG directly or indirectly holds a majority of the voting rights and capital.

Finally, SHW AG is authorized by resolution of the Annual General Meeting dated 10 May 2016, subject to approval of the Supervisory Board, to purchase treasury shares in the Company in the period up to and including 9 May 2021 of a volume not exceeding 10 per cent of the Company's share capital at the time that the authorisation is granted or – if this value is lower – at the time that the authorisation is exercised. This authorisation can be exercised all at once or in multiple cases to pursue any legal purpose by the company. At the discretion of the Company these shares may be purchased – also with the use of derivatives – through the stock market or through a public purchase offer which is submitted to all shareholders and / or by means of a public tender to submit offers to sell. Purchased treasury shares may be resold or cancelled, with the approval of the Supervisory Board, without any further resolution of the Annual General Meeting. The Management Board is authorised with the consent of the Supervisory Board to exclude the subscription right of the shareholders in whole or in part during the resale of treasury shares in cases specified in further detail in a resolution of the Annual General Meeting.

Significant agreements to which the Company is party and which are subject to a change of control due to a takeover offer.

Each creditor under the syndicated loan agreement (see the financial position, financial strategy for more details) can terminate its credit line promised under the syndicated loan agreement and call for repayment of the loans it has granted if one or more persons (acting jointly or severally) (i) obtain more than 50 per cent of the shares in the subscribed capital of SHW AG with attached voting rights or (ii) exercise more than 50 per cent of the voting rights at a shareholder meeting or the Annual General Meeting of SHW AG on the basis of voting restriction agreements or some other arrangement, or can control the exercise of such rights. There is no change in control when Pierer Konzerngesellschaft mbH (registered in the commercial register of the local court of Wels under the number, FN 134766 k with its registered offices in Wels, Austria) or one of its affiliated companies (acting jointly or severally) fulfils the above criteria.

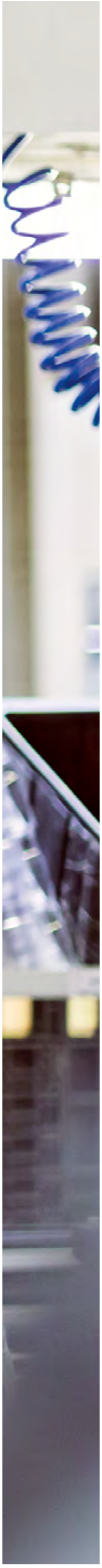
Compensation agreements which the Company has concluded with Management Board members or employees in the event of a takeover offer

The Company has not concluded any compensation agreements with Management Board members or employees in the event of a takeover offer.

Aalen, 28 February 2019

ki

Chairman of the Management Board	CFO	*Member of the Management Board*



CONSOLIDATED FINANCIAL STATEMENTS

of SHW AG

CONSOLIDATED INCOME STATEMENT

for the fiscal year from 1 January to 31 December 2018

K EUR	Note	2018	2017
Sales	**(14)**	**420,936**	**400,584**
Cost of sales	(22)	-368,955	-351,063
Gross profit		**51,981**	**49,521**
Selling expenses	(15), (22)	-12,196	-11,779
General administrative expenses	(16), (22)	-17,122	-14,945
Research and development costs	(17), (22)	-11,139	-11,135
Other operating income	(18)	3,565	8,274
Other operating expenses	(19)	-7,775	-2,435
Earnings before interest and tax		**7,314**	**17,501**
Financial income	(20)	5	49
Financial expenses	(20)	-1,527	-1,260
Profit or loss of joint ventures accounted for using the equity method		0	-1,170
Earnings before tax		**5,792**	**15,120**
Deferred taxes	(21)	-1,196	707
Current income tax	(21)	-1,465	-5,668
Earnings after tax		**3,131**	**10,159**
Net profit		**3,131**	**10,159**
Earnings per share in € (basic and diluted)*		0.49	1.58

* Calculated in relation to an average of 6,436,209 shares (previous year 6,436,209 shares), see Note (31) "Equity".

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the fiscal year from 1 January to 31 December 2018

K EUR	**2018**	2017
Net profit	**3,131**	**10,159**
Items that will not be reclassified to profit or loss in future periods		
Actuarial gains / losses from pension provisions and similar obligations before tax	279	107
Tax effect	–79	–30
Items that may be reclassified to profit or loss in future periods		
Currency translation differences	–645	–1,787
Tax effect	0	0
Realised gains / losses from currency translation for joint ventures accounted for using the equity method	0	1,542
Tax effect	0	0
Other comprehensive income after tax	**–445**	**–168**
Total comprehensive income after tax	**2,686**	**9,991**
Net profit for the year attributable to		
shareholders of SHW AG	3,131	10,159
holders of non-controlling interests	0	0
Total comprehensive income after tax attributable to		
shareholders of SHW AG	2,686	9,991
holders of non-controlling interests	0	0

CONSOLIDATED BALANCE SHEET

as at 31 December 2018

ASSETS

K EUR	Note	31.12.2018	31.12.2017
Goodwill	(25)	7,441	7,441
Customer base	(25)	826	923
Other intangible assets	(25)	11,380	7,509
Property, plant and equipment	(25)	134,742	114,167
Deferred tax assets	(21)	5,385	5,963
Other financial assets	(26)	333	287
Other assets	(26)	3,503	2,914
Non-current assets		**163,610**	**139,204**
Inventories	(27)	58,816	44,418
Trade receivables	(28)	50,943	45,825
Other financial assets	(29)	217	16,311
Income tax assets	(21)	1,425	0
Other assets	(29)	6,780	6,471
Cash and cash equivalents	(30)	5,003	3,868
Current assets		**123,184**	**116,893**
Total assets		**286,794**	**256,097**

EQUITY AND LIABILITIES

K EUR	Note	**31.12.2018**	31.12.2017
Subscribed capital	(31)	6,436	6,436
Capital reserves	(31)	38,510	38,510
Revenue reserves	(31)	86,063	86,150
Other reserves	(31)	–6,637	–6,192
Equity		**124,372**	**124,904**
Employee benefits	(32)	32,199	32,796
Deferred tax liabilities	(21)	3,015	2,247
Liabilities to banks	(34)	5,409	1,593
Other financial liabilities	(34)	6,046	2,633
Other provisions	(33)	45	45
Other liabilities	(34)	643	1,034
Non-current liabilities and provisions		**47,357**	**40,348**
Liabilities to banks	(34)	38,674	20,445
Trade payables	(34)	54,521	46,353
Contract liabilities	(14)	1,449	0
Other financial liabilities	(34)	6,136	4,931
Income tax liabilities	(21)	99	74
Other provisions	(33)	5,663	10,831
Other liabilities	(33)	8,523	8,211
Current liabilities, provisions and accruals		**115,065**	**90,845**
Total equity and liabilities		**286,794**	**256,097**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the fiscal year from 1 January to 31 December 2018

K EUR	Note	2018	2017
1. Cash flow from operating activities			
Net profit		3,131	10,159
Depreciation / amortisation (+) of fixed assets	(25)	24,028	23,770
Income tax expenses through profit or loss (+)	(21)	1,465	5,668
Income taxes paid (-)		–2,835	–7,213
Financing costs through profit or loss (+)	(20)	1,527	1,260
Interest paid (-)		–620	–1,253
Financial investment income through profit or loss (-)	(20)	–5	–49
Interest received (+)		5	49
Increase (+) / decrease (-) in provisions	(32), (33)	–6,446	–78
Change in deferred taxes		1,260	–774
Other non-cash expenses (+) / income (-)		2,047	–120
Gain (-) / loss (+) from the disposal of assets		–32	156
Profit or loss of joint ventures accounted for using the equity method		0	1,170
Increase (-) / decrease (+) in inventories, trade receivables and other assets	(27), (28), (29)	–23,196	–6,925
Increase (+) / decrease (-) in trade payables and other liabilities	(34)	6,659	5,613
Cash flow from operating activities		**6,988**	**31,433**

K EUR	Note	2018	2017
2. Cash flow from investing activities			
Cash received (+) from the disposal of property, plant and equipment		158	0
Cash paid (-) for investments in property, plant and equipment		−34,955	−29,908
Cash paid (-) for investments in intangible assets		−5,161	−2,282
Cash paid (-) for the acquisition of subsidiaries		0	−2,299
Cash received (+) from disposal of financial assets	(29)	16,219	0
Cash paid (-) for investments in financial assets		0	−6,819
Cash flow from investing activities		**−23,739**	**−41,308**
3. Cash flow from financing activities			
Cash received (+) from the assumption of financial liabilities	(34), VI.	22,503	19,290
Cash paid (-) for the redemption of financial liabilities	(34), VI.	−458	−2,250
Dividends paid (-) to shareholders	(31), VI.	−3,218	−6,436
Cash paid (-) for finance leases	VI., VIII.	−897	−247
Cash flow from financing activities		**17,930**	**10,357**
4. Cash and cash equivalents at the end of the period			
Cash-effective changes in cash and cash equivalents (sum of positions 1-3)		1,179	482
Exchange rate-related changes in cash and cash equivalents		−44	−230
Changes in cash and cash equivalents due to changes in the consolidation basis		0	0
Cash and cash equivalents at the beginning of the period	(30)	3,868	3,616
Cash and cash equivalents at the end of the period	**(30)**	**5,003**	**3,868**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the fiscal year from 1 January to 31 December 2018

K EUR	Subscribed capital (Note 31)	Capital reserves (Note 31)	Revenue reserves (Note 31)	Other reserves (Note 31)	**Total equity**
1 January 2017	**6,436**	**38,510**	**82,427**	**–6,024**	**121,349**
Changes from actuarial gains and losses	0	0	0	77	77
Realised gains / losses from currency translation for joint ventures accounted for using the equity method	0	0	0	1,542	1,542
Foreign currency translation differences	0	0	0	–1,787	–1,787
Other comprehensive income	**0**	**0**	**0**	**–168**	**–168**
Net profit for 2017	0	0	10,159	0	10,159
Total comprehensive income for the period	**0**	**0**	**10,159**	**–168**	**9,991**
Dividends paid	0	0	–6,436	0	–6,436
31 December 2017	**6,436**	**38,510**	**86,150**	**–6,192**	**124,904**

*) € 1 per share

K EUR	Subscribed capital (Note 31)	Capital reserves (Note 31)	Revenue reserves (Note 31)	Other reserves (Note 31)	**Total equity**
1 January 2018	**6,436**	**38,510**	**86,150**	**–6,192**	**124,904**
Changes from actuarial gains and losses	0	0	0	200	200
Foreign currency translation differences	0	0	0	–645	–645
Other comprehensive income	**0**	**0**	**0**	**–445**	**–445**
Net profit for 2018	0	0	3,131	0	3,131
Total comprehensive income for the period	**0**	**0**	**3,131**	**–445**	**2,686**
Dividends paid	0	0	–3,218	0	–3,218
31 December 2018	**6,436**	**38,510**	**86,063**	**–6,637**	**124,372**

*) € 1 per share

NOTES

to the consolidated financial statements of SHW AG

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

I. General background

1. The Company

SHW Aktiengesellschaft with registered offices at Wilhelmstrasse 67, Aalen, Germany, was created in 2011 by a change of legal form and recorded in the commercial register on 8 June 2011 (under the commercial register no. HRB 726621 held by the Ulm district court).

The SHW Group's principal activity is the production and sale of hydraulic pumps, powder metallurgy parts and brake discs.

2. Accounting polices

SHW AG's consolidated financial statements as at 31 December 2018 were approved by the Management Board on 28 February 2019 for submission to the Supervisory Board. The consolidated financial statements presented conform to the applicable International Financial Reporting Standards (IFRS) set by the International Accounting Standards Board (IASB) in London. The authoritative version of IFRS is that as at 31 December 2018 as to be applied in the EU. All interpretations of the International Financial Reporting Interpretations Committee (IFRIC) relevant for fiscal year 2018, as well as previous interpretations of the Standing Interpretations Committee (SIC), have been applied.

The consolidated financial statements are generally prepared in accordance with the historical cost principle. Deviations from this are specified under the accounting and valuation principles.

The consolidated financial statements have been prepared in euros. Unless indicated otherwise, the figures shown in the consolidated financial statements are stated in thousand euros (€ thousand).

In accordance with the resolution of 14 January 2019, the shareholders of Lust Hybrid-Technik GmbH, Hermsdorf (LHT), and, by resolution of 14 January 2019, the shareholders of Schwäbische Hüttenwerke Automotive GmbH both unanimously resolved to make use of the exemption rule pursuant to Section 264 (3) German Commercial Code (Handelsgesetzbuch – HGB) and to dispense with preparing a management report and notes as well as the disclosure of annual financial statements. The resolutions were passed on to the Federal Gazette (Bundesanzeiger) on 15 and 16 January 2019, respectively, for publication.

3. Changes in presentation and classification

The following changes were made through other comprehensive income in fiscal year 2018 to match the uniform presentation of the Pierer Group. The adjusted previous year figures are also presented in each case accordingly.

- Advance payments on inventories are allocated to other assets. In the previous year, advance payments on inventories were presented under inventories.

- In the consolidated balance sheet, non-current employee benefit obligations are combined and presented as one line item for the first time. These include provisions for pensions and similar obligations (presented separately in the consolidated balance sheet in the previous year) and provisions for service anniversary bonuses and semi-retirement obligations ("Altersteilzeit"). Long-term employee bonuses are now presented under non-current other liabilities. In the previous year, provisions for service anniversary bonuses, semi-retirement obligations and long-term bonuses were presented under non-current other provisions.

Reference is made to the detailed presentations and breakdowns in Notes (27), (29), (32), (33) and (34).

The structure of the notes to the consolidated financial statements was also adjusted to match that of the Pierer Group with explanations on the accounting policies now being made directly under the notes to the specific line items of the consolidated income statement and consolidated balance sheet.

4. New and amended standards and interpretations applicable in the year 2018

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and interpretations, which have been adopted into European law by the EU and must be applied to reporting periods beginning on 1 January 2018:

Standard/ Interpretation		Status	To be applied from
AIP 2014 - 2016	Annual improvements project by the IASB (2014-2016)	revised	01.01.2018
Amendments to IAS 40	Transfers of investment property	revised	01.01.2018
Amendments to IFRS 2	Classification and measurement of share-based payment transactions	revised	01.01.2018
Amendments to IFRS 4	Adoption of IFRS 9	revised	01.01.2018
IFRIC 22	Foreign currency transactions and advance consideration	revised	01.01.2018
IFRS 9	Financial instruments	new	01.01.2018
IFRS 15	Revenue from contracts with customers	new	01.01.2018
Amendments to IFRS 15	Clarifications to IFRS 15 Revenue from contracts with customers	new	01.01.2018

- IFRS 9 “Financial Instruments” introduces a uniform approach for the recognition and measurement of financial assets. The subsequent measurement of financial assets will in future be classified according to three categories with different measures of value and different recognition of changes in value. Furthermore, IFRS 9 incorporates a new impairment model which is based on the premise of providing for expected losses. This standard will require additional disclosures in the notes to the financial statements.

