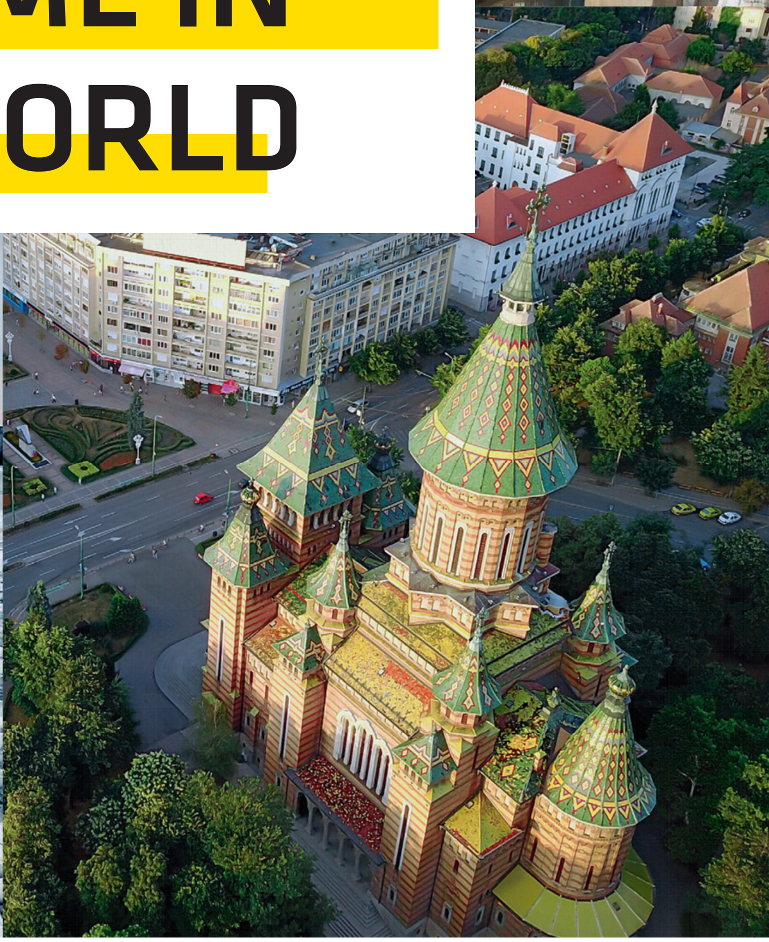
HALF-YEAR FINANCIAL REPORT 1 JANUARY TO 30 JUNE 2018

## HOME BASE IN SWABIA -

# AT HOME IN THE WORLD



SHW

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# COMPANY PROFILE

The Company was established in 1365, making it one of the oldest industrial companies in Germany. Today, SHW AG is a leading automotive supplier, providing products that make a substantial contribution to reducing fuel consumption and, consequently, to lowering $CO_2$ emissions. In its Pumps and Engine Components business segment, the SHW Group develops and produces pumps for passenger vehicles and truck & off-highway applications (e.g., trucks, agricultural and construction machinery, stationary engines and wind farms) as well as engine components. The Brake Discs business segment develops and produces monobloc ventilated brake discs made of cast iron and composite brake discs made of a combination of an iron friction ring and an aluminium pot. The SHW Group's customers include renowned automobile manufacturers, manufacturers of commercial, agricultural and construction vehicles as well as other suppliers to the automotive industry. Currently, the SHW Group has five production sites in Germany located in Bad Schussenried, Aalen-Wasseralfingen, Hermsdorf, Tuttlingen-Ludwigstal and Neuhausen ob Eck, plus sites in Brazil (São Paulo) and China (Kunshan), Toronto (Canada) and Timişoara (Romania). With about 1,350 employees, the company achieved Group sales of slightly above € 406 million in the fiscal year 2017. Further information is available at www.shw.de.

# HIGHLIGHTS

- Sales and operating earnings in line with budget after six months
- Guidance for the full year 2018 adjusted

# KEY PERFORMANCE INDICATORS FOR THE SHW GROUP

| | H1 | | |
|---|---|---|---|
| K EUR | **2018** | 2017 | Change % |
| Sales | 220,301 | 202,694 | 8.7% |
| EBITDA | 12,463 | 19,774 | – 37.0% |
| as % of sales | 5.7% | 9.8% | - |
| EBIT | 489 | 8,278 | – 94.1% |
| as % of sales | 0.2% | 4.1% | - |
| Net profit or loss for the period | – 661 | 5,380 | - |
| Earnings per share (€)* | – 0.10 | 0.84 | - |
| Equity | 120,599 | 118,664 | 1.6% |
| Equity ratio | 43.4% | 49.9% | - |
| Operating free cash flow | – 24,858 | 3,948 | - |
| Total free cash flow | – 8,639 | – 2,871 | – 200.9% |
| Net cash / Net debt | – 30,456 | – 7,925 | – 284.3% |
| Investments | 16,947 | 14,717 | 15.2% |
| as % of sales | 7.7% | 7.3% | - |
| Net working capital | 61,216 | 50,649 | 20.9% |
| Net working capital as % of sales (past twelve months) | 14.6% | 12.9% | - |
| ROCE (past twelve months) | 4.5% | 11.6% | - |

* Earnings per share calculated in relation to an average of 6,436,209 shares (Previous year 6,436,209 shares).

# THE SHW SHARE

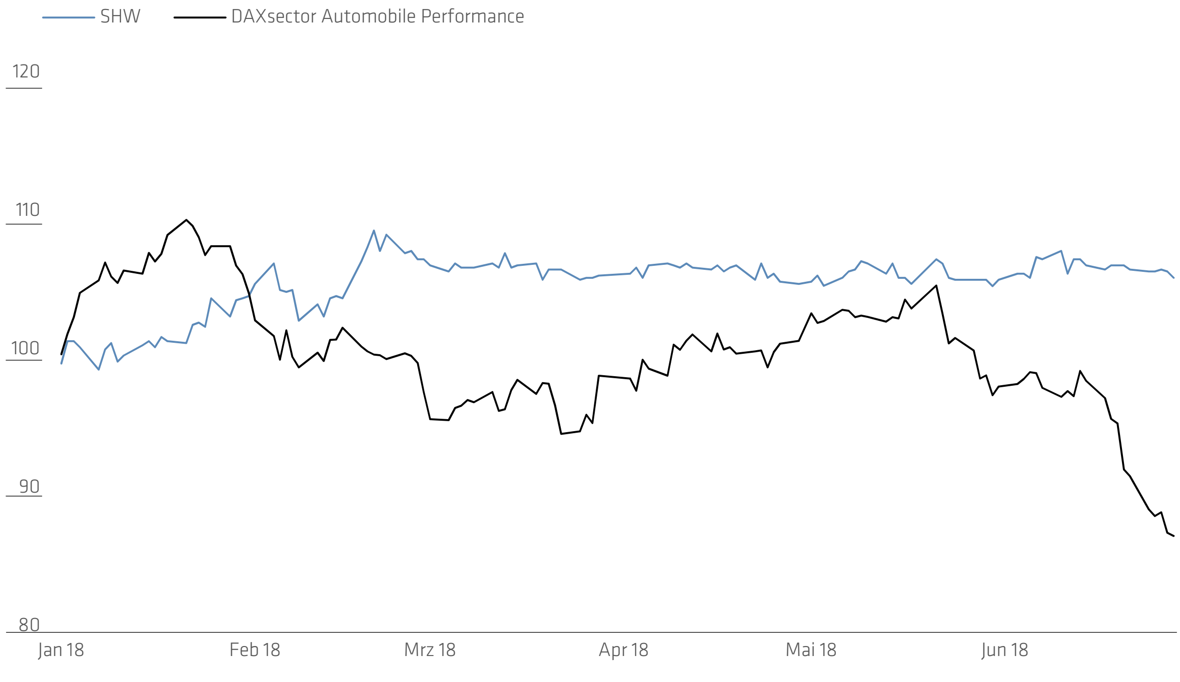
## Pending trade war dampens stock markets in the first six months

In the first half of 2018, the stock markets were buoyed by sustained robust economic data from the USA and China, the growing strength of the US dollar, the decision of the ECB not to change the key interest rates until the summer of 2019, **the oil price at a four-year high** and lively activity on the M&A market. The continuing weakness of the leading indicators in the euro area, the introduction of US import duties on steel and aluminium, the further escalation of the trade war with China and Europe, the rise of the key interest rates by the US Federal Reserve in March and June, the withdrawal of the US from the nuclear deal with Iran and the slump of the Chinese share market burdened the international stock exchanges.

Before this backdrop, the most important international market indices all recorded falling prices. The biggest loser, with a fall of 13.9 per cent, was the Shanghai Composite Index. By contrast, the key US stock market index, the Dow Jones, only slipped by 1.8 per cent.

The sentiment for automobile stocks dimmed considerably over the course of the second quarter of 2018. This was mainly triggered by the threat of 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 forecast revisions of miscellaneous index stocks as well as the problems experienced by a number of carmakers in making the transition to the WLTP. Overall, the stocks listed on the DAXsector Automobile Performance index (CXPA) slid by 13.5 per cent to 1,460 points. The SHW share developed better than the comparative index and closed the first half of 2018 at a price of € 35.05. The SHW share is currently trading at € 32.00 (as at 26 July 2018).

### Price trend for the SHW share and DAXsector Automobile Performance index (CXPA) in the period from January 2018 to June 2018




Source: Bloomberg

## Pierer Industrie AG new majority shareholder

Within the framework of the voluntary public purchase offer in the form of a partial purchase offer, 53,525 SHW shares or 0.83 per cent of subscribed capital was sold to SHW Beteiligungs GmbH (now: Pankl SHW Industries GmbH), Wels, Austria by the end of the Acceptance Period on 16 May 2018. Now, with a holding of 50.21 per cent, Pankl SHW Industries GmbH is the 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, Fidelity Investment Trust (USA) with 3.05 per cent and Dimensional Holdings Inc. with 3.00 per cent.

In the course of managers' transactions, the members of the Management Board and the Supervisory Board held shares in SHW as follows: Martin Simon – CFO (1,000 shares), Andreas Rydzewski – member of the Management Board (2,600 shares); Stefan Pierer – member of the Supervisory Board (3,231,578 shares, held indirectly via Pankl SHW Industries GmbH – previously registered as SHW Beteiligungs GmbH).

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

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

For its 2017 annual report, under the title, "Home Base in Swabia, at Home in the World", SHW was awarded a silver medal by LACP in the category "Automobiles & Components". This award is one of the most important 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 reports, SHW AG will fulfil all 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. The new corporate website (www.shw.de) offers a good introduction. Please feel free to request any further information which you may require. SHW Investor Relations looks forward to hearing from you!

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# INTERIM GROUP MANAGEMENT REPORT

## Industry environment

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

### Automobile production slightly above previous year's level

In the period from January to June 2018, according to the most recent surveys conducted by the research firm IHS production of light vehicles (vehicles < 6 tonnes) increased worldwide by 1.7 per cent on the previous year, from 47.4 million units to 48.2 million units.

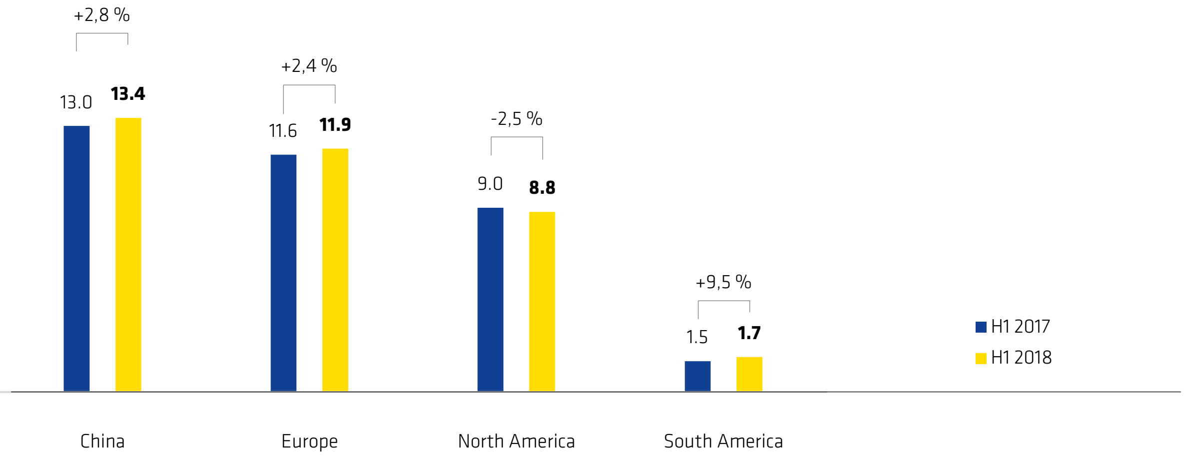
China recorded stable growth of 2.8 per cent to 13.4 million vehicles.

The increase in Europe can be chiefly attributed to Russia (+14.8 per cent to 0.8 million vehicles), Spain (+4.7 per cent to 1.6 million vehicles) and France (+4.4 per cent to 1.2 million vehicles). Germany recorded a decrease in production of -3.0 per cent to 2.9 million vehicles.

Vehicle production in South America is trending upwards. Following a deep, recession-related slump in production over the past few years, light vehicle production increased by 9.5 per cent on the previous year and reached 1.7 million vehicles.

North America reported a decrease of 2.5 per cent in its production figures to 8.8 million vehicles.

LIGHT VEHICLE PRODUCTION BY REGION (IN M UNITS)




Source: IHS - July 2018

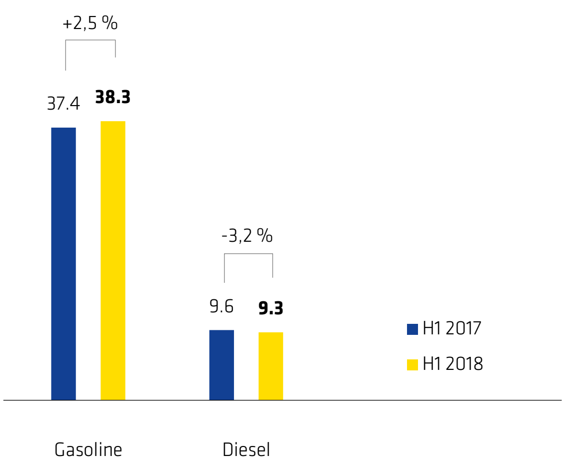
## Robust demand for gasoline engines

In the first six months of 2018, the production of gasoline engines for light vehicles (< 6 tonnes) increased worldwide by 2.5 per cent to 38.3 million units. Production of diesel engines slipped by 3.2 per cent to 9.3 million units in comparison to the previous year in light of the continuing emissions-related issues. Electric motors recorded a growth rate of 64.3 per cent, but continued to play a minor role at just 0.5 million units.

Engine production in China increased by 4.1 per cent to 13.6 million units between January and June 2018. Of that, gasoline engines accounted for 12.5 million units (+3.6 per cent), while production of diesel engines remained constant in a year-on-year comparison at 0.9 million units. The volume of electric motors increased to 246 thousand units (+73.1 per cent).

In Europe (including Russia), 12.7 million engines were manufactured (+1.5 per cent on the previous year). Production of gasoline engines rose by 8.5 per cent to 7.4 million units. Production of diesel engines decreased by 7.4 per cent to 5.3 million units.