  SHW AG adopted IFRS 9 on 1 January 2018. First-time application of the new classification criteria and the new impairment model did not result in any significant effects on the line items of the consolidated financial statements. Reference is made to Notes (28), (37) and (38).

- IFRS 15 “Revenue from Contracts with Customers”: The new standard replaces IAS 18 “Revenue” and IAS 11 “Construction Contracts” and the related interpretations. The new standard establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise. IFRS 15 prescribes a single, five-step revenue recognition model. In principle, this must be applied to all contracts with customers. In the consolidated balance sheet, IFRS 15 has introduced new items for contract assets and liabilities. These may arise at the level of the individual contract from a surplus of performance rendered over the consideration received or vice versa. In addition, expanded disclosure requirements apply.

  SHW AG adopted IFRS 15 on 1 January 2018. In sum there was no significant impact on the financial performance, financial position and cash flows of the SHW Group. The analysis of customer contracts did not reveal any cumulative effect that would result in a need to adjust revenue reserves as at 1 January 2018. We refer to Notes (14) and (26).

We expect that the first-time application of the other new standards and amendments will not have any effect, or will not have any significant effect, on the consolidated financial statements of SHW AG.

5. Standards, interpretations and amendments to published standards not yet mandatory in 2018 and not adopted early by the SHW Group

The IASB and IFRIC have adopted further standards and interpretations. These regulations have not been applied in this fiscal year because either they have not yet been endorsed by the EU, or their application is not yet mandatory.

Standard/ Interpretation		Status	To be applied from
AIP 2015 - 2017	Annual improvements project by the IASB (2015-2017)	revised	01.01.2019
Amendments Rahmen-konzept	Amendments to references to the conceptual framework in IFRS standards	revised	01.01.2020
Amendments zu IAS 1 und IAS 8	Definition of 'material'	revised	01.01.2020
Amendments zu IAS 19	Employee benefits: Plan amendment, curtailment or settlement	revised	01.01.2019
Amendments to IAS 28	Long-term interests in associates and joint ventures	revised	01.01.2019
Amendments zu IFRS 3	Business combinations	revised	01.01.2020
Amendments to IFRS 9	Prepayment features with negative compensation	revised	01.01.2019
IFRIC 23	Uncertainty over income tax treatments	revised	01.01.2019
IFRS 16	Leases	new	01.01.2019
IFRS 17	Insurance contracts	new	01.01.2022

- IFRS 16 “Leases”: In January 2016, the IASB published the new standard IFRS 16 “Leases”. The changes resulting from this affect the lessee in particular and as a consequence all leases are in principle to be recognised in the balance sheet of the lessee in future. The lessee recognises a right-of-use asset, which represents its right to use the underlying asset, as well as a liability under the lease, which represents its obligation to make lease payments.

  SHW AG will adopt IFRS 16 retrospectively on 1 January 2019; the comparative figures for previous years will not be restated. The alternative treatment allowed for low-value leases and leases of twelve months or less will be applied. An analysis performed within the framework of the group-wide project on first-time application revealed that as at 1 January 2019 right-of-use assets of € 4,571 thousand would be recognised from applying IFRS 16 to leases previously treated as operating leases. The right-of-use assets comprise intangible assets of € 1,160 thousand and land, land rights and buildings of € 2,298 thousand as well as other equipment, operating and office equipment of € 1,113 thousand. The balance sheet total will increase by € 4,571 thousand due to recognition of the corresponding lease liabilities. Related to the balance sheet total as at 31 December 2018, the adoption of IFRS 16 results in an increase of roughly 1.6 per cent. Due to the fact that expenses from operating leases will no longer be incurred, but there will rather be an increase in depreciation, amortisation and interest expenses, the adoption of IFRS 16 will have a positive impact on EBITDA. For example, depreciation and amortisation of € 1.7 million and interest expenses of € 0.05 million will be recorded in fiscal year 2019 on right-of-use assets recognised upon first-time application (using the marginal interest rate of 1.2 per cent). Relative to EBITDA in fiscal year 2018 this represents an increase of approximately 5.4 per cent. As a result, the increase in the balance sheet total and increase in gearing (also relevant for the syndicated bank loan agreement) will lead to a decline in the equity ratio. However, the increase in EBITDA has a positive effect on the net debt ratio (ratio of net debt to EBITDA). The change in the presentation of lease expenses associated with operating leases will also lead to an improvement in the cash flow from operating activities and a corresponding deterioration in cash flow from financing activities.

We expect that future application of the other new standards and amendments will not have any effect, or will not have any significant effect, on the consolidated financial statements of SHW AG.

6. Estimates and uncertainties associated with discretionary judgements and assumptions

The preparation of the consolidated financial statements requires that assumptions and estimates are made for the measurement of some balance sheet items, for the disclosure of contingent liabilities, and for disclosing income and expenses. Actual amounts may differ from these estimates.

The following presents the key forward-looking assumptions and significant sources of uncertainty concerning estimates as at the reporting date that involve a considerable risk of material adjustment to the carrying amounts of assets or liabilities in the upcoming fiscal year. These assumptions are subject to a periodic review conducted by the management.

Goodwill impairment

The SHW Group tests goodwill for impairment at least once a year or when there is an indication that the goodwill of €7,441 thousand (previous year €7,441 thousand) may be impaired. This involves an estimate of the recoverable amount of those cash-generating units (CGUs) to which the goodwill is allocated. In order to calculate the recoverable amount of the CGU, the SHW Group must estimate the fair value, less the cost of sale, based on the EBIT forecasts and, in addition, select an interest rate in order to calculate the present value of cash flows. Further details may be found in Note (25) “Statement of changes in intangible assets and property, plant and equipment”.

Development costs

Development costs are capitalised according to the accounting and valuation methods presented. The initial capitalisation of costs is based on the management’s assessment that technical and economic feasibility has been demonstrated. Generally, this is the case when a product development project has achieved a certain degree of maturity within an existing project management model. In order to determine the capitalisable amounts, assumptions and estimates were included for expected cash flows from assets, the applicable discount rates and the period of expected future cash flows which the assets generate. As at 31 December 2018, the capitalised development costs amount to €8,493 thousand (previous year €5,258 thousand).

Pensions and similar obligations

Expenses for defined benefit plans and other post-employment benefits are determined based on actuarial calculations. The actuarial valuation involves making assumptions about discount rates, future wage and salary increases, mortality rates and future pension increases. Such estimates are subject to considerable uncertainty due to the long-term nature of these plans.

As at 31 December 2018, the provision for pensions and similar obligations amounted to € 27,057 thousand (previous year €27,905 thousand). More details on this can be found in Note (32) “Employee benefit obligations”.

Deferred tax assets

Deferred tax assets are recognised on all unused tax-loss carry-forwards to the extent that it is probable that taxable income will be available in future against which the tax-loss carry-forwards can actually be used. Changes in the ownership structure of SHW AG or changes in the tax legislation of the respective countries could have an impact on the ability to utilise unused tax losses. A considerable degree of discretionary judgement on the part of the management is required to determine the amount of deferred tax assets that can be recognised, based on the expected timing and level of taxable income in the future together with future tax planning strategies. For further details, please see Note (21) “Income taxes”.

Estimates used in the application of accounting principles

Discretionary decisions must be made with regard to accounting and valuation principles. These decisions are continually re-evaluated and are based on historical experience and other factors, including the expectations of future events that are believed to be reasonable under the current circumstances.

This particularly applies to the following types of situations:

- Determination of the fair value of assets and liabilities acquired as part of a business combination, as well as these assets’ period of useful life, based on assessments by the management.
- In the case of assets that are to be sold, management must determine whether these can be sold in their present condition and whether their sale is very probable.
- When recognising provisions for warranties, customer project and product-related obligations, the main parameters (ratio of the expected utilisation and the average amount) are defined by management.
- According to IFRS 9, financial assets must be classified into assets that are “held”, “held and sold” or “held for trading”, depending on the business model. Depending on this classification, financial assets are measured at amortised cost (“held”), or (a) at fair value through other comprehensive income (“held and sold”) or (b) at fair value through profit or loss (“held for trading”).

II. Consolidation methods and basis of consolidation

7. Consolidation principles and methods

The consolidated financial statements comprise the financial statements of SHW AG, as the pre-eminent consolidation group, and all of the subsidiaries over which it exercises control (with the exception of SensDev GmbH, Burgstädt, which was not included due to materiality reasons), as defined by IFRS 10, as at 31 December of the respective fiscal year. The financial statements of the subsidiaries are prepared as at the same reporting date as those of the parent company using uniform accounting and valuation principles.

A full list of the shareholdings of the SHW Group is attached as an integral part of these notes to the consolidated financial statements.

Capital consolidation is carried out in accordance with the purchase method. Subsidiaries are fully consolidated from their date of acquisition, i.e. from the date as at which the Group directly or indirectly controls the entity as defined by IFRS 10. An entity is controlled if SHW AG is able to decide on the relevant activities of the subsidiary due to voting rights or other rights, if it receives the positive or negative variable returns generated by this subsidiary and if it may influence these returns by virtue of its decision-making authority. Subsidiaries are removed from the consolidated financial statements as soon as the parent company ceases to control the subsidiary. Upon first-time consolidation, the entity's acquisition cost is allocated to the identifiable assets, liabilities and contingent liabilities of the entity acquired. The assets acquired, particularly the intangible assets, are reassessed in terms of their accounting treatment and subsequently recognised at fair value. Where the acquisition costs for the acquired entity exceed the proportional fair value of the net assets, goodwill is recognised and an impairment test is carried out once a year or when there is good cause. If the impairment test reveals a loss in value an impairment loss is recognised.

All intra-group balances, transactions, income, expenditures, profits and losses from intra-group transactions that are recognised in the separate financial statements of consolidated companies are eliminated.

8. Scope of consolidation

The group of consolidated companies did not change in fiscal year 2018.

9. Currency translation

The consolidated financial statements are prepared in euros, which is the functional and presentation currency of the SHW Group. Each company within the SHW Group determines its own functional currency. The line items of the companies contained in the financial statements of the respective Group companies are measured using this functional currency. Foreign currency transactions are translated initially at the spot rate for the functional currency and the foreign currency prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the exchange rate prevailing at the reporting date. All currency differences are recognised in profit or loss. Non-monetary items measured at historical cost in a foreign currency are translated at the exchange rate prevailing on the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated at the exchange rate prevailing on the date the fair value was determined.

Assets and liabilities of foreign subsidiaries and joint ventures using a functional currency other than the euro are translated at the closing rate of the fiscal year, while the income statement items are translated at the average exchange rate for the period. Any differences resulting from these conversions are recognised directly under "other reserves" within equity ("foreign currency translation"). At the time of disposal, the amount recognised in "other reserves" is then recycled through profit or loss.

Translation differences arising from items to be received from or to be paid to a foreign operation for which settlement is neither planned nor likely and thus are part of the net investment in that foreign operation are recognised directly in equity within the foreign currency translation reserve.

The exchange rates used for the translation of the main currencies of the SHW Group are shown in the following table:

		Closing rate 31.12		Average rate	
	€1	**2018**	2017	**2018**	2017
Brazil	BRL	4.4440	3.9729	4.3294	3.6041
Canada	CAD	1.5605	1.5039	1.5329	1.4644
China	RMB	7.8751	7.8044	7.8156	7.6264
Romania	RON	4.6635	4.6585	4.6558	4.5687

III. Segment reporting

10. Background

Segment reporting is based upon the “management approach”. Operating segments are determined on the basis of internal reports, as defined by IFRS 8, which are regularly used by the chief operating decision maker to decide on the distribution of resources and to assess profitability. The chief operating decision maker is responsible for decisions regarding the allocation of resources to the business segments and for the monitoring of the segments’ profitability. The Management Board is the Company’s chief operating decision maker.

The profitability of the individual segments is established on the basis of the operating result (EBIT) and EBITDA. The EBIT of the segments is determined in accordance with IFRS, as is the operating result of the Group. The EBITDA of the segments and the Group are derived by taking into account the respective depreciation and amortisation. The assets of each segment are also established on the basis of IFRS.

The Pumps and Engine Components segment manufactures engine oil pumps and transmission oil pumps as well as sintered metallurgy products for the automotive industry. LHT (electronic components) was also allocated to this business segment. The Brake Discs segment produces unprocessed and processed monobloc brake discs and composite brake discs for the automotive industry.

Shared services and any matters and projects that are assigned to the Group’s headquarters are reported under central functions/reconciliation. Financial expenses, financial income and income taxes are also allocated to this segment.

Transactions between the segments are essentially based on market conditions identical to those that apply to transactions with third parties. As in the previous year, there were no sales to report on the basis of business transactions with other business segments in fiscal year 2018.

11. Segment reporting in the fiscal year

BUSINESS SEGMENTS IN 2018

K EUR	Pumps and Engine Components	Brake Discs	Central functions / reconciliation	**Group**
Segment sales	311,705	109,231	0	420,936
Segment EBIT	8,941	5,649	-7,276	7,314
Segment EBITDA	27,169	10,690	-6,517	31,342
Financial result	0	0	-1,522	-1,522
Profit or loss of joint ventures accounted for using the equity method	0	0	0	0
Earnings before tax	8,941	5,649	-8,798	5,792
Segment depreciation / amortisation	18,228	5,041	759	24,028
Segment investments	34,377	12,823	1,471	48,671
Segment assets	199,206	71,414	16,174	286,794
Material segment income	897	0	498	1,395
Material segment expenses	-4,534	0	-4,903	-9,437
Number of customers with sales > 10 % of total sales	1	1		1
VW Group	89,815	70,755		160,570

Material segment income consists of the consideration paid by customers and material segment expenses consist of expenses for litigation, impairment losses and costs associated with the change in the Management Board in fiscal year 2018. The impact of certain legal disputes are not a component of the operating result of the Pumps and Engine Components segment or the Brake Discs segment if, due to their amount or irregularity, this would distort the segment results and therefore make the figures uninformative of the development of the segments. Reference is made to the notes on litigation in the group management report which can be found in the legal risks section of the risk report.

12. Segment reporting of the previous year

BUSINESS SEGMENTS IN 2017

K EUR	Pumps and Engine Components	Brake Discs	Central functions / reconciliation	**Group**
Segment sales	305,883	94,701	0	400,584
Segment EBIT	18,206	3,151	-3,856	17,501
Segment EBITDA	37,375	7,289	-3,393	41,271
Financial result	0	0	-1,211	-1,211
Profit or loss of joint ventures accounted for using the equity method	0	-1,170	0	-1,170
Earnings before tax	18,206	1,981	-5,067	15,120
Segment depreciation / amortisation	19,169	4,138	463	23,770
Segment investments	23,285	10,140	1,125	34,550
Segment assets	165,723	76,833	13,541	256,097
of which purchase price receivable from sale of joint venture investment accounted for using the equity method	0	16,200	0	16,200
Material segment income	0	0	0	0
Material segment expenses	0	0	0	0
Number of customers with sales > 10 % of total sales	2	1		2
VW Group	113,004	54,795		167,799
Daimler Group	41,195	56		41,251

13. Geographic segments

The geographic information of the SHW Group is based on sales with customers headquartered in the various countries.