ENGINE PRODUCTION WORLDWIDE (IN M UNITS)



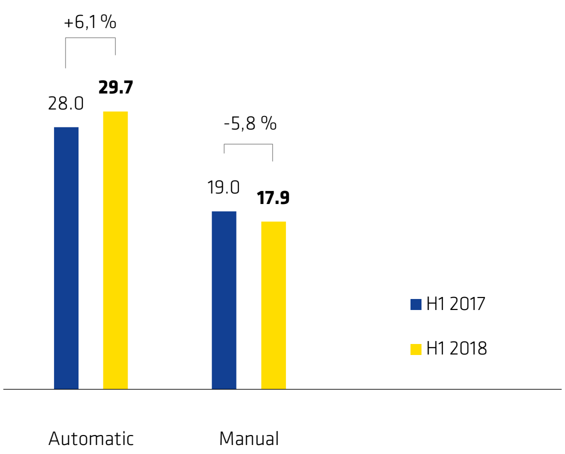

Source: IHS – July 2018

North America recorded a 4.1 per cent decrease in production to 7.5 million units in the first six months of 2018. This decrease can be attributed exclusively to the declining production of gasoline engines (down 4.6 per cent to 7.1 million units).

## Automatic transmissions grow above average

In the first six months of 2018, transmission production increased by 1.7 per cent worldwide to 48.2 million units. Production of automatic transmissions grew at a faster rate of 6.1 per cent, from 28.0 million units to 29.7 million units. Their share of overall production thus amounts to roughly 62 per cent. China was the growth driver for automatic transmissions, with a growth rate of 23.1 per cent to 6.1 million units along with Europe, with an increase of 7.4 per cent to 4.8 million units.

TRANSMISSION PRODUCTION WORDLWIEDE (IN M UNITS)




Source: IHS – July 2018

# Course of business, Results of Operations, Net Assets and Financial Position of the SHW Group

**KEY PERFORMANCE INDICATORS FOR THE SHW GROUP**

| K EUR | H1 2018 | H1 2017 | Change % |
|---|---|---|---|
| Sales | 220,301 | 202,694 | 8.7% |
| EBITDA | 12,463 | 19,774 | – 37.0% |
| as % of sales | 5.7% | 9.8% | - |
| Depreciation and amortisation | 11,974 | 11,496 | 4.2% |
| as % of sales | 5.4% | 5.7% | - |
| EBIT | 489 | 8,278 | – 94.1% |
| as % of sales | 0.2% | 4.1% | - |
| ROCE (past twelve months) | 4.5% | 11.6% | - |
| Net profit or loss for the period | – 661 | 5,380 | – |

## Results of operations

### Sales significantly higher than in the previous year

Group sales amounted to € 220.3 million in the first half year of 2018, 8.7 per cent above the previous year's figure of € 202.7 million in line with expectations. Both business segments contributed to this increase in sales.

### Slight improvement in the cost of sales ratio

In the reporting period, the cost of sales increased by 8.2 per cent, from € 178.9 million to € 193.6 million as a result of the rise in sales. The cost of sales ratio improved slightly as a result from 88.3 per cent to 87.9 per cent. This improvement resulted primarily from the positive effects of economies of scale and the product mix as well as productivity gains. Non-recurring effects of € 0.9 million from writing down inventories burdened the cost of sales in 2018.

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

In the first six months of the fiscal year 2018, selling and general administrative expenses increased by € 4.2 million from € 12.7 million to € 16.9 million. The increase includes non-recurring effects of € 2.1 million (€ 1.4 million for higher legal expenses and consulting fees for litigation and the costs of taking legal action as well as € 0.7 million related to the change in the CEO); otherwise the increase can be attributed to the growth in sales and the establishment and expansion of international locations.

### Research and development costs increased

Research and development costs in the first six months of 2018 of € 5.7 million were above the level of the previous year (€ 5.2 million). In addition, development costs of € 1.8 million (previous year € 0.4 million) were capitalised. Additional development services were billed within the scope of customer orders. The R&D ratio (including capitalised development costs) amounts to 3.4 per cent of sales (previous year 2.8 per cent). Electrically driven transmission oil pumps are the core area of development in the Pumps and Engine Components business segment. The Brake Discs business segment is focusing on the ongoing development of high-quality composite brake discs as well as new coating technologies to reduce particulates.

### Other operating income and expenses

The balance of other operating income and other operating expenses in the first six months of 2018 exceeded the previous year's level by € 6.2 million. This is mainly attributable to non-recurring expenses of € 4.6 million related to litigation.

### EBITDA margin decreased to 5.7 per cent due to non-recurring effects

Consolidated earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to € 12.5 million (previous year € 19.8 million) in the first six months of the fiscal year 2018. At 5.7 per cent, the EBITDA margin was significantly below the previous year's figure of 9.8 per cent.

The non-recurring effects mentioned above totalling EUR € 7.6 million reduced the EBITDA margin in the first half of 2018 by 3.4 percentage points. Without considering these non-recurring effects, the EBITDA margin would have amounted to 9.1 per cent.

## EBIT only slightly positive on account of non-recurring effects

Due to the expansion of the SHW Group, depreciation and amortisation of €12.0 million lies €0.5 million or 4.2 per cent above the level of the previous year. Earnings before interest and tax (EBIT) decreased from €8.3 million to €0.5 million. The EBIT margin decreased to 0.2 per cent, compared to 4.1 per cent in the previous year. Without the non-recurring effects, the EBIT margin would have amounted to 3.7 per cent.

## ROCE influenced by corporate expansion

The return on capital employed (ROCE) decreased in the first six months of 2018 compared to the first half of the last year from 11.6 per cent to 4.5 per cent.

Apart from the non-recurring items reducing EBIT, the decrease in ROCE is largely attributable to the investment-related increase in property, plant and equipment.

**ROCE**

| K EUR | **30.06.2018** | 30.06.2017 |
|---|---|---|
| Goodwill | 7,441 | 7,055 |
| Customer base | 874 | 0 |
| Other intangible assets | 8,622 | 7,935 |
| Property, plant and equipment | 124,179 | 101,164 |
| Deferred tax assets | 5,796 | 5,441 |
| Joint ventures accounted for using the equity method | 0 | 15,930 |
| Other (financial) assets (non-current) | 3,911 | 1,647 |
| Inventories | 54,990 | 43,290 |
| Trade receivables | 55,674 | 47,615 |
| Other (financial) assets (current) | 7,004 | 4,996 |
| **Capital employed asset item** | **268,491** | **235,073** |
| Deferred tax liabilities | – 2,060 | – 2,277 |
| Other provisions (non-current) | – 5,307 | – 4,826 |
| Other financial liabilities (non-current and non-interest bearing) | – 330 | – 116 |
| Other liabilities (non-current) | – 550 | 0 |
| Trade payables | – 47,774 | – 40,256 |
| Contract liabilities (current) | – 1,674 | 0 |
| Other financial liabilities (current and non-interest bearing) | – 7,139 | – 8,330 |
| Income tax liabilities | – 77 | – 299 |
| Other provisions and accruals (current) | – 9,533 | – 13,960 |
| Other liabilities (current) | – 10,766 | – 9,513 |
| **Capital employed liability item** | **– 85,210** | **– 79,577** |
| Capital employed | 183,281 | 155,496 |
| EBIT (past twelve months) | 9,712 | 17,657 |
| Profit or loss of joint ventures accounted for using the equity method (past twelve months) | – 1,472 | 424 |
| EBIT including profit of joint ventures accounted for using the equity method (past twelve months) | 8,240 | 18,081 |
| **ROCE (past twelve months)** | **4.5%** | **11.6%** |

### Financial result and income from investments

In the period from January to June 2018, the balance of financial income and expenses – excluding income from investments – is slightly above the previous year's level. This can be chiefly attributed to the higher use of debt instruments to finance the expansion strategy of the SHW Group, as planned.

Profit from joint ventures accounted for using the equity method in the first half of fiscal year 2017 related exclusively to the Chinese joint venture, SHW Longji Brake Discs (LongKou) Co., Ltd. The investment of SHW in this joint venture was sold in the fourth quarter of 2017.

### Income taxes

Current income tax expenses for the first six months of fiscal year 2018 of €0.4 million related to the German entities of the Group. Due to the conservative accounting of deferred tax assets on tax loss carryforwards at foreign subsidiaries, losses of approximately €0.7 million have not been considered to date in the calculation of deferred tax assets on unused tax losses, which would otherwise have led to an increase of €0.1 million in income from deferred taxes.

### Net profit or loss for the period

Earnings after tax decreased by €6.0 million to € -0.7 million in the first six months of the fiscal year 2018, due to the non-recurring effects outlined above. Earnings per share reached a level of € -0.10 in this period (previous year €0.84).

## Development of the business segments

### Pumps and Engine Components business segment

**KEY PERFORMANCE INDICATORS FOR PUMPS AND ENGINE COMPONENTS**

| | H1 | | |
|---|---|---|---|
| K EUR | **2018** | 2017 | Change % |
| Sales | 165,336 | 155,352 | 6.4% |
| EBITDA | 11,476 | 17,867 | – 35.8% |
| as % of sales | 6.9% | 11.5% | - |
| Depreciation and amortisation | 9,297 | 9,334 | – 0.4% |
| as % of sales | 5.6% | 6.0% | - |
| EBIT | 2,179 | 8,533 | – 74.5% |
| as % of sales | 1.3% | 5.5% | - |
| ROCE (past twelve months) | 9.4% | 18.4% | - |

### Sales above previous year's level as budgeted

The Pumps and Engine Components business segment achieved sales of €165.3 million in the first six months (previous year €155.4 million).

Sales in the passenger car divison decreased by €123.2 million to €120.1 million. The growing contribution of the foreign entities countered the decline in sales in Germany. This latter trend is mainly due to falling sales of diesel applications and the lower share supplied by SHW for the second generation of an electrically driven transmission oil pump for the start-stop function.

The high-margin Truck & Off-Highway and Powder Metallurgy divisions both increased their sales significantly. The Truck & Off-Highway division recorded an increase in sales of 15.4 per cent to €19.1 million (previous year €16.6 million). The Powder Metallurgy division improved by 18.9 per cent to €18.5 million (previous year €15.6 million).

Lust Hybrid-Technik GmbH (LHT), which is consolidated for the full year for the first time, posted sales of €7.6 million in the first six months of fiscal year 2018.

### EBITDA margin decreased to 6.9 per cent due to non-recurring effects

The Pumps and Engine Components business segment achieved a segment EBITDA of €11.5 million in the reporting period, €6.4 million below the level of the previous year. The EBITDA margin decreased from 11.5 per cent to 6.9 per cent. The main factors in the lower margin were the non-recurring effects mentioned above, which burdened the Pumps and Engine Components segment by €5.5 million. Without these non-recurring effects, the EBITDA margin would have amounted to 10.3 per cent.

Mainly due to the flatter start-up curve of a project in China than expected, for which the customer is responsible, the sales and earnings contribution of the Chinese subsidiary were below expectations. The sales and earnings trends for the Group's foreign subsidiaries in Canada and Brazil were in line with expectations. The first customer certification of the location in Romania was concluded successfully. Expenses for the future-oriented establishment and expansion of foreign plants are included in the operating segment result.

### EBIT margin decreased to 1.3 per cent due to non-recurring effects

The depreciation and amortisation of the Pumps and Engine Components business segment came to €9.3 million, in line with the level of the previous year. As a result, the EBIT margin decreased from 5.5 per cent to 1.3 per cent. Without the non-recurring expenses, the EBIT margin would have amounted to 4.6 per cent.

## Development of the Brake Discs business segment

**KEY PERFORMANCE INDICATORS FOR BRAKE DISCS**

| | H1 | | |
|---|---|---|---|
| K EUR | **2018** | 2017 | Change % |
| Sales | 54,965 | 47,342 | 16.1% |
| EBITDA | 5,028 | 3,128 | 60.7% |
| as % of sales | 9.1% | 6.6% | - |
| Depreciation and amortisation | 2,351 | 1,970 | 19.3% |
| as % of sales | 4.3% | 4.2% | - |
| EBIT | 2,677 | 1,158 | 131.2% |
| as % of sales | 4.9% | 2.4% | - |
| ROCE (past twelve months) | 5.9% | 6.2% | - |

### Significant sales growth due to higher unit volume

The sales of the Brake Discs business segment rose by €16.1 per cent in the first six months of 2018 to €55.0 million (previous year €47.3 million). In sum, sales of brake discs were up 8.8 per cent on the previous year. Unit sales of composite brake discs of almost 400,000 units (+41.9 per cent on the previous year) set a new record.

### EBITDA margin improved to 9.1 per cent

The segment EBITDA figure was positively influenced by volume and product mix effects as well as productivity gains. Overall, the EBITDA of the Brake Discs business segment increased by €1.9 million to €5.0 million in the reporting period. There were no significant non-recurring effects in the Brake Discs business segment in the first half of fiscal year 2018. The EBITDA margin amounts to 9.1 per cent (previous year 6.6 per cent).

### EBIT influenced by higher depreciation

Due to the €0.4 million increase in depreciation, the rise in earnings before interest and tax (EBIT) from €1.2 million to €2.7 million was less pronounced than the increase in EBITDA. The EBIT margin therefore increased by 2.5 percentage points to 4.9 per cent.

## Net assets

### Non-current assets

Other intangible assets and property, plant and equipment totalled € 132.8 million as at 30 June 2018, € 23.7 million above the previous year's level. Asset additions considerably exceeded depreciation in the first six months of 2018.

**NET WORKING CAPITAL**

| K EUR | 30.06.2018 | 30.06.2017 | Change absolute | Change % |
|---|---|---|---|---|
| Inventories | 54,990 | 43,290 | 11,700 | 27.0% |
| Trade receivables | 55,674 | 47,615 | 8,059 | 16.9% |
| Trade payables | – 47,774 | – 40,256 | – 7,518 | 18.7% |
| Contract liabilities (current) | – 1,674 | 0 | – 1,674 | - |
| Net working capital | 61,216 | 50,649 | 10,567 | 20.9% |
| Net working capital as % of sales (past twelve months) | 14.6% | 12.9% | - | - |

As at 30 June 2018, net working capital increased by € 10.6 million compared to the previous year and amounted to € 61.2 million. At 14.6 per cent, the net working capital ratio – related to the Group sales over the past twelve months – was 1.7 percentage points above the previous year's level and exceeded the envisaged range of between 11 and 12 per cent.

Of the total increase in inventories of € 11.7 million, an amount of € 4.0 million is due to unfinished products and the fact that Lust Hybrid-Technik GmbH is consolidated for the full year for the first time. The increase in trade receivables of 16.9 per cent is roughly 8.2 percentage points higher than the rise in sales and is largely due to time-delayed incoming payments, longer payment terms at foreign subsidiaries and also LHT.

Trade payables and current contract liabilities increased by € 9.2 million compared to the reporting date of the previous year to close at a balance of € 49.5 million. This trend is mainly attributable to the rise in business and comparatively higher asset additions.

### Equity ratio above 40 per cent

Equity increased from € 118.7 million to € 120.6 million compared to 30 June 2017. In particular, the consolidated comprehensive income after tax for the past twelve months totalling € 5.2 million boosted the Company's equity. This was offset to some extent by a dividend payment of € 3.2 million. A significant increase in the balance sheet total of € 40.3 million, or 17.0 per cent to € 278.1 million resulted in the equity ratio decreasing from 49.9 per cent as at 30 June 2017 to 43.4 per cent as at 30 June 2018.

### Finance leases increase other financial liabilities

Of the total increase in non-current and current other financial liabilities an amount totalling € 4.3 million is due to the increase of non-current and current liabilities from finance leases. These rose largely due to the lease of land and buildings at the Timişoara location of the Romanian subsidiary. Financial liabilities are presented in the notes to the interim consolidated financial statements.