GEOGRAPHIC SEGMENTS 2018

K EUR	Germany	Rest of Europe	America	Asia	Other	**Total**
External sales	227,100	154,288	10,125	29,404	19	420,936
Other segment information						
Non-current segment assets	135,457	8,436	6,055	8,280	0	158,228

GEOGRAPHIC SEGMENTS 2017

K EUR	Germany	Rest of Europe	America	Asia	Other	**Total**
External sales	214,428	161,575	8,828	15,486	267	400,584
Other segment information						
Non-current segment assets	122,814	295	2,637	7,498	0	133,244

IV. Notes to the income statement

14. Sales

IFRS 15 “Revenue from Contracts with Customers” was adopted for the fiscal year beginning on 1 January 2018. The modified retrospective method was applied during first-time application without modifying the figures of earlier periods. There have not been any material effects on the financial performance, financial position or cash flows of the SHW Group arising from the adoption of IFRS 15.

In the course of the dual-phase analysis of the impact of IFRS 15 on the SHW Group performed in fiscal year 2017 (the business model in general and the customer contracts in detail) an analysis based on the five-step model of IFRS 15 was developed and applied to all significant customer contracts.

The first step involved the identification of contracts. According to IFRS 15 a contract arises for SHW in combination with a master agreement and an explicit order is received for preparatory work on a series product or individual calls are placed for series products: generally, when a customer nominates SHW for the production of a part, a master agreement is entered into that stipulates the general terms and conditions, but does not on its own establish enforceable rights and obligations. A legal liability, and therefore a contract in the sense of IFRS 15, only arises when an explicit order for preparatory work on a series product is received or a binding call is placed to produce series products. The revenue from preparatory work on a series product is immaterial in relationship to the income from selling the series products themselves. The criteria for combining the contracts are generally not fulfilled.

In the second step, the separate contractual performance obligations for developments, tools and the construction of prototypes and deliveries of series parts are identified. The qualitative criteria of a series of goods or services in the sense of IFRS 15 are not met.

In the third and fourth stages, the transaction price is identified and allocated to the contractual performance obligations. The transaction price of an identified contractual performance obligation is measured on the terms of the underlying contract (combination of the master agreement, an order or call for production and agreed pricing). The transaction price of the contractual performance obligations generally corresponds to the individual sales price.

Finally, in the fifth stage, the criteria for recognizing the revenue from customer contracts over time are examined. If the criteria are not met, the SHW Group recognises the revenue at the point in time when control over the good or service passes to the customer.

The SHW Group basically recognises revenue from satisfying contractual performance obligations at a point in time as the criteria for revenue recognition over time are not met. Although the goods or services passed to the customer are generally without any alternative use, the Company is not fundamentally entitled at all times to compensation for the performance obligations it has already satisfied. Consequently, the revenue is recognised at a point in time when control over the good or service passes to the customer.

Reference is made to the disaggregation of contract revenue in the segment reporting (Notes (10) to (13)) for more information on the disaggregation of revenue from contracts with customers depending on the nature of the good or service and the respective region.

Due to IFRS 15, contract assets and contract liabilities have been recognised for the first time in the consolidated balance sheet depending on the net balance of the contract rights and obligations at the level of the respective contract. As at 31 December 2018 contract liabilities amounted to € 1,449 thousand (1 January 2018: € 1,143 thousand). Contract liabilities mainly consist of the advance payments received from customers for preparatory work prior to the commencement of serial production. Revenue of € 736 thousand was realised in the course of fiscal year 2018 from the net balance of contract liabilities carried at the beginning of fiscal year 2018.

As in the previous year, the incremental costs of obtaining contracts of € 3,146 thousand (previous year € 2,369 thousand) are presented under non-current other assets and € 710 thousand (previous year € 360 thousand) under current other assets as at 31 December 2018. Incremental costs of obtaining contracts are when payments are made that can be directly associated with a probable customer contract without which the contract would not have been obtained and are expected to be recovered from the customer in future. Incremental costs of obtaining contracts are amortised in accordance with the later calls for the delivery of series products and came to € 387 thousand in the fiscal year. No impairment losses were recorded on recognised the incremental costs of obtaining contracts as at 31 December 2018. We refer to Notes (26) and (29).

Reference is made to Note (28) for more information on the impairments recorded on trade receivables.

15. Selling expenses

Selling expenses are expenses incurred by the sales function. This primarily includes expenses incurred by the sales departments and all of the overheads that can be allocated to these functions or activities. Direct selling expenses also include freight costs, commission and shipping costs.

16. General administrative expenses

Administrative costs include all administrative expenses which cannot be directly allocated to other functions. This includes expenses for general administration, management and other higher-level departments (see also the explanations on the results of operations in the combined group management report and management report).

17. Research and development costs

Research and development costs include personnel and non-personnel costs (e.g. depreciation of machinery used in research and development). In fiscal year 2018, the additionally capitalised development costs amounted to € 4.8 million (previous year €1.4 million). Additional development services were billed within the scope of customer orders.

18. Other operating income

Other operating income comprises, in particular, income from reversals of provisions and other liabilities of € 1,377 thousand (previous year € 4,411 thousand) and income from settlement payments and insurance indemnification payments of €580 thousand (previous year €3,144 thousand).

19. Other operating expenses

Other operating expenses mainly consist of non-recurring expenses of €6,302 thousand (previous year €0 thousand) from litigation and the associated legal expenses and consulting fees (see the section on legal risks in the risk report of the group management report). Apart from this, this item mainly includes legal and consulting fees of € 323 thousand (previous year €1,190 thousand). In the previous year, expenses from property damage of €417 thousand were recorded under other operating expenses which were offset by material other operating income from insurance indemnification.

20. Financial result

The financial result breaks down as follows:

K EUR	**2018**	2017
Financial income	5	49
Financial expenses		
Interest and similar expenses	–815	–777
Interest in the addition to pension provisions	–463	–439
Interest expense from finance leases	–249	–44
	–1,527	**–1,260**
Financial result	**–1,522**	**–1,211**

Financial income mainly results from interest on non-current assets and interest income from fixed-term deposits. Dividends and interest income are recognised at the time they occur. In the case of dividends, this represents the point in time in which the right to receive payment is established.

Operating expenses are recognised upon the utilisation of the service. Expenses for advertising and sales promotions as well as other sales-related expenses are recognised at the time they occur. Provisions for warranties are recognised at the time of the product's sale. Interest and other borrowing costs are recorded as incurred as long as the borrowing costs are not related to qualifying assets within the meaning of IAS 23 and if the opportunities and risks of the goods sold have been transferred to the buyer.

Other interest and similar expenses refer in particular to interest and borrowing costs from the syndicated loan of €546 thousand (previous year €479 thousand) determined using the effective interest rate method (see Note (34) "Liabilities").

The following table shows the net results for financial instruments by valuation category:

K EUR	Net results		of which impairment losses / reinstatements	
	2018	2017	**2018**	2017
Loans and receivables (AC)	–20	384	–25	14
Other non-current financial assets (AC)	–14	–11	–14	–11
Financial liabilities (AC)	–1,064	–821	0	0
Total	**–1,098**	**–448**	**–39**	**3**

21. Income taxes

Actual tax refund claims and tax liabilities

The actual tax refund claims and tax liabilities for the current period and for previous periods are carried at the amount of the expected refund by the tax authorities or the expected payment to the tax authorities. The calculation of this amount is based on the tax rates and tax laws applicable on the balance sheet date.

Income tax assets and income tax liabilities

Income tax assets of € 1,425 thousand (previous year € 0 thousand) relate to rights to reimbursement of excessive income tax paid due to provisional tax payments during the year. The application lodged by SHW AG to have the provisional payments reduced was granted at the beginning of 2019 and the reimbursement made.

Income tax liabilities of € 99 thousand (previous year € 74 thousand) relate to tax periods that have not yet been finally assessed.

Deferred taxes

Deferred taxes are calculated on all temporary differences between the carrying amounts of assets and liabilities in the IFRS consolidated balance sheet and tax balance sheet; deferred tax assets are only recognised to the extent that the related tax refunds or reductions are likely to occur.

The carrying amount of deferred tax assets is reviewed on each balance sheet date and reduced to the extent that it is no longer likely that there will be sufficient taxable income against which the deferred tax assets can be at least partially offset. Unrecognised deferred tax assets are reviewed on each balance sheet date and recognised insofar as it is now probable that future taxable income will enable the realisation of the deferred tax asset.

Deferred tax assets are reported as a separate item under non-current assets, while deferred tax liabilities comprise a separate item under non-current liabilities and provisions.

Deferred tax assets and liabilities are measured in accordance with the liability method using the tax rates expected in the year the asset is realised, or the liability is settled. This is based on tax rates and tax laws that are valid on the balance sheet date or that are expected to be valid in the near future.

Income taxes and deferred taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

a) Tax recognised in profit or loss

K EUR	**2018**	2017
Current taxes	**–1,465**	**–5,668**
Current year	–1,462	–5,679
Adjustments for previous years	–3	11
Deferred taxes	**–1,196**	**707**
Recognition / reversal of temporary differences	–568	759
Effect of tax loss recognised	–628	–52
Total	**–2,661**	**–4,961**

The revaluation of defined benefit obligations resulted in deferred tax expenses of € 79 thousand (previous year € 30 thousand) which were recognised directly in equity.

b) Reconciliation of effective tax rate

K EUR	**2018**	2017
Earnings before tax	5,792	15,120
Expected income tax (28.4 [previous year 28.4] per cent)	1,645	4,294
Tax-free income, non-deductible expenses	76	43
Tax effect of joint ventures accounted for using the equity method	0	332
Taxes from previous years	3	–11
Reduction in assessed value	–14	–14
Add backs (pursuant to Section 8 of the German Trade Tax Act- GewStG)	52	27
Unrecognised deferred tax assets from loss carryforwards	501	430
Impairment losses on deferred tax assets from loss carryforwards	242	0
Deviating foreign tax rates	195	66
Other	–39	–206
Income taxes	**2,661**	**4,961**
Effective tax rate	45.9%	32.8%

In Germany, corporate income tax totalled 15.8 per cent in 2018. Trade tax amounts to 12.6 per cent, with an average assessment rate of 359.6 per cent.

This resulted in a total statutory tax burden of 28.4 per cent.

Deferred taxes are based on differences in recognition and measurement in the tax balance sheet; in each case it is assumed that the actual domestic tax rate of 28.4 per cent is used.

No deferred taxes were calculated on outside basis differences amounting to € 5,410 thousand (previous year € 4,260 thousand) since SHW is able to control the timing of their release, and it is likely that the temporary difference will not reverse in the foreseeable future.

The distribution of dividends to shareholders of SHW AG did not have an impact on income tax in 2018 or 2017 and will not have an income tax impact in 2019.

c) Composition of deferred taxes

	Consolidated balance sheet	
K EUR	**31.12.2018**	31.12.2017
Deferred income tax assets		
Property, plant and equipment	13	13
Inventories	481	207
Other current assets	36	39
Employee benefits	3,949	4,214
Current liabilities, provisions and accruals	302	188
Unused tax losses	604	1,302
Total	**5,385**	**5,963**
Deferred income tax liabilities		
Intangible assets	2,683	1,833
Property, plant and equipment	80	119
Other non-current assets	53	67
Other current assets	148	150
Non-current liabilities and provisions	25	78
Current liabilities, provisions and accruals	26	0
Total	**3,015**	**2,247**

d) Deferred taxes directly recognised in equity

K EUR	Before tax	Tax income / expense	After tax
2018			
Actuarial gains / losses from pension provisions and similar obligations	279	-79	200
Currency translation differences	-645	0	-645
Total	**-366**	**-79**	**-445**
2017			
Actuarial gains / losses from pension provisions and similar obligations	107	-30	77
Realised gains / losses from currency translation for joint ventures accounted for using the equity method	1,542	0	1,542
Currency translation differences	-1,787	0	-1,787
Total	**-138**	**-30**	**-168**

e) Unrecognised deferred tax assets

No deferred tax assets were recognised on tax losses amounting to € 3,637 thousand (previous year € 1,803 thousand) since it is currently unlikely that taxable income will be available in the future against which the deferred tax asset can be used (history of past losses).

Of the deferred tax assets on tax losses, € 66 thousand (previous year € 622 thousand) are attributable to the Chinese subsidiary SHW Automotive Pumps (Kunshan) Co., Ltd., where series production commenced in 2018.

The deferred tax assets recognised on the unused tax losses at the Brazilian subsidiary, SHW do Brasil Ltda., (€ 178 thousand as of the reporting date, € 368 thousand in the prior year) could be partially used in fiscal year 2018. Moreover, the subsidiary is about to commence serial production for a major contract.

Deferred tax assets on tax losses of € 195 thousand (previous year € 312 thousand) were recognised at LHT.

Deferred tax assets on tax losses (business start-up expenses) of € 165 thousand were recognised at the Romanian subsidiary, SHW Pumps & Engine Components SRL, for the first time in fiscal year 2018.

The Management Board is of the opinion that it is probable that there will be taxable income in future against which these entities will be able to offset the unused tax losses.

22. Cost of materials, personnel expenses, depreciation and amortisation

The cost of sales and other functional costs contain the cost of materials, personnel expenses and depreciation and amortisation, as follows:

COST OF MATERIALS

K EUR	2018	2017
Cost of raw materials and supplies and of goods purchased	243,177	231,694
Cost of purchased services	12,838	10,688
Total cost of materials	**256,015**	**242,382**

PERSONNEL EXPENSES

K EUR	2018	2017
Wages and salaries	85,790	76,755
Social security contributions and pension expenses	16,426	14,495
Total personnel expenses	**102,216**	**91,250**

Pension expenses comprise the addition to pension provisions (excluding the interest component) of € 805 thousand (previous year € 949 thousand). Statutory pension insurance expenses totalled € 6,943 thousand (previous year € 6,323 thousand).

Depreciation and amortisation

Depreciation and amortisation of intangible assets and property, plant and equipment totalled € 24,028 thousand (previous year € 23,770 thousand). For a breakdown of depreciation and amortisation to the individual line items of non-current assets for the fiscal year and the previous year, please see the "Statement of changes in intangible assets and property, plant and equipment" in Note (25).