## Financial position

### Operating cash flow significantly affected by operating working capital

**CHANGE IN NET LIQUIDITY**

| | H1 | |
|---|---|---|
| K EUR | **2018** | 2017 |
| Cash flow from operating activities | – 7,920 | 18,463 |
| Cash flow from investing activities (intangible assets and property, plant and equipment) | – 16,938 | – 14,515 |
| **Operating free cash flow** | **– 24,858** | **3,948** |
| Cash flow from investing activities (financial assets) | 16,219 | – 6,819 |
| **Total free cash flow** | **– 8,639** | **– 2,871** |
| Other items (in particular dividend payments) | – 3,647 | – 6,687 |
| **Change in net liquidity** | **– 12,286** | **– 9,558** |

The cash flow from operating activities in the first six months came to a cash outflow of €7.9 million (previous year cash inflow of €18.5 million). In addition to the decrease in the net profit for the period and provisions, this significant decrease is largely due to the significant increase in working capital in comparison to the same period of the previous year.

With an increase of €2.4 million in cash outflow due to investments in intangible assets and property, plant and equipment, the Company generated a negative operating free cash flow.

In February 2018 a cash inflow of €16.2 million was received from the sale of the investment of SHW in the joint venture, SHW Longji Brake Discs (LongKou) Co., Ltd., (the purchase price receivable was presented under current other financial assets as at 31 December 2017). In sum, the total free cash flow amounts to an outflow of €8.6 million (previous year a cash outflow of €2.9 million).

Profit distributions to shareholders of €3.2 million were paid out in the second quarter of 2018 in accordance with the resolution passed by the Annual General Meeting in May 2018 for the fiscal year 2017.

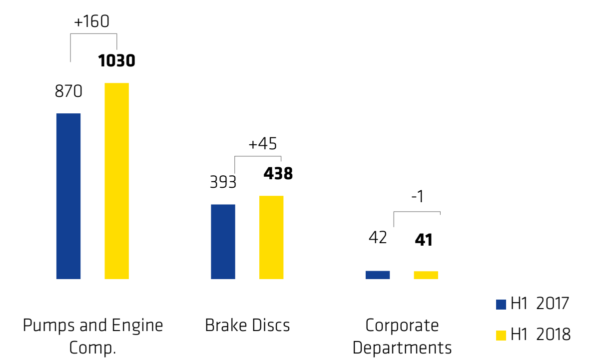
### Net financial liabilities up by €12.3 million compared to 31 December 2017

Net financial liabilities amounted to € -30.5 million after the first six months of the year. By comparison with 31 December 2017, net financial liabilities have therefore increased by €12.3 million and by €22.5 million in a year-on-year comparison.

## Employees

In the first six months of the fiscal year 2018, the Group's average number of employees – on an FTE basis – increased from 1,305 in the comparable period of the previous year to 1,509.

Average number of employees (FTE)




## Report on risks and opportunities

Apart from the following exceptions, no significant changes have resulted in the assessment of the risks and opportunities for the SHW Group compared to the comments in the Company's Annual Report for 2017 (pages 49 to 57).

The probability of occurrence of delivery call-off risks, which is reported under operating risks, rose from "low" to "medium". The reasons lie primarily in weaker demand for diesel vehicles, the transition to the new WLTP worldwide harmonised light vehicles test procedure and – due to customers – flatter start-up curves for various projects. Reference is made to the presentation under the "Outlook for the group" section of the interim group management report.

As in the past, the probability of occurrence of legal risks eventuating are categorized as "medium" with the degree of financial impact rated "high". Taking an item-by-item perspective, the following new developments in fiscal year 2018 have resulted in the legal risks already explained in the risk report issued for 2017.

With regard to the dispute between SHW and a French supplier related to demolition costs, which has since gone to the court of appeal, a preliminary payment has been made to the supplier. SHW and its legal counsels are still of the opinion that SHW will win the case at the court of appeal. However, as it has since become more likely than not that the supplier will become insolvent, the amount in excess of the provision already recognized for this risk was fully provided for in the second quarter of 2018 and charged through profit or loss.

Legal defence (in this case opposition proceedings against a patent) was initiated without delay against a suit brought by a competitor for breach of patent in which the plaintiff seeks an order against SHW to cease and desist and pay 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 recent legal developments, SHW has decided on grounds of prudence, after involving legal counsel, to adjust the risk provision accordingly. The defence could entail a long legal battle through a number of courts and the outcome cannot therefore be clearly foreseen at present.

# Forecast

## Outlook for the industry

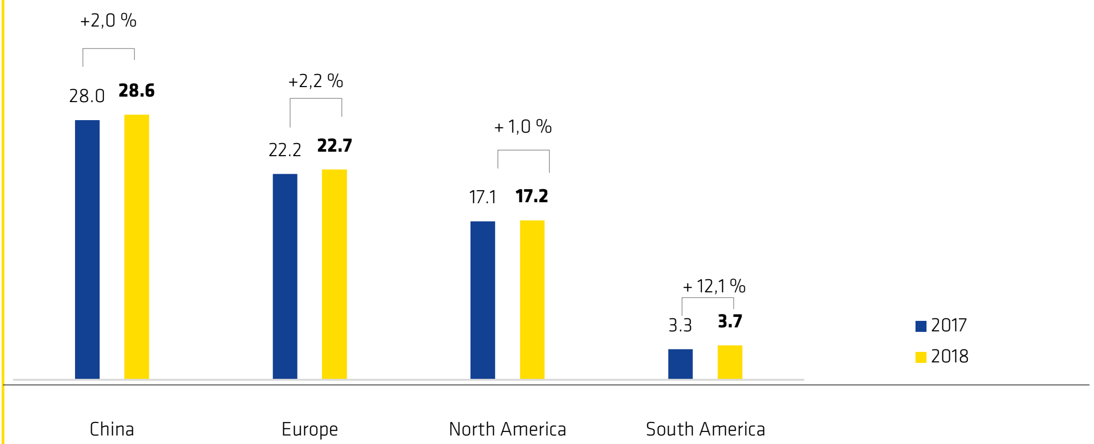
### Moderate rise in vehicle production

Based on the latest forecasts, the IHS market research institute expects global light vehicle production (vehicles < 6 tonnes) to increase by 2.3 per cent in 2018, from 95.1 million vehicles to 97.3 million vehicles.

Within the European region, in particular Russia (+10.8 per cent to 1.6 million vehicles), Spain (+5.0 per cent to 3.0 million vehicles) and the Slovak Republic (+10.6 per cent to 1.0 million vehicles) will contribute to the 2.2 per cent increase in production figures to 22.7 million vehicles. A decrease of 3.2 per cent to 5.7 million vehicles is predicted for the German market.

IHS anticipates an increase of 2.0 per cent in vehicle production in China to 28.6 million vehicles and 1.0 per cent in North America to 17.2 million vehicles. In South America rapid growth of 12.1 per cent to 3.7 million vehicles is expected.

LIGHT VEHICLE PRODUCTION BY REGION (IN M UNITS)



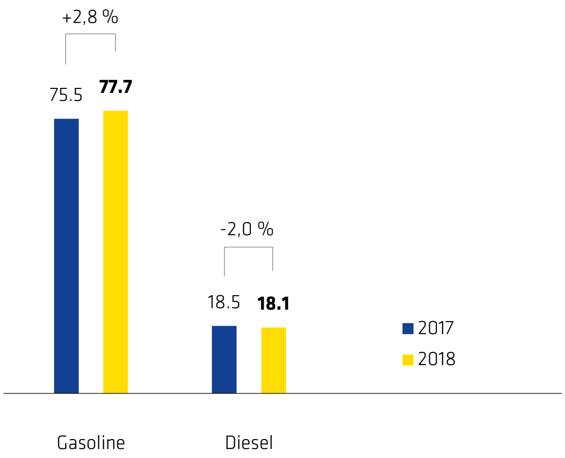

Source: IHS -July 2018

### Gasoline engines still a growth driver

For light vehicles, global engine production is expected to enjoy growth of 2.3 per cent to 97.3 million units. As in the previous year, growth can mostly be attributed to gasoline engines (+2.8 per cent to 77.7 million units). Diesel engines are expected to display a 2.0 per cent fall in production to 18.1 million units. At 1.2 million units, production of electric motors should pass the million mark for the first time.

In China, engine production is expected to increase by 2.6 per cent to 29.0 million units. The largest volume growth will be in gasoline engines, which are expected to see growth of 2.6 per cent to 26.5 million units. Production of electric motors should rise by 25.0 per cent to 592 thousand units.

ENGINE PRODUCTION WORLDWIDE (IN M UNIT)




Source: IHS – July 2018

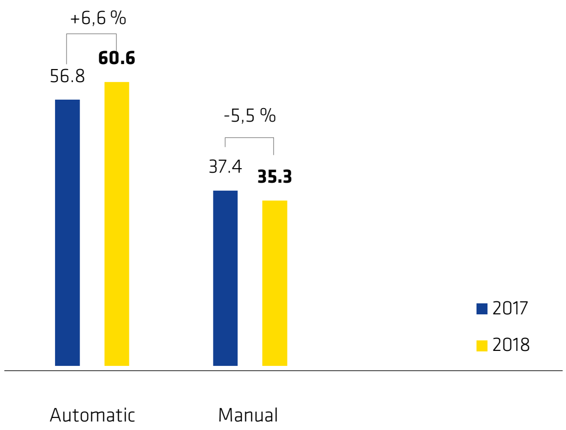
For Europe, IHS expects a decrease of 4.3 per cent in the production of diesel engines to 10.2 million units, countered by an increase of 6.5 per cent in gasoline engine production to 14.2 million units. Production volume in North America is forecast to remain steady at 14.8 million units.

### Automatic transmissions grow above average

Growth in the production volume of transmissions can be attributed to automatic transmissions. Production should increase by 6.6 per cent worldwide to 60.6 million units in 2018. Transmission production in China will play a decisive role in this development. IHS is forecasting transmission production growth of 15.2 per cent in the country to 13.2 million units. In Europe production of automatic transmissions is expected to grow by 7.2 per cent to 9.5 million units.

Based on the latest data from the IHS research institute, production of manual transmissions will decline by 5.5 per cent worldwide. This will particularly affect China (down 14.8 per cent to 10.1 million units) and Europe (down 4.2 per cent to 12.9 million units).

TRANSMISSION PRODUCTION WORLDWIDE (IN M UNITS)




Source: IHS – July 2018

## Outlook for the Group

Due to the weakening demand for diesel vehicles, the shift to the new WLTP exhaust test cycle and the flatter start-up curves for various projects, SHW AG expects group sales for the full year 2018 to range between €420 million and €440 million (previous forecast €450 million to €470 million; previous year €400.6 million).

Sales of the Pumps and Engine Components business segment are anticipated to now lie in a range between €315 million and €330 million (previous forecast €345 million to €360 million; previous year €305.9 million). For the Brake Discs business segment sales of €105 million to €110 million are forecast without change (previous year €94.7 million).

Prior to the non-recurring expenses described above, SHW expects an EBITDA margin of 9 per cent to 10 per cent (previous year 10.3 per cent) for fiscal year 2018. This corresponds to an EBITDA prior to the non-recurring expenses mentioned in a range between €37.8 million and €44.0 million (previous forecast €49.5 million to €56.4 million – no non-recurring expenses; previous year €41.3 million).

Aalen, 27 July 2018

The Management Board of SHW AG

| | | |
|---|---|---|
| **Wolfgang Plasser** | **Martin Simon** | **Andreas Rydzewski** |
| *Chief Executive Officer* | *Chief Financial Officer* | *Member of the Management Board* |

# INTERIM CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO IFRS AS AT 30 JUNE 2018

## CONSOLIDATED INCOME STATEMENT (UNAUDITED)

from 1 January to 30 June 2018

| | H1 | |
|---|---|---|
| K EUR | **2018** | 2017 |
| | | |
| Sales | 220,301 | 202,694 |
| Cost of sales | – 193,618 | – 178,891 |
| Gross profit | 26,683 | 23,803 |
| Selling expenses | – 6,339 | – 5,807 |
| General administrative expenses | – 10,590 | – 6,879 |
| Research and development costs | – 5,707 | – 5,231 |
| Other operating income | 2,059 | 3,795 |
| Other operating expenses | – 5,617 | – 1,403 |
| **Earnings before interest and tax** | **489** | **8,278** |
| Financial income | 3 | 6 |
| Financial expenses | – 827 | – 526 |
| Profit or loss of joint ventures accounted for using the equity method | 0 | 302 |
| **Earnings before tax** | **– 335** | **8,060** |
| Deferred taxes | 91 | 341 |
| Current income tax | – 417 | – 3,021 |
| Earnings after tax | – 661 | 5,380 |
| **Net profit or loss for the period** | **– 661** | **5,380** |
| Earnings per share in EUR (basic and diluted)* | – 0.10 | 0.84 |

* Earnings per share calculated in relation to an average of 6,436,209 shares (Previous year 6,436,209 shares).

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

## from 1 January to 30 June 2018

| | H1 | |
|---|---|---|
| K EUR | **2018** | 2017 |
| **Net profit or loss for the period** | **– 661** | **5,380** |
| **Items that may be reclassified to profit or loss in future periods** | | |
| Currency translation differences | – 426 | – 845 |
| Tax effect | 0 | 0 |
| Unrealised gains/losses from currency translation for joint ventures accounted for using the equity method | 0 | – 784 |
| Tax effect | 0 | 0 |
| Other comprehensive income after tax | – 426 | – 1,629 |
| **Total comprehensive income after tax** | **– 1,087** | **3,751** |
| Net profit or loss for the period attributable to | | |
| - shareholders of SHW AG | – 661 | 5,380 |
| - holders of non-controlling interests | 0 | 0 |
| Total comprehensive income attributable to | | |
| - shareholders of SHW AG | – 1,087 | 3,751 |
| - holders of non-controlling interests | 0 | 0 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

## as at 30 June 2018

**ASSETS**

| K EUR | 30.06.2018 | 31.12.2017 | 30.06.2017 |
|---|---|---|---|
| Goodwill | 7,441 | 7,441 | 7,055 |
| Customer base | 874 | 923 | 0 |
| Other intangible assets | 8,622 | 7,509 | 7,935 |
| Property, plant and equipment | 124,179 | 114,167 | 101,164 |
| Deferred tax assets | 5,796 | 5,963 | 5,441 |
| Joint ventures accounted for using the equity method | 0 | 0 | 15,930 |
| Other financial assets | 287 | 287 | 273 |
| Other assets | 3,624 | 2,914 | 1,374 |
| **Non-current assets** | **150,823** | **139,204** | **139,172** |
| Inventories | 54,990 | 45,524 | 43,290 |
| Trade receivables | 55,674 | 45,825 | 47,615 |
| Other financial assets | 327 | 16,311 | 331 |
| Income tax assets | 2,424 | 0 | 0 |
| Other assets | 6,677 | 5,365 | 4,665 |
| Cash and cash equivalents | 7,172 | 3,868 | 2,678 |
| **Current assets** | **127,264** | **116,893** | **98,579** |
| **Total assets** | **278,087** | **256,097** | **237,751** |