23. Auditor's fee

K EUR	2018	2017
Auditing services	221	171
of which for previous years	38	0
Other assurance services	29	12
Tax advisory services	9	2
Other services	4	64

Auditing services for previous years relate to a procedure conducted by the Financial Reporting Enforcement Panel (FREP) concerning the financial statements for fiscal year 2017 (substantive testing pursuant to Section 342b (2) sentence 3 No. 3 HGB) and the audit of the corporate reporting packages submitted during the year 2017 related to the first-time consolidation within the Pierer group of companies. Other advisory services consist mainly of the audit pursuant to Section 64 (5) sentence 4 Renewable Energies Act (Erneuerbare-Energien-Gesetz – EEG). The other services in 2017 were chiefly attributable to due diligence services.

The tax advisory services were not provided by the independent auditor. Other expenses occurring in fiscal year 2018 amounted to € 24 thousand (previous year € 19 thousand).

24. Employees

Annual average number of employees:

EMPLOYEES

	2018	2017
Pumps and Engine Components business segment		
direct employees	523	419
indirect employees	556	485
Brake Discs business segment		
direct employees	291	262
indirect employees	157	139
Corporate		
indirect employees	45	42
	1,572	**1,347**

Directly employed staff perform a primary task, the costs of which can be directly allocated to a product. Indirectly employed staff perform tasks that support the primary task by which the costs cannot therefore be directly allocated to a product.

V. Notes to the consolidated balance sheet

25. Statement of changes in intangible assets and property, plant and equipment

	Acquisition and production costs						
K EUR	As at 1.1.2018	Additions from first-time consolida-tion	Additions	Reclassi fications	Disposals	Exchange rate differences	As at 31.12.2018
Intangible assets							
Goodwill	7,441	0	0	0	0	0	7,441
Customer base	963	0	0	0	0	0	963
Internally generated assets	16,974	0	4,752	–1,249	–3,994	0	16,483
Other intangible assets	9,026	0	1,856	1,300	–1,047	0	11,135
	34,404	**0**	**6,608**	**51**	**–5,041**	**0**	**36,022**
Property, plant and equipment							
Land, land rights and buildings	45,959	0	9,006	3,224	–51	–8	58,130
Technical equipment and machinery	159,626	0	12,283	8,115	–9,870	–173	169,981
Other equipment, operating and office equipment	28,587	0	5,681	437	–229	–21	34,455
Advance payments and assets under construction	15,598	0	15,093	–11,827	0	–71	18,793
	249,770	**0**	**42,063**	**–51**	**–10,150**	**–273**	**281,359**
Total	**284,174**	**0**	**48,671**	**0**	**–15,191**	**–273**	**317,381**

	Acquisition and production costs						
K EUR	As at 1.1.2017	Additions from first-time consolida-tion	Additions	Reclassi fications	Disposals	Exchange rate differences	As at 31.12.2017
Intangible assets							
Goodwill	7,055	386	0	0	0	0	7,441
Customer base	0	963	0	0	0	0	963
Internally generated assets	16,058	0	1,357	0	–441	0	16,974
Other intangible assets	9,542	16	925	–24	–1,433	0	9,026
	32,655	**1,365**	**2,282**	**–24**	**–1,874**	**0**	**34,404**
Property, plant and equipment							
Land, land rights and buildings	40,674	3,094	1,497	699	0	–5	45,959
Technical equipment and machinery	143,725	1,962	10,129	9,331	–5,299	–222	159,626
Other equipment, operating and office equipment	26,315	102	3,912	146	–1,835	–53	28,587
Advance payments and assets under construction	9,127	0	16,730	–10,152	0	–107	15,598
	219,841	**5,158**	**32,268**	**24**	**–7,134**	**–387**	**249,770**
Total	**252,496**	**6,523**	**34,550**	**0**	**–9,008**	**–387**	**284,174**

Depreciation and amortisation							Net carrying amounts	
As at 1.1.2018	Additions	Reclassi fications	Disposals	Write-ups	Exchange rate differences	As at 31.12.2018	31.12.2018	1.1.2018
0	0	0	0	0	0	0	7,441	7,441
40	97	0	0	0	0	137	826	923
11,586	1,517	−1,119	−3,994	0	0	7,990	8,493	5,388
6,905	1,241	1,142	−1,039	0	−1	8,248	2,887	2,121
18,531	**2,855**	**23**	**−5,033**	**0**	**−1**	**16,375**	**19,647**	**15,873**
13,107	2,345	42	−51	0	−6	15,437	42,693	32,852
105,632	14,880	70	−9,753	0	−90	110,739	59,242	53,994
16,864	3,948	−135	−228	0	−8	20,441	14,014	11,723
0	0	0	0	0	0	0	18,793	15,598
135,603	**21,173**	**−23**	**−10,032**	**0**	**−104**	**146,617**	**134,742**	**114,167**
154,134	**24,028**	**0**	**−15,065**	**0**	**−105**	**162,992**	**154,389**	**130,040**

Depreciation and amortisation							Net carrying amounts	
As at 1.1.2017	Additions	Reclassi fications	Disposals	Write-ups	Exchange rate differences	As at 31.12.2017	31.12.2017	1.1.2017
0	0	0	0	0	0	0	7,441	7,055
0	40	0	0	0	0	40	923	0
9,671	2,338	0	−423	0	0	11,586	5,388	6,387
6,670	1,662	0	−1,427	0	0	6,905	2,121	2,872
16,341	**4,040**	**0**	**−1,850**	**0**	**0**	**18,531**	**15,873**	**16,314**
11,505	1,605	0	0	0	−3	13,107	32,852	29,169
96,008	14,904	0	−5,195	0	−85	105,632	53,994	47,717
15,474	3,221	0	−1,816	0	−15	16,864	11,723	10,841
0	0	0	0	0	0	0	15,598	9,127
122,987	**19,730**	**0**	**−7,011**	**0**	**−103**	**135,603**	**114,167**	**96,854**
139,328	**23,770**	**0**	**−8,861**	**0**	**−103**	**154,134**	**130,040**	**113,168**

Intangible assets

Intangible assets which were not acquired in the course of a business combination are capitalised at their acquisition cost. The acquisition costs of intangible assets acquired through a business combination are recognised at fair value as at the acquisition date. In subsequent periods, intangible assets are recognised at cost, less accumulated amortisation and impairment losses. A distinction is made between intangible assets with limited useful lives and those with indefinite useful lives. Aside from goodwill, the SHW Group currently does not possess any intangible assets with indefinite useful lives.

Intangible assets with limited useful lives are amortised using the straight-line method over their economic useful life of two to ten years. The useful life and amortisation methods are reviewed at the end of each fiscal year and adjusted if necessary.

The customer base acquired in the course of the acquisition of LHT was measured at its residual value (net present value of future net cash flows that the customer relationships are expected to generate). The customer base is being amortised over an economic life of ten years.

Research costs are recognised in the period incurred. Project development costs are only capitalised as intangible assets when the SHW Group can verify the technical feasibility of completing the intangible asset which would allow for the internal use or sale of the asset, as well as the intention of completing the intangible asset and the intention to use or to sell the asset. Furthermore, the SHW Group must provide proof of the establishment of the asset's future economic use, the availability of resources for the purposes of completing the asset, and be able to reliably identify the expenses incurred which can be attributed to the development of this intangible asset. Development costs include directly attributable costs, as well as a proportionate share of overhead expenses. Selling expenses and administrative expenses are not included. For development projects not yet completed, tests will be carried out at the end of each fiscal year to ascertain whether there is objective evidence of impairment.

If an internally generated intangible asset cannot be capitalised or an intangible asset does not yet exist, then the development costs are recognised in profit or loss in the period in which they arise.

In the reporting year, there were no borrowing costs, as defined by IAS 23, recorded under intangible assets and property, plant and equipment.

Additions to internally generated assets mainly resulted from capitalised development costs of € 4,752 thousand (previous year € 1,357 thousand).

Other intangible assets mainly consist of software and licenses.

Depreciation and amortisation of intangible assets and property, plant and equipment are included in functional costs and particularly in the cost of sales. Impairment is reported under other operating expenses.

Purchase commitments for intangible assets and property, plant and equipment amount to € 14,520 thousand (previous year € 15,300 thousand).

The residual book value of property, plant and equipment leased under finance leases as at 31 December 2018 is € 5,614 thousand (previous year € 1,580 thousand). The acquisition costs for assets leased under finance leases amount to € 6,817 thousand (previous year € 1,998 thousand). Asset additions of € 4,819 thousand were recorded in fiscal year 2018 on account of new finance leases. Accumulated depreciation amounted to € 418 thousand at the start of the fiscal year and to € 1,203 thousand at the end of the fiscal year. Accordingly, in fiscal year 2018 depreciation totalled € 785 thousand (previous year € 211 thousand).

Goodwill

Goodwill is carried at acquisition cost upon initial recognition and is measured as the premium paid in the business combination in excess of the SHW Group's interest in the fair value of identifiable assets, liabilities and contingent liabilities of the business acquired. Following initial recognition, goodwill is measured at acquisition cost less accumulated impairment losses.

Goodwill is subject to an impairment test once a year or when needed and is impaired if necessary. To test for impairment, the goodwill is allocated as at the acquisition date to cash-generating units in the SHW Group that are expected to benefit from the synergies of the business combination.

This occurs regardless of whether other assets or liabilities of the acquired business are allocated to these cash-generating units. If the recoverable amount of a cash-generating unit is less than the unit's carrying amount, the impairment loss is first allocated to the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis and in accordance with the carrying amount of each asset in the unit. Any recognised impairment loss on goodwill may not be reversed in subsequent periods.

Goodwill acquired within the context of business combinations was allocated to the following four (previous year four) cash-generating units (CGUs) for impairment testing:

- Pumps CGU
- Engine components CGU
- Electronic components CGU
- Brake discs CGU

Generally, the business segments meet the basic principles of a CGU, with the exception of the pumps and engine components and electronic components CGUs, which constitute one business segment.

The recoverable amount of the four (previous year four) CGUs was calculated on the basis of their fair value less costs to sell. This calculation was made using EBIT forecasts that are based on the financial plan for the years from 2019 to 2023 approved by management. The determination of fair value is carried out according to level 3 of the valuation hierarchy as defined by IFRS 13. Calculation of the terminal value is based on an inflation/growth discount of 0.5 per cent (previous year 0.5 per cent).

For the EBIT forecasts a 10.0 per cent discount rate was used (previous year 9.8 per cent). This represents the risk-adjusted weighted average cost of capital (WACC) before taxes.

Goodwill was allocated to the relevant CGUs as follows:

CARRYING AMOUNT OF GOODWILL

K EUR	**31.12.2018**	31.12.2017
Pumps and Engine Components	4,619	4,619
Brake Discs	2,822	2,822
Total	**7,441**	**7,441**

The goodwill of the pumps and Engine Components business segment relates only to the Pumps and Electronic Components divisions and not to the Engine Components division.

EBIT forecasts used for testing goodwill for impairment are based on the following assumptions:

Planned gross margins

The gross margins in the planning period were determined on the basis of standard cost estimates and empirical values. During the planning period, sales were calculated mainly on the basis of already existing customer orders and the potential from specific customer projects

Planned EBIT margin

EBIT forecasts are based on averages from previous years' experience as well as on estimates of future developments and show a trend for rising margins overall. The fundamental assumptions made coincide with those from external sources of information.

The planned EBIT margin of the CGUs within the planning horizon lie in a range between 2.4 and 8.9 per cent.

Discount rates

The discount rate was derived from a base interest rate after tax of 0.9 per cent and an after-tax market risk premium of 7.0 per cent. The beta factor, capital structure and cost of debt were derived from the data for a peer group of comparable companies.

The recoverable amount is compared with the corresponding carrying amount of the relevant CGU. An impairment of goodwill is recognised if the recoverable amount is less than the carrying amount of the CGU. The annual goodwill impairment test revealed there was no need for impairment. Even in the case of a 1.0 percentage point increase in the discount rate or a change in the EBIT forecast of 10.0 per cent, there would still be no need for impairment.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The production costs of property, plant and equipment produced internally comprise the direct and overhead costs of production directly attributable to the asset, including depreciation.

Property, plant and equipment are depreciated using the straight-line method over their expected useful lives. The carrying amount of property, plant and equipment is tested for impairment when there is an indication that the asset's carrying amount exceeds its recoverable amount.

Depreciation is based on the following useful lives:

Asset category	Useful life
Buildings	14 to 40 years
Land improvements	8 to 20 years
Technical equipment and machinery	5 to 15 years
Operating and office equipment	3 to 14 years

At the end of each fiscal year, the residual values, useful lives, and depreciation methods are reviewed and adjusted accordingly. An item of property, plant and equipment is derecognised either upon its disposal or when there are no future economic benefits expected from its use or disposal. Gains or losses resulting from an asset's derecognition are recorded in profit or loss

Impairment of property, plant and equipment and intangible assets

At the end of each fiscal year, the SHW Group reviews the carrying amounts of property, plant and equipment and intangible assets in order to determine if there are any indications of impairment. If there are such indications, then the asset's recoverable amount is estimated to determine the extent of any impairment loss. The recoverable amount of the asset's cash-generating unit is estimated when the recoverable amount of an individual asset cannot be determined because the cash flows it generates are not essentially independent of the cash flows of other assets or groups of assets. If a reasonable and consistent basis can be identified for allocating cash flows, the shared assets are allocated to the respective cash generating units. Otherwise, they are allocated to the smallest group of cash generating units for which a reasonable and consistent basis can be identified.

The recoverable amount is the higher of fair value less costs to sell and value in use. An appropriate valuation model is used to determine the fair value less costs to sell. When calculating the value in use, the future estimated cash flows are discounted to their present value by using a pre-tax interest rate. This pre-tax interest rate takes current market assessments of the time value of money into account and the risks inherent in the asset that are not included in the initial cash flow estimate.

If the estimated recoverable amount of an asset (or cash-generating unit) is less than its carrying amount, then the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. The impairment loss is immediately recognised in profit or loss. If the impairment loss is subsequently reversed, then the carrying amount of the asset (or cash-generating unit) will be increased through the profit or loss up to the revised estimate of the recoverable amount.

The increase in the carrying amount shall not exceed the carrying amount that would have been determined if an impairment loss on the asset (or cash-generating unit) had not been recognised in previous years.

Borrowing costs

Interest on borrowed capital is capitalised within the context of IAS 23 for qualifying assets if the interest is significant.

26. Other non-current financial assets and other assets

The non-current other financial assets break down as follows:

K EUR	**31.12.2018**	31.12.2017
Cash surrender value of pension insurance policies	273	287
Loan to a non-consolidated subsidiary (SensDev GmbH, Burgstädt)	60	0
Total	**333**	**287**

Of the other non-current assets, a total of € 3,503 thousand (previous year € 2,852 thousand) are prepaid expenses, of which € 3,146 thousand (previous year € 2,369 thousand) are incremental costs of obtaining contracts.

27. Inventories

K EUR	**31.12.2018**	31.12.2017
Raw materials and supplies	21,425	17,660
Unfinished products	19,652	16,313
Finished products	17,739	10,445
Total	**58,816**	**44,418**

Due to the change in presentation to match the uniform accounting policies of the Pierer Group, advance payments on inventories were reclassified to other assets without affecting profit or loss. Reference is made to Notes (3) and (29). The previous year's figure has been adjusted accordingly.

Inventories are carried at cost or the net realisable value, if lower. Net realisable value is the estimated selling price of the inventories, less all estimated expenses considered necessary for completion and sale. Production costs include direct costs as well as the directly allocable portion of necessary materials and production overhead costs plus completion-related depreciation and other production-related costs. Selling expenses, non-production-related general administrative expenses, and borrowing costs are not capitalised. Raw materials and merchandise are generally measured at their average acquisition cost.

Inventories are recognised at their net realisable value when the net realisable value is lower than the carrying value on the closing date. Appropriate impairments on inventory are recognised for inventory risks resulting from excessive storage periods or reduced saleability.

Inventories do not contain any qualifying assets as defined by IAS 23.

Impairments of inventories in fiscal year 2018 amounted to €6,824 thousand (previous year €5,078 thousand). The change compared to the previous year is included in the cost of sales.

The acquisition and production costs of inventories, which are recognised as an expense under the cost of sales, amounted to €256,015 thousand (previous year €245,155 thousand).

The net realisable value totalled € 58,816 thousand (previous year €44,418 thousand).

28. Trade receivables

K EUR	31.12.2018	31.12.2017
Receivables from customers	51,598	46,458
Impairment losses	–234	–112
Allowance for doubtful debt	–421	–521
Total	**50,943**	**45,825**

Trade receivables of €211 thousand are carried against SensDev GmbH, Burgstädt, a non-consolidated entity.

Trade receivables are non-interest bearing and generally have terms ranging from 30 to 90 days.

With regard to trade receivables that are not impaired or past due, there are no indications as at the balance sheet date that any debtor is not able to meet its payment obligations. The impairment model applied by the SHW Group for its trade receivables is presented in Note (38).

Allowances on trade receivables, which are included in profit or loss as other operating expenses, developed as follows:

K EUR	2018	2017
Allowance for impairment losses as at 1 January	**633**	**1,015**
Additions (expenses from impairment losses)	126	108
Utilisation	–3	–47
Reversals (other operating income)	–1	–1
Change in the allowance for doubtful debts	–100	–442
Allowance for impairment losses as at 31 December	**655**	**633**

29. Current other financial assets and other assets

In 2017 current other financial assets included an outstanding purchase instalment arising from the sale of the share held in a joint venture of €16.2 million which was received at the beginning of 2018.

Current other assets mainly consist of VAT assets of €2,672 thousand (previous year €1,605 thousand), advance payments on inventories of €1,558 thousand (previous year €1,106 thousand) and outstanding reimbursements of electricity and energy tax of €867 thousand (previous year €911 thousand) and current deferred incremental costs of obtaining contracts of €710 thousand (previous year €360 thousand).

30. Cash and cash equivalents

K EUR	31.12.2018	31.12.2017
Cash in banks, cheques, cash in hand	5,003	3,868
Total	**5,003**	**3,868**

Cash and cash equivalents recognised on the consolidated balance sheet comprise cash in hand, bank balances and short-term deposits with original maturities of less than three months.

Cash in banks earns variable interest rates for deposits subject to notice of up to three months.

31. Equity

The changes in equity are shown in the "Consolidated statement of changes in equity".

Subscribed capital and capital reserves

The subscribed capital of SHW AG comprises 6,436,209 (previous year 6,436,209) no-par value shares each allotted a share of € 1.00 in share capital per no-par value share. The shares are fully paid up.

The capital reserves include the premiums from the issue of shares less transaction costs directly attributable to raising capital.

Revenue reserves and other reserves

The revenue reserves include the consolidated net profit from previous years carried forward.

Other reserves include value changes recognised directly in equity and break down as follows:

In fiscal year 2018, other reserves increased by € 200 thousand due to a change in the actuarial assumptions used to measure pension obligations. The actuarial gains and losses less the related deferred taxes are recorded in other comprehensive income pursuant to IAS 19.

Authorised capital

Section 4 (4) of the Articles of Association was revised following a resolution passed by the Annual General Meeting on 12 May 2015. With the consent of the Supervisory Board, the Articles of Association thus authorise the Management Board to increase the Company's share capital once or several times, until 11 May 2020, by up to € 3,218,104.00 by issuing new no-par value shares against contributions in cash and / or in kind (Authorised Capital 2015). With the consent of the Supervisory Board, the Management Board is authorised to determine the further details of the shares rights and the terms for the issue of shares. The profit entitlement for the new shares may deviate from the provisions laid down in Section 60 (2) AktG. In principle, the shareholders must be granted a statutory subscription right to the new shares. The subscription right may also entail an indirect subscription right pursuant to Section 186 (5) AktG. However, with the consent of the Supervisory Board the Management Board is authorised to exclude the shareholders' subscription right, in whole or in part, subject to certain preconditions. Overall, based on the Authorised Capital 2015 the shares issued while excluding the shareholders' subscription right may not exceed 20 per cent of share capital.

K EUR	Pension liabilities	Joint ventures accounted for using the equity method	Foreign currency translation	**Total other reserves**
1 January 2017	–5,133	–1,542	651	–6,024
Other comprehensive income	77	1,542	–1,787	–168
31 December 2017	**–5,056**	**0**	**–1,136**	**–6,192**
Other comprehensive income	200	0	–645	–445
31 December 2018	**–4,856**	**0**	**–1,781**	**–6,637**

Contingent capital

A resolution passed by the Annual General Meeting on 10 May 2016 authorised the Management Board, with the approval of the Supervisory Board, to issue bearer and / or registered convertible and / or warrant bonds on one or more occasions until 9 May 2021 (inclusive) for a total nominal amount of up to € 65,000,000.00 with a limited or unlimited term to maturity. It will also be authorised to grant conversion or warrant rights to the bearers / creditors of bonds entitling them to subscribe to up to 1,250,000 new bearer or – if the existing shares in the Company are registered at the time that the new shares are issued – registered no-par value shares accounting for share capital of up to € 1,250,000.00 in total in accordance with the more detailed provisions of the terms and conditions of the convertible / warrant bonds and / or afford the Company corresponding conversion rights (Contingent Capital 2016).

Appropriation of earnings

The Management Board recommends that the Supervisory Board propose to the Annual General Meeting a dividend distribution of € 0.04 per share from the unappropriated profit for fiscal year 2018. This would be equivalent to a total dividend distribution of € 257,448.36 for 6,436,209 no-par value shares.

Notification from shareholders

For the notifications according to Section 21 (1) WpHG, please see the notes to the annual financial statements of SHW AG as at 31 December 2018.

32. Employee benefit obligations

Non-current obligations for employee benefits break down as follows:

K EUR	31.12.2018	31.12.2017
Pension provisions and similar obligations	27,057	27,905
Provisions for semi-retirement obligations	2,582	2,366
Provisions for service anniversary bonuses	2,560	2,525
Total	**32,199**	**32,796**

The provisions for service anniversaries and semi-retirement obligations, which were presented under non-current other provisions in the previous year, have been reclassified without affecting profit or loss (see Notes (3) and (33)).

Pension provisions and similar obligations

The SHW Group has two defined benefit plans in Germany with essentially uniform conditions. They are measured on the basis of actuarial principles using the projected unit credit method and take into account the future development of salaries and pensions as well as the 2018 G reference tables ("RICHTTAFELN") published by Klaus Heubeck on 20 July 2018, which are applicable in Germany for the measurement of occupational pension obligations for fiscal years ending after the date of their publication. The actuarial interest rate is based on first-class, fixed-interest corporate bonds with an AA rating.

The company pension plan is largely based on direct defined benefit plans. As a rule, the benefits are measured in accordance with the employee's duration of service. The previous company pension plan is not available for new employees starting on or after 1 January 1999. In contrast to this earlier plan, employees now must pay half of the plan contributions themselves.

The pension plans are funded by recognising pension provisions, and in some cases liability insurance policies were concluded. Insofar as this concerns qualifying insurance policies that should be considered as plan assets, these were offset against the pension provisions, as outlined below. Insofar as this does not concern qualifying insurance policies, the corresponding plan assets were reported under "other non-current financial assets" (see Note (26)).

Actuarial gains and losses, which arise from changes in actuarial assumptions and deviations between earlier actuarial assumptions and the actual development, are recorded directly in equity under other reserves at the time they arise and in consideration of deferred tax. The actuarial gains and losses recognised under other reserves and the resulting deferred taxes are not reversed in the income statement in subsequent periods. The actuarial gains and losses recognised in the respective period and the related deferred taxes are shown separately in the statement of comprehensive income.

Changes in the level of benefits with retroactive effect on entitlements already earned resulting from adjustments to the plan are directly recognised in the operating result in the year in which the plan is adjusted.

Expenses from unwinding the discount on pension provisions discounted to net present value are recorded under financial expenses. The remaining components of net pension expenses are included in the income statement under the respective functions.

Pension provisions and similar obligations include pension provisions of € 27,057 thousand (previous year € 27,905 thousand), including death benefits of € 174 thousand (previous year € 175 thousand).

For defined contribution plans, the SHW Group has no further obligations above and beyond the payment of contributions and pension insurance contributions and social contributions to a special purpose fund. These contributions are recognised as expenses for the relevant functions.

In the reporting year, employer contributions of approximately € 6.9 million were paid to the statutory pension scheme in Germany (previous year € 6.3 million). In addition, contributions of approximately € 0.1 million (previous year € 0.0 million) were paid into special-purpose funds.

The following assumptions have been made:

in %	31.12.2018	31.12.2017
Interest rate	1.9	1.7
Pension trend	1.8	1.8

A pension trend of 1.25 per cent was assumed for one vested entitlement (previous year three).

Employees are promised a fixed sum, regardless of their salary. Therefore, changes in the salary trend are not assumed. Any adjustments required by law are carried out by adjusting the trend in pension levels. The projected benefit obligation shows the employees' pension entitlements measured according to the situation on the balance sheet date. This includes actuarial gains or losses resulting from differences between the expected risks and those that have occurred in individual cases.

In accordance with IAS 19, provisions for pension obligations also take actuarial gains and losses into account. They are shown in other comprehensive income within equity. Actuarial gains resulting from a change in actuarial assumptions and demographic factors or from experience-based adjustments amounted to €279 thousand in the fiscal year (previous year €107 thousand).

The pension provisions recognised in the consolidated balance sheet contain the following:

K EUR	31.12.2018	31.12.2017
Defined benefit obligation (funded)	287	280
Defined benefit obligation (unfunded)	26,917	27,768
Total defined benefit obligation (DBO)	**27,204**	**28,048**
Fair value of plan assets	-147	-143
Pension provisions	**27,057**	**27,905**

Die Entwicklung der Pensionsrückstellung ist wie folgt:

K EUR	
Provision as at 1 January 2017	**28,036**
Current service cost	949
Interest cost	439
Pension payments	-1,412
Actuarial gains and losses from the change in actuarial assumptions	-447
Actuarial gains and losses from experience adjustments	340
Provision as at 31 December 2017	**27,905**
Current service cost	805
Interest cost	463
Pension payments	-1,408
Actuarial gains and losses from the change in actuarial assumptions	-851
Actuarial gains and losses from the change in demographic factors	287
Actuarial gains and losses from experience adjustments	285
Compensation	-324
Reversal	-105
Provision as at 31 December 2018	**27,057**

Die Entwicklung der Defined Benefit Obligation (DBO) ist wie folgt:

K EUR	2018	2017
Defined benefit obligation (DBO) 1 January	**28,048**	**28,175**
Current service cost	805	949
Interest cost	467	443
Pension payments	-1,408	-1,412
Actuarial gains and losses from the change in actuarial assumptions	-851	-447
Actuarial gains and losses from the change in demographic factors	287	0
Actuarial gains and losses from experience adjustments	285	340
Compensation	-324	0
Reversal	-105	0
Defined benefit obligation (DBO) 31 December	**27,204**	**28,048**

Plan assets developed as follows:

K EUR	2018	2017
Fair value of plan assets as at 1 January	**143**	**139**
Interest income	4	4
Plan assets as at 31 December	**147**	**143**

The plan assets are composed of two (pledged) reinsurance policies (life insurance). The plan assets do not include separate financial instruments or assets used by the Company. There will be no employer contribution to the plan assets in 2019.

The net pension expenses for defined benefit obligations break down as follows:

K EUR	2018	2017
Current service cost	805	949
Net interest cost	463	439
Net pension cost	**1,268**	**1,388**

Liabilities from defined benefit plans are as follows:

K EUR	31.12.2018	31.12.2017
Active employees	9,299	9,208
Former employees with vested rights	1,716	1,798
Pensioners / other	16,042	16,899
Pension provisions	**27,057**	**27,905**

The current service costs are included in the cost of sales, selling expenses, general administrative expenses, and research and development costs. Interest is recognised under interest expenses. Pension payments are expected to amount to € 1,414 thousand in fiscal year 2019. Pension payments of this amount are also expected for the years to come. The pension plan costs in 2019 are expected to amount to € 1,045 thousand.

The risks associated with the defined benefit obligations concern the actuarial risks such as longevity, as well as other financial risks such as market risk, which can be influenced by interest rates. There are also inflation risks that can have an impact on future pension trends. There is no intention to hedge these risks.

Sensitivity analysis

An increase or decrease in the key actuarial assumptions (as at 31 December 2018 interest rate of 1.9 per cent, inflation rate of 1.8 per cent) would have the following impact on the present value of the Defined Benefit Obligation (DBO):

K EUR	DBO	
Change in interest rate 1.4% (-0.5%)	29,430	27,204
Change in interest rate 2.4% (+0.5%)	25,269	27,204
Change in inflation rate 1.3% (-0.5%)	25,923	27,204
Change in inflation rate 2.3% (+0.5%)	28,603	27,204
Change in life expectancy +1 year	28,539	27,204

The weighted duration of pension provisions as at 31 December 2018 remains unchanged at 15.2 years (previous year 15.2 years).

Provisions for anniversary bonuses and semi-retirement obligations

Other non-current employee benefits are likewise measured using the projected unit credit method.