**EQUITY AND LIABILITIES**

| K EUR | **30.06.2018** | 31.12.2017 | 30.06.2017 |
|---|---|---|---|
| Subscribed capital | 6,436 | 6,436 | 6,436 |
| Capital reserves | 38,510 | 38,510 | 38,510 |
| Revenue reserves | 82,271 | 86,150 | 81,370 |
| Other reserves | – 6,618 | – 6,192 | – 7,652 |
| **Equity** | **120,599** | **124,904** | **118,664** |
| Pension provisions and similar obligations | 27,729 | 27,905 | 27,960 |
| Deferred tax liabilities | 2,060 | 2,247 | 2,277 |
| Other provisions | 5,307 | 5,386 | 4,826 |
| Other financial liabilities | 6,678 | 2,633 | 944 |
| Liabilities to banks | 1,522 | 1,593 | 0 |
| Other liabilities | 550 | 584 | 0 |
| **Non-current liabilities and provisions** | **43,846** | **40,348** | **36,007** |
| Liabilities to banks | 36,106 | 20,445 | 10,603 |
| Trade payables | 47,774 | 46,353 | 40,256 |
| Contract liabilities | 1,674 | 0 | 0 |
| Other financial liabilities | 7,712 | 4,931 | 8,449 |
| Income tax liabilities | 77 | 74 | 299 |
| Other provisions and accruals | 9,533 | 10,831 | 13,960 |
| Other liabilities | 10,766 | 8,211 | 9,513 |
| **Current liabilities, provisions and accruals** | **113,642** | **90,845** | **83,080** |
| **Total liabilities and equity** | **278,087** | **256,097** | **237,751** |

# CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

## from 1 January to 30 June 2018

| | H1 | |
|---|---|---|
| | **2018** | 2017 |
| **1. Cash flow from operating activities** | | |
| Net profit or loss for the period | – 661 | 5,380 |
| Depreciation and amortisation (+) of fixed assets | 11,974 | 11,496 |
| Income tax expenses through profit or loss (+) | 417 | 3,021 |
| Income taxes paid (-) | – 2,837 | – 4,341 |
| Financing costs through profit or loss (+) | 827 | 526 |
| Interest paid (-) | – 294 | – 154 |
| Financial investment income through profit or loss (-) | – 3 | – 6 |
| Interest received (+) | 3 | 4 |
| Increase (+) / decrease (-) in provisions | – 1,863 | 3,156 |
| Change in deferred taxes | – 45 | – 341 |
| Other non-cash effective expenses (+) / income (-) | – 3 | – 115 |
| Gain (-) / loss (+) from the disposal of assets | – 2 | 25 |
| Profit or loss of joint ventures accounted for using the equity method | 0 | – 302 |
| Increase (-) / decrease (+) in inventories, trade receivables and other assets | – 20,945 | – 8,546 |
| Increase (+) / decrease (-) in trade payables and other liabilities | 5,512 | 8,660 |
| **Cash flow from operating activities** | **– 7,920** | **18,463** |
| **2. Cash flow from investing activities** | | |
| Cash received (+) from the disposal of property, plant and equipment | 9 | 1 |
| Cash paid (-) for investments in property, plant and equipment | – 15,833 | – 13,912 |
| Cash paid (-) for investments in intangible assets | – 1,114 | – 604 |
| Cash received (+) from disposal of financial assets | 16,219 | 0 |
| Cash paid (-) for investments in financial assets | 0 | – 6,819 |
| **Cash flow from investing activities** | **– 719** | **– 21,334** |

| | H1 2018 | H1 2017 |
|---|---|---|
| **3. Cash flow from financing activities** | | |
| Cash received (+) from the assumption of financial liabilities | 15,987 | 9,214 |
| Cash paid (-) for the redemption of financial liabilities | – 397 | – 594 |
| Dividends paid (-) to shareholders | – 3,218 | – 6,436 |
| Cash paid (-) for finance leases | – 412 | – 68 |
| **Cash flow from financing activities** | **11,960** | **2,116** |
| **4. Cash and cash equivalents at the end of the period** | | |
| Cash-effective changes in cash and cash equivalents (sum of positions 1-3) | 3,321 | – 755 |
| Exchange rate-related changes in cash and cash equivalents | – 17 | – 183 |
| Cash and cash equivalents at the beginning of the period | 3,868 | 3,616 |
| **Cash and cash equivalents at the end of the period** | **7,172** | **2,678** |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

## as at 30 June 2018

| K EUR | Subscribed capital | Capital reserves | Revenue reserves | Other reserves | Total equity |
|---|---|---|---|---|---|
| 1 January 2017 | 6,436 | 38,510 | 82,427 | – 6,024 | 121,349 |
| Unrealised gains/losses from currency translation for joint ventures accounted for using the equity method | 0 | 0 | 0 | – 784 | – 784 |
| Foreign currency translation differences | 0 | 0 | 0 | – 845 | – 845 |
| Other comprehensive income after tax | 0 | 0 | 0 | – 1,629 | – 1,629 |
| Net profit for the period H1 2017 | 0 | 0 | 5,380 | 0 | 5,380 |
| Total comprehensive income for the period H1 2017 | 0 | 0 | 5,380 | – 1,629 | 3,751 |
| Dividends paid* | 0 | 0 | – 6,436 | 0 | – 6,436 |
| **30 June 2017** | **6,436** | **38,510** | **81,371** | **– 7,653** | **118,664** |

*Dividends paid amounted to € 1.00 per share

| K EUR | Subscribed capital | Capital reserves | Revenue reserves | Other reserves | Total equity |
|---|---|---|---|---|---|
| 1 January 2018 | 6,436 | 38,510 | 86,150 | – 6,192 | 124,904 |
| Unrealised gains/losses from currency translation for joint ventures accounted for using the equity method | 0 | 0 | 0 | 0 | 0 |
| Foreign currency translation differences | 0 | 0 | 0 | – 426 | – 426 |
| Other comprehensive income after tax | 0 | 0 | 0 | – 426 | – 426 |
| Net loss for the period H1 2018 | 0 | 0 | – 661 | 0 | – 661 |
| Total comprehensive income for the period H1 2018 | 0 | 0 | – 661 | – 426 | – 1,087 |
| Dividends paid* | 0 | 0 | – 3,218 | 0 | – 3,218 |
| **30 June 2018** | **6,436** | **38,510** | **82,271** | **– 6,618** | **120,599** |

*Dividends paid amounted to € 0.50 per share

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2018

## Principles and methods applied in the interim consolidated financial statements

The abridged, unaudited interim consolidated financial statements of SHW AG, Wilhelmstrasse 67, 73433 Aalen, as at 30 June 2018 have been prepared in compliance with the provisions of the International Accounting Standards on interim reporting (IAS 34) and in application of Section 315a of the German Commercial Code (HGB) in conjunction with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as applicable in the European Union (EU) as at the reporting date for the interim financial statements.

The interim consolidated financial statements were compiled in agreement with IAS 34 “Interim Financial Reporting”. In accordance with IAS 34, the interim consolidated financial statements do not include all of the disclosures which are required in consolidated financial statements as at the end of the fiscal year. Accordingly, these financial statements should be read in conjunction with the consolidated financial statements for the fiscal year 2017.

SHW AG is a public limited company under German law and has been entered in the German commercial register under the number HRB 726621. The Group’s main activities are the manufacturing and sale of pumps and engine components as well as brake discs. Its customers mainly comprise manufacturers and suppliers in the automotive industry.

The Management Board forwarded these interim consolidated financial statements to the Audit Committee of the Supervisory Board on 23 July 2018. They cover the period from 1 January to 30 June 2018 compared to the same period in the previous year. The interim consolidated financial statements have been prepared in euros. Unless indicated otherwise, the figures shown in the interim consolidated financial statements are stated in thousand euros.

In the view of the Management Board, the interim consolidated financial statements include all of the standard, regular adjustments and provisions which are required for appropriate presentation of the results of operations, net assets and financial position of the Group.

The same accounting policies were applied in the interim consolidated financial statements as at 30 June 2018 as in the consolidated financial statements for 2017. These accounting policies are explained in detail in the consolidated financial statements for 2017. In addition, the amendments and new standards whose application was mandatory as at 30 June 2018 were also applied.

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and interpretations, which have been transposed by the EU into European law and were applied for the first time at the start of the fiscal year 2018.