The provisions for anniversary bonuses and semi-retirement obligations developed in the fiscal year and the previous year as follows:

K EUR	
Provision as at 1 January 2017	**4,401**
Additions from first-time consolidation	65
Additions	835
Utilised	−410
Provision as at 31 December 2017	**4,891**
Additions	647
Utilised	−396
Provision as at 31 December 2018	**5,142**

33. Other provisions

K EUR	As at 31.12.2017	Additions from first-time consolidation	Utilised	Reversals	Reclassifica-tion	Additions	**As at 31.12.2018**
Warranties	1,608	0	–326	0	0	366	1,648
Other business-related obligations	8,842	0	–5,937	–877	0	1,807	3,835
Other provisions	426	0	–192	–150	0	141	225
Total	**10,876**	**0**	**–6,455**	**–1,027**	**0**	**2,314**	**5,708**
of which non-current provisions	45	0	0	0	0	0	45

K EUR	As at 31.12.2016	Additions from first-time consolidation	Utilised	Reversals	Reclassifica-tion	Additions	**As at 31.12.2017**
Warranties	1,357	185	–100	–210	0	376	1,608
Other business-related obligations	9,159	28	–2,066	–3,624	0	5,345	8,842
Other provisions	8	215	–212	0	35	380	426
Total	**10,524**	**428**	**–2,378**	**–3,834**	**35**	**6,101**	**10,876**
of which non-current provisions	0	16	0	0	29	0	45

Other provisions are the best estimate of all identifiable risks and contingent liabilities and are recognised at the amount required to fulfil the current obligation on the balance sheet date. Provisions are recognised when there is a legal or constructive obligation resulting from a past event that makes a future outflow of resources likely and when the amount of the obligation can be reliably estimated. If the impact of the interest effect is material, non-current provisions are discounted using a pre-tax interest rate. Current provisions are expected to be utilised within the next fiscal year.

Non-current other provisions / Employee benefit obligations

Non-current other provisions of € 45 thousand (previous year € 45 thousand) comprise obligations to archive business documents.

Non-current provisions for anniversary bonuses and semi-retirement obligations that were presented under non-current other provisions in the previous year were reclassified to non-current "Employee benefit obligations" and the previous year figures adjusted accordingly. Reference is made to Note (32).

Non-current bonuses of € 135 thousand (previous year € 450 thousand) were allocated to "Non-current other liabilities". Reference is made to Note (3) and the explanations in this subsection.

Warranties

A provision was established for warranty obligations from the sale of products sold in the last three years. The measurement of the provision is based on past experience of repairs and customer complaints. In existing warranty cases, the amount is based on the expected result of the negotiations.

Other business-related obligations

Other business-related obligations primarily comprise customer project and product-related provisions of € 3,662 thousand (previous year € 8,676 thousand).

34. Liabilities

K EUR	31.12.2018	31.12.2017
Non-current liabilities to banks	5,409	1,593
Other non-current financial liabilities	6,046	2,633
Other non-current liabilities	643	1,034
Non-current liabilities	**12,098**	**5,260**
Current liabilities to banks	38,674	20,445
Trade payables	54,521	46,353
Other current financial liabilities	6,136	4,931
Income tax liabilities	99	74
Other liabilities	8,523	8,211
Current liabilities	**107,953**	**80,014**
Total	**120,051**	**85,274**

Liabilities to banks

A new financing agreement was entered into on 4 August 2017 with a syndicate of banks led by Landesbank Baden-Württemberg and UniCredit Bank AG as joint lead arrangers. The financing agreement has a total volume of € 80.0 million and a term of five years with an option to prolong the agreement. The syndicated financing arrangement is not secured. The interest rate is variable and is based on EURIBOR plus an interest margin between 0.7 per cent and 1.4 per cent per annum, depending on the agreed covenants. The covenants relate to (a) net debt (ratio of net debt to EBITDA) and (b) the equity ratio. Both covenants were complied with as at 31 December 2018. The Group does not hedge its interest risk under the syndicated loan agreement with banks. Management is informed of interest positions on a regular basis.

At the end of the year an amount of € 37,695 thousand had been drawn from the syndicated loan (previous year € 20,000 thousand) and € 2,391 thousand (previous year € 2,191 thousand) for bank guarantees. In addition, the SHW Group took out a loan of € 5,000 thousand from DZ BANK AG, Frankfurt am Main on 5 September 2018. The loan bears interest of 0.85 per cent. In fiscal year 2018 principal of € 208 thousand was repaid as scheduled. The two loans from Kreissparkasse Ostalb, Aalen (dated 19 December 2012 and 11 July 2013) were fully repaid in fiscal year 2018 as scheduled upon payment of € 107 thousand. The interest rates were set at 1.85 per cent and 1.0 per cent respectively. At Lust Hybrid-Technik GmbH, Hermsdorf, the three loans from Sparkasse Jena-Saale-Holzland – a loan of € 1,500 thousand from 2010, a loan of € 750 thousand from 2013 and a loan of € 300 thousand from 2015 – were serviced as scheduled by payment of € 143 thousand. The loans have an annual interest rate of 3.75 per cent or 1.25 per cent plus EURIBOR or 2.15 per cent, respectively.

Trade payables

Trade payables of € 71 thousand are towards the affiliated companies in the Pierer group of companies.

The payment obligations for purchased materials are secured by retention of title, as is customary in the industry.

Other financial liabilities

Other financial liabilities mainly consist of liabilities from finance leases of which € 5,107 thousand (previous year € 1,303 thousand) are non-current and € 695 thousand (previous year € 329 thousand) are current. Reference is made to Note (39) for more information.

Moreover, other financial liabilities contain obligations for interest-bearing purchase price instalments, of which € 613 thousand are non-current and € 409 thousand are current (previous year € 1,000 thousand non-current), that are related to the acquisition of LHT and have been withheld to cover contractual warranties issued by the vendor. The obligations fall due by 31 March 2020 at the latest. At present, it is not assumed that any deductions from the purchase price will be needed.

Current other financial liabilities also include liabilities for expenses where the underlying services were received in fiscal year 2018, but the corresponding invoice was only recognised in fiscal year 2019.

Other liabilities

As in the previous year, other liabilities mainly consist of obligations towards employees. Long-term bonuses/management incentives of € 135 thousand (previous year € 450 thousand) were reclassified from non-current other provisions to non-current other liabilities and the figures for the previous year adjusted accordingly. Current other liabilities towards employees consist of liabilities for overtime and work-time credits (€ 2,524 thousand, previous year € 2,684 thousand), bonuses/management incentives (€ 986 thousand, previous year € 885 thousand) severance payments (€ 984 thousand, previous year € 13 thousand) and vacation accrued (€ 812 thousand, previous year € 994 thousand).

Furthermore, liabilities from wage and church tax (€ 1,280 thousand, previous year € 926 thousand) and employers' liability insurance (€ 850 thousand, previous year € 773 thousand) are reported under current other liabilities.

As at 31 December 2017 advance payments of € 1,143 thousand were presented under current other liabilities. Since the adoption of IFRS 15 in fiscal year 2018 advance payments received are presented under current contract liabilities. Reference is made to Note (14).

Moreover, other liabilities also include a sum of € 584 thousand (previous year € 678 thousand) in deferred government grants for projects and capital expenditures (non-current portion € 490 thousand [previous year € 584 thousand], current portion € 94 thousand [previous year € 94 thousand]). Government grants are deferred in accordance with the underlying expenses and released over the economic life of the asset:

Government grants

Government grants are recognised at fair value if it can be assumed with great certainty that the grants will be given and that the SHW Group fulfils the necessary conditions for the grants' receipt.

Government grants for costs are recognised over the period in which the related costs for which the grant was given in compensation are incurred. Performance-based grants are offset against the respective expenses which they are intended to compensate, in accordance with IAS 20.29 et seq.

Government grants used to subsidise investments are not deducted from the associated assets but are posted to the corresponding line items under non-current or current other liabilities in agreement with the useful life of the asset.

35. Contingent liabilities

There were no contingent liabilities in fiscal years 2018 or 2017.

VI. Notes to the cash flow statement

The cash flows shown in the cash flow statement are divided into three categories: operating activities, investing activities and financing activities. As at the balance sheet date, investments of € 4.8 million in property, plant and equipment assets were capitalised for which no cash outflows had occurred during the fiscal year. In contrast, in the fiscal year cash outflows for investments in property, plant and equipment in the previous year amounted to € 2.5 million. Furthermore, there were no cash outflows from the capitalisation of property, plant and equipment within the scope of finance leases of € 4.8 million.

The cash inflow of € 16.2 million from the sale of shares in the joint venture, SHW Longji Brake Discs (LongKou) Co., Ltd., which was received at the beginning of 2018 was presented under cash received from disposals of financial assets in the fourth quarter of 2017. As at 31 December 2017 the purchase price receivable was presented under current other financial assets, see Note (29). In connection with the contractually agreed payment of the second capital contribution to the joint venture in February 2017, cash of € 6.8 million was paid out for the joint venture.

The net cash outflow due to the acquisition of subsidiaries in fiscal year 2017 (€2,299 thousand) is presented after deducting the net cash acquired (first purchase instalment for LHT of € 2,300 thousand less the cash acquired of € 1 thousand).

The cash paid for interest in the previous year includes € 674 thousand for prepaid financial expenses.

The amount of cash and cash equivalents shown in the cash flow statement is comprised of the cash and cash equivalents presented in the consolidated balance sheet. As at the reporting date, short-term loans (money market loans) came to € 30,000 thousand (previous year € 20,000) and overdrafts to € 7,695 thousand (previous year € 201 thousand).

A reconciliation of the movements from liabilities from financing activities to the cash flows from financing activities for the fiscal year and the previous year is shown below:

K EUR	Non-current liabilities to banks	Current liabilities to banks	Liabilities from finance leases	Sundry other financial liabilities	**Total liabilities from financing activities**
1 January 2018	**1,593**	**20,445**	**1,632**	**0**	**23,670**
Changes from the acquisition of subsidiaries	0	0	0	0	0
Changes in due term (non-current to current)	-1,184	1,184	0	0	0
Cash received (+) from the assumption of financial liabilities	5,000	17,503	0	0	22,503
Cash paid (-) for the redemption of financial liabilities	0	-458	0	0	-458
Non-cash changes	0	0	0	0	0
New finance leases	0	0	4,818	0	4,818
Interest expense from finance leases	0	0	249	0	249
Cash paid (-) for finance leases	0	0	-897	0	-897
Fair value adjustments	0	0	0	0	0
31 December 2018	**5,409**	**38,674**	**5,802**	**0**	**49,885**

K EUR	Non-current liabilities to banks	Current liabilities to banks	Liabilities from finance leases	Sundry other financial liabilities	**Total liabilities from financing activities**
1 January 2017	**107**	**1,876**	**1,007**	**0**	**2,990**
Changes from the acquisition of subsidiaries	1,798	717	503	500	3,518
Changes in due term (non-current to current)	-312	312	0	0	0
Cash received (+) from the assumption of financial liabilities	0	19,290	0	0	19,290
Cash paid (-) for the redemption of financial liabilities	0	-1,750	0	-500	-2,250
Non-cash changes	0	0	0	0	0
New finance leases	0	0	325	0	325
Interest expense from finance leases	0	0	44	0	44
Cash paid (-) for finance leases	0	0	-247	0	-247
Fair value adjustments	0	0	0	0	0
31 December 2017	**1,593**	**20,445**	**1,632**	**0**	**23,670**

The current account loans used for cash management purposes are presented at the amount at which they changed over the year.

Reference is made to the separate "Consolidated statement of changes in equity" for the cash flows from financing activities associated with the owners.

VII. Financial instruments and capital management

36. Background

Financial assets in the sense of IFRS 9 are classified in terms of how the assets are treated depending on the business model. Financial assets are measured correspondingly either at amortised cost ("held"), or (a) at fair value through other comprehensive income ("held and sold") or (b) at fair value through profit or loss ("held for trading"). The SHW Group intends to hold its financial assets until maturity.

Financial liabilities are measured at either amortised cost or at fair value through profit or loss.

Currently there are no financial assets or financial liabilities in the SHW Group that are classified as measured at fair value. For this reason, there is no need for the fair value disclosures required by IFRS 13.

Financial assets and financial liabilities are presented separately on the balance sheet, i.e. separate from non-financial assets and non-financial liabilities.

Financial instruments are recognised once the SHW Group becomes the counterparty to the financial instrument. In the case of standard purchases or sales within the scope of a contract whose terms stipulate delivery of the asset within a given period which is normally prescribed by regulations or conventions on the respective market, the date of fulfilment – i.e. the date as at which the asset is delivered to or by the SHW Group – will be relevant for its initial balance sheet recognition and for its retirement from the balance sheet.

Financial assets and financial liabilities are derecognised when the claims or obligations underlying these assets or liabilities are settled, cancelled, transferred or have lapsed.

Trade receivables

Trade receivables are the amounts owed by customers for regular-way trades of goods and services. They are generally payable within 30 to 90 days and are therefore classified as current. Upon initial recognition, trade receivables are recognised at the amount of non-conditional consideration to be paid. They do not contain any material financing component.

The SHW Group holds trade receivables in order to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest rate method. Details on the methods for testing impairment in the SHW Group and recognising loss allowances are presented in Notes (38) and (28).

Other financial assets measured at amortised cost

The SHW Group measures other financial assets at amortised cost when the following two criteria are satisfied:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and

- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest-bearing loans / borrowings

Upon initial recognition, interest-bearing borrowings are recognised at fair value less transaction costs associated with the borrowing. Following their initial recognition, interest-bearing borrowings are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised or amortised. With regard to loans, fair value does not differ materially from the carrying amounts as the interest payments on these loans either very nearly match the market rates or the borrowings are short-term by nature.

Derivative financial instruments and hedging transactions

A derivative financial instrument is a financial instrument whose value changes based on a reference value which generally does not require any acquisition costs or only requires minor acquisition costs and which is settled as at a later date.

At present there are no derivative financial instruments (neither cash flow hedges nor fair value hedges) used by the SHW Group.

37. Classification and fair values

The adoption of IFRS 9 on 1 January 2018 did not result in any differences to the carrying amounts of financial instruments measured in accordance with IAS 39 as at 31 December 2017.

The Company has the following types of financial instruments:

K EUR	Measurement category acc. to IFRS 9	Carrying amount as at 31.12.2018	Fair value as at 31.12.2018	Valuation: Amortised cost	Valuation: Fair value through OCI	Valuation: Fair value through profit or loss
ASSETS						
Other non-current financial assets	AC	333	333	333	–	–
Trade receivables	AC	50,943	*)	50,943	–	–
Other financial assets	AC	217	*)	217	–	–
Cash and cash equivalents	AC	5,003	*)	5,003	–	–

*) The fair value approximately equals the carrying amount

In the near future, the Company does not plan to sell or derecognise any significant portions of the other non-current financial assets recorded as at 31 December 2018.

K EUR	Measurement category acc. to IFRS 9	Carrying amount as at 31.12.2017	Fair value as at 31.12.2017	Valuation: Amortised cost	Valuation: Fair value through OCI	Valuation: Fair value through profit or loss
ASSETS						
Other non-current financial assets	AC	287	287	287	–	–
Trade receivables	AC	45,825	*)	45,825	–	–
Other financial assets	AC	16,311	*)	16,311	–	–
Cash and cash equivalents	AC	3,868	*)	3,868	–	–

*) The fair value approximately equals the carrying amount

AC: Amortized cost

K EUR	Measurement category acc. to IFRS 9	**Carrying amount as at 31.12.2018**	**Fair value as at 31.12.2018**	Valuation		
				Amortised cost	Fair value through OCI	Fair value through profit or loss
EQUITY AND LIABILITIES						
Liabilities to banks	AC	44,083	44,083	44,083	–	–
Trade payables	AC	54,521	54,521	54,521	–	–
Other non-current financial liabilities						
Other interest-bearing liabilities	AC	613	613	613	–	–
Other non-interest-bearing liabilities	AC	326	326	326	–	–
Liabilities from finance leases	AC	5,107	5,107	5,107	–	–
Other current financial liabilities						
Other interest-bearing liabilities	AC	409	409	409	–	–
Other non-interest-bearing liabilities	AC	5,032	5,032	5,032	–	–
Liabilities from finance leases	AC	695	695	695	–	–

K EUR	Measurement category acc. to IFRS 9	**Carrying amount as at 31.12.2017**	**Fair value as at 31.12.2017**	Valuation		
				Amortised cost	Fair value through OCI	Fair value through profit or loss
EQUITY AND LIABILITIES						
Liabilities to banks	AC	22,038	22,038	22,038	–	–
Trade payables	AC	46,353	46,353	46,353	–	–
Other non-current financial liabilities						
Other interest-bearing liabilities	AC	1,000	1,000	1,000	–	–
Other non-interest-bearing liabilities	AC	330	330	330	–	–
Liabilities from finance leases	AC	1,303	1,303	1,303	–	–
Other current financial liabilities						
Other non-interest-bearing liabilities	AC	4,602	4,602	4,602	–	–
Liabilities from finance leases	AC	329	329	329	–	–

AC: Amortized cost

The following overview of maturities illustrates how the cash flows from liabilities (not discounted) affect the Group's liquidity situation as at 31 December 2018:

K EUR	Total	2019	2020	2021	2022	2023 et seq.
Non-current liabilities						
Liabilities to banks	5,409	0	976	976	944	2,513
Other financial liabilities	6,046	0	1,452	758	660	3,176
Current liabilities						
Trade payables	54,521	54,521	0	0	0	0
Liabilities to banks	38,674	38,674	0	0	0	0
Other financial liabilities	6,136	6,136	0	0	0	0
Total	**110,786**	**99,331**	**2,428**	**1,734**	**1,604**	**5,689**

The situation as at 31 December 2017 was as follows:

K EUR	Total	2018	2019	2020	2021	2022 et seq.
Non-current liabilities						
Liabilities to banks	1,593	0	143	143	143	1,164
Other financial liabilities	2,633	0	759	986	298	590
Current liabilities						
Trade payables	46,353	46,353	0	0	0	0
Liabilities to banks	20,445	20,445	0	0	0	0
Other financial liabilities	4,931	4,931	0	0	0	0
Total	**75,955**	**71,729**	**902**	**1,129**	**441**	**1,754**

38. Capital management

The primary objective of capital management is to ensure that the Group maintains a strong credit rating and a healthy equity ratio in order to support its business activity. The Group manages its capital structure and adjusts it to the respective economic conditions. There is no externally set target for its net financial debt. The Group monitors its capital structure on the basis of its net financial debt and its target ratios in accordance with the covenants. A monthly report is prepared in this regard and discussed at the Management Board meetings. The Group's equity is managed and controlled through a targeted retention of earnings, which is defined by the resolution of the Annual General Meeting. The following table shows the composition of the net financial debt as at the respective balance sheet dates.

K EUR	**31.12.2018**	31.12.2017
Liabilities to banks	44,083	22,038
Trade payables	54,521	46,353
Cash and cash equivalents	−5,003	−3,868
Net financial liabilities	**93,601**	**64,523**

Credit risk

Trade receivables display the following age structure on the reporting date and loss allowances for expected credit losses using the simplified approach of IFRS 9:

K EUR	Carrying amount	of which neither impaired nor overdue	of which impaired and not overdue	of which impaired and overdue	of which not impaired and overdue in the following time bands: Up to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	More than 360 days
Trade receivables										
As at 31.12.2018	**51,177**	**43,392**	**0**	**234**	**5,483**	**1,303**	**114**	**318**	**177**	**156**
As at 31.12.2017	45,937	38,655	109	3	6,086	854	28	43	32	127

Credit risk results from the possibility of the full or partial default of a counterparty and also exists in the context of cash investments. The SHW Group mainly delivers to renowned automotive manufacturers and automotive suppliers. There are no significant risks of default in terms of trade receivables due to the customer structure. Credit insurance has been purchased to cover the receivables of SHW Automotive GmbH. Receivables from automobile manufacturers are not covered by this insurance policy. High levels of bad debt losses have not been recorded in recent years.

The trade receivables carried by the SHW Group do not include any material financing component as they are payable within the terms of payment agreed on individually with the customer (generally between 30 and 90 days). For this reason, the SHW Group applies the simplified approach provided by IFRS 9. Expected credit losses are measured using an impairment matrix to determine the allowance for expected credit losses on trade receivables over the full term of the instruments. The impairment matrix is based on the defaults observed in the past, adjusted for any forward-looking estimates. Each reporting date the observed historical defaults are updated and any changes to the forward-looking estimates are analysed. Significant measurement inputs include certain past-due items among receivables as well as qualitative criteria to rate the credit-worthiness of debtors. Furthermore, any objective indications of impairment (e.g. insolvency of a customer) are also considered. The impairment losses that are recognised on the basis of the uniform policies applied by the Group cover all discernible credit risks.

The maximum risk incurred upon the default of the counterparty for receivables not covered by credit insurance and for other financial assets is limited by the carrying amount of the respective assets of € 35,665 thousand (previous year € 47,859 thousand). The composition and development of other financial assets are presented in Notes (26) and (29).

Liquidity risk

Liquidity risk represents the risk of not being able to meet present or future payment commitments or only being able to do so at unfavourable conditions. The SHW Group monitors the liquidity risk with the assistance of monthly financial plans for cash inflows and cash outflows of the forthcoming months. The SHW Group strives to be in a position to meet its financial obligations at all times and seeks the optimum balance of short-term investments and borrowings. This means that the SHW Group seeks a minimum level of liquidity, which is derived from the monthly financial plans, whereby it should be ensured that the SHW Group's liquidity requirements for current business and planned investments are sufficiently secured in the most cost-effective manner possible. Readily available funds not required in the near term are invested, e.g. in overnight money. A further aim of the Group is to keep its level of working capital as low as possible. A syndicated line of € 80 million is available to the Group for borrowings. As at the reporting date, this facility has been drawn down by € 40.1 million (of which € 2.4 million through guarantees). For further information on the maturities of liabilities, please refer to our comments under Note (34) "Liabilities".

Interest and currency risk

The Group is mainly exposed to foreign exchange risks and changes in interest rates. Risks from exchange rate fluctuations originate from capital investments, financing measures and operating activities in regions using a foreign currency. Interest risks arise from financial instruments bearing a variable interest rate, which have an impact on the Group's interest expenses when the interest rate changes. The management of market price risks is tasked with mitigating the impact of fluctuations in foreign exchange rates and interest rates.

The Group's interest rate risk largely results from the loan agreement concluded on 4 August 2017. The SHW Group has decided not to hedge its interest rate risk. The interest rate risk for the Group in the fiscal year was not material.

Foreign exchange risks exist with regards to the foreign subsidiaries and were not material for the Group in the past fiscal year.

Collateral issued

An uncertified land charge of € 5,000 thousand was entered in favour of DZ BANK AG by means of a notarised agreement on 21 August 2018. The land charge was provided as collateral for two loans of € 5,000 thousand. A land charge issued in favour of Kreissparkasse Ostalb for € 2,000 thousand was extinguished upon the scheduled repayment of two loans in fiscal year 2018. The loans carried by Lust Hybrid-Technik GmbH (outstanding principal as at 31 December 2018: € 1,593 thousand) are secured by land charges, collateral assignment of machines and a global assignment of the trade receivables carried by the entity.

VIII. Leases

39. Finance leases

A lease is classified as a finance lease if essentially all opportunities and risks relating to ownership are transferred to the lessee by the lease agreement. All other leases are classified as operating leases.

If the fundamental opportunities and risks related to the ownership of the asset lie with the SHW Group, the lease is treated as a finance lease. At the inception of the lease, the leased asset is recognised at the lower of fair value or at the present value of the minimum lease payments. The corresponding liability to the lessor is recorded in the consolidated balance sheet as a financial lease obligation. The lease payments are divided into an interest component and a repayment component, with the interest expenses being directly reported through profit or loss unless they can be unambiguously allocated to a qualified asset.

The obligations from finance leases relate to 16 (previous year 14) items of property, plant and equipment which are attributable to the SHW Group as the beneficial owner due to the structure of the underlying leases and for which the term of the lease has already commenced. These leases have terms of three to ten years, respectively. In individual cases there are options to prolong the lease or purchase the asset. The future minimum lease payments under these agreements can be reconciled with the liabilities from finance leases as follows:

31 DECEMBER 2018

K EUR	Minimum lease payments	Interest included in lease payments	**Liabilities from finance leases**
Within one year	949	254	695
Between one and five years	3,291	708	2,583
More than five years	2,780	256	2,524
Total	**7,020**	**1,218**	**5,802**

31 DECEMBER 2017

K EUR	Minimum lease payments	Interest included in lease payments	**Liabilities from finance leases**
Within one year	380	51	329
Between one and five years	1,016	104	912
More than five years	398	7	391
Total	**1,794**	**162**	**1,632**

40. Operating leases and other financial obligations

Lease instalments on operating leases are recognised on a straight-line basis as an expense over the term of the lease.

Other financial liabilities mainly result from rent and operating leasing agreements for motor vehicles, telephone equipment, computer and office hardware, machinery and warehouses.

In fiscal year 2018 lease instalments of € 2,169 thousand were paid for operating leases.

In the previous year, other financial obligations contained the future financial obligations arising from a contractually enforceable lease which, since the inception of the lease on 1 January 2018, has been presented in the consolidated balance sheet under liabilities from finance leases.

K EUR	**31.12.2018**	31.12.2017
Obligations under tenancy, rent and (operating) lease agreements	6,730	12,637
Other financial obligations	**6,730**	**12,637**
of which due within one year	2,312	3,069
of which due in one to five years	4,130	6,576
of which due more than five years	288	2,992

Financial obligations to third parties originating from investment projects already initiated were within the normal scope of business (see Note (25) for details).

IX. Related party disclosures and company boards

41. Business relationships with related parties

On 24 May 2018 Pankl SHW Industries AG, Kapfenberg (formerly: SHW Beteiligungs GmbH, Wels), Austria – a subsidiary of Pierer Industrie AG, Wels, Austria, held 50.2 per cent of the voting rights of SHW AG and therefore a voting majority at the Annual General Meeting. Pierer Industrie AG, Wels, Austria, is a subsidiary of Pierer Konzerngesellschaft mbH, Wels, Austria. The "ultimate controlling party" is Mr. Stefan Pierer, Wels, Austria.

SHW AG is included in the consolidated financial statements of Pierer Industrie AG, Wels, Austria, and in the consolidated financial statements of Pierer Konzerngesellschaft mbH, Wels, Austria. Transfers of goods and services with other entities in the Pierer group of companies amounted to € 162 thousand in fiscal year 2018. As of the reporting date, liabilities to affiliated companies amounted to € 71 thousand. Reference is made to the combined management report of the Group and the Company for more on relationships to related parties, as well as the final declaration of the Management Board of SHW AG on the dependent company report pursuant to Section 312 (3) AktG.

The consolidated financial statements of SHW AG, Aalen, include all major subsidiaries and joint ventures of SHW AG, Aalen.

42. Boards of SHW AG

In fiscal year 2018, the Management Board of SHW AG comprised the following members:

Wolfgang Plasser, Kaltenleutgeben, Austria (since 12 June 2018)
- Chairman of the Management Board and Managing Director of SHW Automotive GmbH (from 12 June 2018), responsible for the Pumps and Engine Components business segment
- Member of the Management Board of Pierer Industrie AG, Wels, Austria
- Member of the Management Board of Pankl SHW Industries AG, Kapfenberg, Austria
- Chairman of the Management Board of Pankl Racing Systems AG, Kapfenberg, Austria

Further mandates:

- Chairman of the Supervisory Board of Pankl Systems Austria GmbH, Kapfenberg, Austria

Dr.-Ing. Frank Boshoff, Wetter (until 12 June 2018)
- Chairman of the Management Board and Managing Director of SHW Automotive GmbH (until 12 June 2018), responsible for the Pumps and Engine Components business segment

Thomas Karazmann, Vienna, Austria (since 1 December 2018)
- Chief Financial Officer and Managing Director of SHW Automotive GmbH (from 1 December 2018), responsible for administration
- Chief Financial Officer of Pankl Racing Systems AG, Kapfenberg, Austria

Martin Simon, Heroldsberg (until 30 November 2018)
- Chief Financial Officer and Managing Director of SHW Automotive GmbH (until 30 November 2018), responsible for administration

Andreas Rydzewski, Zweiflingen
- Member of the Management Board and Managing Director of SHW Automotive GmbH, responsible for the Brake Discs business segment

The Supervisory Board members in fiscal year 2018 were:

Klaus Rinnerberger, Gießhübl, Austria, Chairman (from 2 January 2018 Deputy Chairman, since 19 April 2018 Chairman)
- Member of the Management Board of Pierer Industrie AG, Wels, Austria
- Member of the Management Board of Pankl SHW Industries AG, Kapfenberg, Austria

Further mandates:

- Chairman of the Supervisory Board of SHW Automotive GmbH (a member from 23 November 2017 and chairman since 19 April 2018)
- Member of the Supervisory Board of KTM Industries AG, Wels, Austria
- Head of the Advisory Board of Schachinger Logistik Holding GmbH, Hörsching, Austria

Georg Wolf, Dietzenbach, Chairman (until 6 April 2018)
- Independent consultant

Alfred Hörtenhuber, Wels, Austria, Deputy Chairman (from 8 May member, since 23 May 2018 Deputy Chairman)
- Member of the Management Board of Pierer Industrie AG, Wels, Austria

Further mandates:

- Deputy Chairman of the Supervisory Board of SHW Automotive GmbH (since 9 May 2018)
- Member of the Supervisory Board of Pankl Racing Systems AG, Kapfenberg, Austria
- Member of the Supervisory Board of KTM Industries AG, Wels, Austria

Stefan Pierer, Wels, Austria (since 2 January 2018)
- Sole shareholder and CEO of Pierer Industrie AG, Wels, Austria
- Majority shareholder (61.88 per cent) and Chairman of the Board of KTM Industries AG, Wels, Austria

Further mandates:

- Chairman of the Supervisory Board of Pankl SHW Industries AG, Kapfenberg, Austria
- Chairman of the Supervisory Board of Pankl Racing Systems AG, Kapfenberg, Austria
- Member of the Supervisory Board of SHW Automotive GmbH (since 23 November 2017)
- Chairman of the Supervisory Board of Wirtschaftspark Wels Errichtungs- u. Betriebs-Aktiengesellschaft, Wels, Austria
- Member of the Supervisory Board of WP Performance Systems GmbH, Munderfing, Austria
- Member of the Board of Directors of swisspartners Group AG, Zürich, Switzerland
- Member of the Board of Directors of QINO AG, Hünenberg, Switzerland

Josef Blazicek, Limassol, Cyprus (since 2 October 2018)
- Managing Director of QINO PIPE One Ltd., Limassol, Cyprus
- Partner of OCEAN Consulting GmbH, Vienna, Austria

Further mandates:

- Deputy Chairman of the Supervisory Board of Pierer Industrie AG, Wels, Austria
- Deputy Chairman of the Supervisory Board of Pankl SHW Industries AG, Kapfenberg, Austria
- Deputy Chairman of the Supervisory Board of Pankl Racing Systems AG, Kapfenberg, Austria
- Chairman of the Supervisory Board of KTM Industries AG, Wels, Austria
- Chairman of the Supervisory Board of All for One Steeb AG, Filderstadt
- Member of the Supervisory Board of BEKO Engineering & Informatik GmbH, Nöhagen, Austria
- Executive Director of the Board der QINO Management & Advisory Ltd., Limassol, Cyprus
- Executive Director of the Board der QINO JB Ltd., Limassol, Cyprus
- Executive Director of the Board der QINO PIPE One Ltd., Limassol, Cyprus

Friedrich Roithner, Linz, Austria (since 2 October 2018)
- Chief Financial Officer of Pierer Industrie AG, Wels, Austria
- Chief Financial Officer of KTM Industries AG, Wels, Austria

Further mandates:

- Member of the Supervisory Board of Pankl SHW Industries AG, Kapfenberg, Austria
- Member of the Supervisory Board of Pankl Racing Systems AG, Kapfenberg, Austria
- Chairman of the Supervisory Board of KTM AG, Mattighofen, Austria
- Deputy Chairman of the Supervisory Board of KTM Components GmbH, Munderfing, Austria
- Member of the Supervisory Board of Wirtschaftspark Wels Errichtungs- u. Betriebs-Aktiengesellschaft, Wels, Austria
- Chairman of the Supervisory Board of abatec group AG, Regau, Austria

Wolfgang Plasser, Kaltenleutgeben, Austria (from 8 May to 7 June 2018)

Prof. Dr.-Ing. Jörg Ernst Franke, Marloffstein
- Holder of the Chair of the Institute for Factory Automation and Production Systems at the University of Erlangen-Nuremberg

Further mandates:

- Member of the Supervisory Board of SHW Automotive GmbH

Edgar Kühn, Aalen
- Chairman of the General Works Council of SHW Automotive GmbH and Deputy Chairman of the Works Council of the Wasseralfingen plant of SHW Automotive GmbH

Further mandates:

- Member of the Supervisory Board of SHW Automotive GmbH

Eugen Maucher, Ingoldingen-Winterstettendorf
- Deputy Chairman of the Full Works Council and Chairman of the Works Council of the Bad Schussenried plant of SHW Automotive GmbH

Frank-Michael Meißner, Tuttlingen (since 8 May 2018)
- Member of the Full Works Council of SHW Automotive GmbH and member of the Works Council of SHW Automotive GmbH, Ludwigstal plant (Tuttlingen)

Further mandates:

- Member of the Supervisory Board of SHW Automotive GmbH

43. Total remuneration of the members of the Management Board and Supervisory Board

K EUR	2018	2017
Benefits due in the short term (remuneration)	960	991
Benefits due in the long term (remuneration)	90	324
Post-employment benefits	69	366
Other benefits due and benefits upon termination of the employment relationship	1,657	0

Provisions of € 394 (previous year € 0 thousand) thousand were created for termination benefits. A total of € 84 thousand has been recognised as provisions for pension obligations to former members of the Management Board (previous year € 87 thousand).

The total remuneration of the Supervisory Board amounted to € 203 thousand during the fiscal year (excluding the reimbursement of expenses, previous year € 271 thousand).

We also refer to the remarks in the section titled “Remuneration report” in the Combined Group Management Report and Management Report. These disclosures are an integral part of the consolidated financial statements.

44. German Corporate Governance Code

The Management Board and the Supervisory Board have submitted the Declaration of Conformity pursuant to Section 161 AktG and have made it permanently available to shareholders through its publication on the Company’s website (www.shw.de).

XI. Events after the reporting period (significant events after the balance sheet date)

No particularly significant events occurred after the reporting date which require disclosure here.

XII. Schedule of shareholdings

as at 31 December 2018 according to Section 313 (2) HGB

Company name and location	Interest in capital in %
Schwäbische Hüttenwerke Automotive GmbH, Aalen, Germany	100
SHW Automotive Industries GmbH, Aalen, Germany	100
SHW do Brasil Ltda., São Paulo, Brazil	100
SHW Pumps & Engine Components Inc., Brampton/Ontario, Canada	100
SHW Automotive Pumps (Kunshan) Co., Ltd., Kunshan/Shanghai, China	100
SHW Pumps & Engine Components S.r.l., Ghiroda/Timișoara, Romania	100
Lust Hybrid-Technik GmbH, Hermsdorf, Germany	100
SensDev GmbH, Burgstädt, Germany *)	90

*) Not consolidated on grounds of immateriality (total assets of SensDev as at 31 December 2017: € 396 thousand, net loss for 2017: € 60 thousand)

Aalen, 28 February 2019

Wolfgang Plasser
Chairman of the Management Board

Thomas Karazmann
CFO

Andreas Rydzewski
Member of the Management Board

INDEPENDENT AUDITORS' REPORT

To SHW AG, Aalen

Independent auditor's report on the audit of the consolidated financial statements and the combined management report of the Group and Company

Audit Opinions

We have audited the consolidated financial statements of SHW AG, Aalen, and its subsidiaries (the Group), which comprise the consolidated balance sheet as of 31 December 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year from 1 January to 31 December 2018 as well as the notes to the consolidated financial statements, including a summary of significant accounting policies.

In addition, we have audited the combined management report of the Group and Company of SHW AG, Aalen, for the fiscal year from 1 January to 31 December 2018. In accordance with German laws and regulations we have not audited the content of the separate Non-Financial Statement of the Group published on the website of the Company, the (Group) Declaration on Corporate Governance published on the website of the Company, which also includes the Corporate Governance Report, to which reference is made in the section on "Non-financial Performance Indicators" and the "Declaration on Corporate Governance and Report on Corporate Governance" in the combined management report of the Group and Company.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2018, and of its financial performance for the fiscal year from 1 January to 31 December 2018, and

- the accompanying combined management report of the Group and Company t as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report of the Group and Company is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report of the Group and Company does not cover the content of the parts of the combined group management report and management report listed in this appendix.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report of the Group and Company.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the combined management report of the Group and Company in accordance with Section 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report of the Group and Company" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided any non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the combined management report of the Group and Company.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, we do not provide a separate audit opinion on these matters.

We summarise what in our view are the key audit matters below:

- Estimates related to the assessement of specific warranties and risks related to customer projects and products (provisions)

a) Risk for the financial reporting

In the consolidated financial statements of SHW AG, Aalen, provisions totalling €4.1 million were recognised as of 31 December 2018 for specific warranties and customer project-related and product-related risks which are presented under the line item "Other provisions (warranty and other business-related obligations)". The Management Board of SHW AG reassessed the risks of these obligations on the reporting date.

The disclosures of the Group on the composition of the provisions for specific warranties and customer project-related and product-related risks are presented in Note (33) "Other provisions" and Note (6) "Estimates and uncertainties associated with discretionary judgements and assumptions" in the notes to the consolidated financial statements. Moreover, we refer to the sections on "operating risks" and "legal and compliance risks" in the risk report of the combined management report of the Group and the Company.

In our view, these matters were of key importance during our audit as the recognition and measurement of these line items, which have a high carrying amount, is based to a great degree on management estimates and assumptions.

b) Auditor's response and conclusions

In the course of our audit we assessed the process established by the Company for identifying and assessing risks as well as the accounting treatment of the specific warranties and customer project-related and product-related risks. This assessment extended to addressing the risk of pending legal proceedings against the Company. Our assessment considered the findings made from regular discussions held with the executive directors and the internal legal department of the parent company as well as all written assessments made of these matters that were provided to us. In addition, we obtained confirmations from lawyers on the basis of which the parent company based its risk assessment.

We have assessed the presentation of specific warranties and customer project-related and product-related matters and the associated risk provisioning in the consolidated financial statements and are of the opinion that the estimates and assumptions made by the executive directors of the parent company are suitably documented and well-founded so as to justify the recognition and measurement of the most significant provisions and specific warranties and customer project-related and product-related risks.

Other Information

The executive directors are responsible for the other information. The other information comprises:

- the (Group) Declaration on Corporate Governance published on the website of the Company, to which reference is made in the section, "Declaration on Corporate Governance and Report on Corporate Governance" in the combined management report of the Group and Company and is contained in the Corporate Governance Report pursuant to No. 3.10 of the German Corporate Governance Code,
- the confirmation pursuant to Section 297 (2) sentence 4 HGB regarding the consolidated financial statements and the confirmation pursuant to Section 315 (1) sentence 5 HGB regarding the combined management report of the Group and Company,

which we gained knowledge of prior to the date on which this auditor's report is signed and

- the separate Non-Financial Statement of the Group published on the website of the Company to which reference is made in the section on "Non-financial Performance Indicators" in the combined management report of the Group and Company,

will likely be provided to us after this date, and

- the other elements of the annual report with the exception of the audited consolidated financial statements and the elements of the combined management report of the Group and Company whose content we did audit.

Our audit opinions on the consolidated financial statements and on the combined management report of the Group and Company do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the combined management report of the Group and Company or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed prior to the date on which this report is issued, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report of the Group and Company

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the combined management report of the Group and Company that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report of the Group and Company that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report of the Group and Company.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report of the Group and Company.

Auditor's responsibilities for the audit of the Consolidated Financial Statements and of the Combined Management Report of the Group and Company

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report of the Group and Company as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the combined management report of the Group and Company.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report of the Group and Company.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report of the Group and Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report of the Group and Company in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report of the Group and Company or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the combined management report of the Group and Company. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the combined management report of the Group and Company with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the combined management report of the Group and Company. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor of the consolidated financial statements by the annual general meeting on 8 May 2018. We were engaged by the Audit Committee of the Supervisory Board on 17 September 2018. We have been the independent auditor of SHW AG, Aalen, without interruption since fiscal year 2013.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German public auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Mr. Christoph Lehmann.

Stuttgart, 28 February 2019

Ebner Stolz GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Christoph Brauchle	Christoph Lehmann
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

ASSURANCE OF THE EXECUTIVE DIRECTORS

To the best of our knowledge, and in accordance with the applicable accounting standards, the consolidated financial statements provide a true and fair view of the assets, liabilities, financial position and financial performance of the Group, and the combined management report of the Group and of SHW AG provides a fair view of the development of business, including the performance and the position of the Group, together with a description of the key risks and opportunities associated with the expected development of the Group.

Aalen, 28 February 2019

The Management Board of SHW AG

Wolfgang Plasser	***Thomas Karazmann***	***Andreas Rydzewski***
Chief Executive Officer	*Chief Financial Officer*	*Member of the Management Board*

FIVE-YEAR SUMMARY

K EUR	**2018**	2017	2016	2015	2014
Sales	420,936	400,584	405,770	463,478	430,041
EBITDA	31,342	41,271	43,553	42,675	34,827
as % of sales	7.4%	10.3%	10.7%	9.2%	8.1%
EBIT	7,314	17,501	18,938	20,132	16,575
as % of sales	1.7%	4.4%	4.7%	4.3%	3.9%
Net profit of the group	3,131	10,159	12,805	14,351	10,679
Earnings per share[1)]	0.49	1.58	1.99	2.26	1.83
Equity	124,372	124,904	121,349	116,240	84,507
Equity ratio	43.4%	48.8%	53.2%	50.4%	40.3%
Operating free cash flow	– 32,970	– 757	– 4,030	18,097	– 5,354
as % of sales	– 7.8%	– 0.2%	– 1.0%	3.9%	– 1.2%
Total free cash flow	– 16,751	– 9,875	– 4,030	9,056	– 5,629
as % of sales	– 4.0%	– 2.5%	– 1.0%	2.0%	– 1.3%
Net liquidity / Net financial debt	– 39,080	– 18,170	1,633	12,328	– 14,356
Capital expenditures[2)]	48,671	34,550	24,684	23,923	34,788
as % of sales	11.6%	8.6%	6.1%	5.2%	8.1%
Net working capital[3)]	53,789	43,890	48,278	32,406	30,697
as % of sales	12.8%	11.0%	11.9%	7.0%	7.1%
ROCE	3.6%	9.1%	12.9%	17.2%	17.7%
Average headcount[4)]	1,572	1,347	1,287	1,287	1,173

[1)] Average number of shares: 2018, 2017, 2016: 6,436,209 shares / 2015: 6,359,263 shares / 2014: 5,851,100 shares

[2)] Additions to property, plant and equipment and intangible assets

[3)] Excluding advance payments on inventories: see the notes to the consolidated financial statements (3). Previous year's figures restated accordingly.

[4)] Excluding trainees and hired temps

Financial Calendar

26 March 2019	Annual Report 2018
7 May 2019	Annual General Meeting 2019 (Congress Centrum Heidenheim)
26 July 2019	Financial Report January to June 2019

Imprint

Publisher
SHW AG
Wilhelmstraße 67
73433 Aalen, Germany

Telephone: +49 7361 502 1
Fax: +49 7361 502 421
Email: info@shw.de
Website: www.shw.de

Investor Relations & Corporate Communications
Sandra Rosenmayer
Telefon: +49 7361 502 477
Fax: +49 7361 502 852
E-Mail: sandra.rosenmayer@shw.de

Concept and Design, Editing and Text
IR-ONE, Hamburg, Germany
www.ir-one.de

Production System
firesys GmbH
www.firesys.de

Photography
Daniel Banner,
Bad Nauheim, Germany
www.bannerfoto.de

Spectrum Fotostudio,
Michael Ankenbrand,
Aalen, Germany
www.spectrum-fotostudio.de

The English version of the Annual Report is a translation of the German version of the Annual Report. The German version of this Annual Report is legally binding.

SHW AG

Wilhelmstraße 67
D-73433 Aalen, Germany
Telephone: +49 7361 502 1
Fax: +49 7361 502 421
Email: info@shw.de
Website: www.shw.de