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

The IFRS amendments and new standards that had become mandatory as at 30 June 2018, in particular IFRS 9 “Financial Statements” and IFRS 15 “Revenue from Contracts with Customers” did not have any impact on the financial reporting of the SHW Group, or at least no material impact.

Due to the application of the modified retrospective transitional method when applying IFRS 9 and IFRS 15 as at 1 January 2018, all comparative figures below are presented in accordance with the former standards governing revenue recognition and financial instruments.

Within the scope of the preparation of the interim consolidated financial statements in accordance with the IFRS, to a certain degree estimates and assessments must be made which relate to the assets and liabilities accounted for, the disclosures concerning contingent assets and liabilities as at the reporting date and the income and expenses indicated for the reporting period. The actual amounts may differ from the estimates.

In each interim period, income tax expense is recognised on the basis of the best estimate of the weighted average annual income tax rate which is expected for the fiscal year as a whole.

## Scope of consolidation

### Subsidiaries

Subsidiaries are fully consolidated from their date of acquisition, i.e. from the date on 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.

As well as SHW AG, the interim consolidated financial statements as at 30 June 2018 incorporate the financial statements of the German companies Schwäbische Hüttenwerke Automotive GmbH, Aalen, SHW Automotive Industries GmbH, Aalen, and Lust Hybrid-Technik GmbH, Hermsdorf (hereinafter, “LHT”) as well as the financial statements of the foreign subsidiaries SHW do Brasil Ltda., São Paulo (Brazil), SHW Pumps & Engine Components Inc., Ontario (Canada), SHW Automotive Pumps (Kunshan) Co., Ltd., Kunshan (China) and SHW Pumps & Engine Components S.r.l., Bucharest (Romania), which was founded at the beginning of 2017.

Reference is made to the notes to the consolidated financial statements for fiscal year 2017 with regard to the impact of the changes in the consolidation basis arising from the acquisition of LHT (date of acquisition 2 August 2017). LHT generated sales of € 7,613 thousand in the first half of fiscal year 2018 and contributed € 194 thousand to the net profit of the Group for the period. As at 30 June 2018, assets of € 10,698 thousand can be attributed to LHT, as well as non-current liabilities of € 2,627 thousand and current liabilities of € 2,012 thousand.

### Joint ventures accounted for using the equity method

Joint ventures as defined by IFRS 11 are accounted for using the equity method in accordance with IAS 28 and initially recognised at acquisition cost. The equity method is applied from the time that the SHW Group has gained joint control or a significant influence over the joint venture and is no longer applied when this significant influence or joint control over the investee ends.

Joint ventures accounted for using the equity method as at 30 June 2017 exclusively related to the investment of Schwäbische Hüttenwerke Automotive GmbH in the joint venture SHW Longji Brake Discs (LongKou) Co., Ltd. As SHW will focus more strongly on the growing field of high-quality composite brake discs in future, the 51 per cent holding in the joint venture was sold to the Chinese joint venture partner in the fourth quarter of 2017. Reference is made to the comprehensive presentation in the consolidated financial statements for 2017.

## Exchange rates

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

| | | Closing rate | | Average rate | |
|---|---|---|---|---|---|
| Country | Abbreviation | **30.06.2018** | 31.12.2017 | **01.01.–30.06.2018** | 01.01.–30.06.2017 |
| Brazil | BRL | 4.4876 | 3.9729 | 4.1726 | 3.4427 |
| Canada | CAD | 1.5442 | 1.5039 | 1.5469 | 1.4451 |
| China | RMB | 7.7170 | 7.8044 | 7.6965 | 7.4435 |
| Romania | RON | 4.6631 | 4.6585 | 4.6582 | 4.5721 |

## Sales

The following overview shows the sales of the SHW Group by region. This is determined on the basis of where the recipient of the delivery or service in question is headquartered.

| | H1 | |
|---|---|---|
| K EUR | **2018** | 2017 |
| Germany | 118,710 | 107,010 |
| Rest of Europe | 83,271 | 86,087 |
| America | 4,728 | 4,353 |
| Other | 13,592 | 5,244 |
| **Group** | **220,301** | **202,694** |

## Cost of materials

The cost of sales and the other functional costs comprise the following cost of materials:

| | H1 | |
|---|---|---|
| K EUR | **2018** | 2017 |
| Cost of raw materials and supplies and of goods purchased | 126,643 | 116,281 |
| Cost of purchased services | 6,356 | 5,307 |
| **Total cost of materials** | **132,999** | **121,588** |

## Personnel expenses

The cost of sales and the other functional costs comprise the following personnel expenses:

| | H1 | |
|---|---|---|
| K EUR | **2018** | 2017 |
| Wages and salaries | 46,437 | 39,947 |
| Social security contributions and pension expenses | 7,527 | 7,060 |
| **Total personnel expenses** | **53,964** | **47,007** |

## Other operating income

Other operating income comprises, in particular, income from the reversals of provisions of €490 thousand (previous year €3,151 thousand), government grants for costs and investments of €183 thousand (previous year €0 thousand) and income from insurance indemnification payments of €56 thousand (previous year €460 thousand).

## Other operating expenses

Other operating expenses mainly comprise out-of-period expenses for compensation of €4,600 thousand (previous year €0 thousand). Other operating expenses in the previous year contained €417 thousand relating to claims that were offset by considerable other operating income from insurance indemnification payments (see the section on other operating income) and legal and consulting costs of €450 thousand.

## Financial result

The financial result breaks down as follows:

| | H1 | |
|---|---|---|
| K EUR | **2018** | 2017 |
| Financial income | 3 | 6 |
| Financial expenses | | |
| Interest and similar expenses | – 387 | – 226 |
| Interest portion in the addition to pension provisions | – 320 | – 282 |
| Interest expense from finance leases | – 120 | – 18 |
| | **– 827** | **– 526** |
| **Financial result** | **– 824** | **– 520** |

## Income taxes

Income taxes for the period ending 30 June 2018 of €326 thousand (previous year €2,680 thousand) include current tax expenses of €417 thousand (previous year €3,021 thousand) as well as deferred tax benefits of €91 thousand (previous year €341 thousand). Deferred tax benefits and expenses have occurred in particular due to changes in valuation differences for fixed assets and other provisions, and changes in deferred taxes on tax loss carryforwards. Due to the conservative treatment of deferred tax assets on tax loss carryforwards at some of the Group's foreign subsidiaries, the Group's tax rate comes to 97.3 per cent (previous year 33.3 per cent).

## Earnings per share

Earnings per share are determined in accordance with IAS 33.19 by dividing consolidated income by the weighted number of ordinary shares in circulation in the fiscal year. No dilutive effects were applicable in the first six months of 2018 and 2017.

| | H1 | |
|---|---|---|
| K EUR | **2018** | 2017 |
| Net profit or loss for the period attributable to shareholders of SHW AG | – 661 | 5,380 |
| Average number of shares issued | 6,436,209 | 6,436,209 |
| **Earnings per share (basic and diluted) in EUR** | **– 0.10** | **0.84** |

## Intangible assets

The carrying amounts of intangible assets are comprised as follows:

| K EUR | **30.06.2018** | 31.12.2017 |
|---|---|---|
| Goodwill | 7,441 | 7,441 |
| Customer base | 874 | 923 |
| Internally generated assets | 6,196 | 5,388 |
| Other intangible assets | 2,426 | 2,121 |
| **Total** | **16,937** | **15,873** |

Internally generated intangible assets relate to development costs in particular.

## Property, plant and equipment

The carrying amounts of property, plant and equipment are comprised as follows:

| K EUR | **30.06.2018** | 31.12.2017 |
|---|---|---|
| Land, land rights and buildings | 42,412 | 32,852 |
| Technical equipment and machinery | 55,128 | 53,994 |
| Other equipment, operating and office equipment | 12,579 | 11,723 |
| Advance payments and assets under construction | 14,060 | 15,598 |
| **Total** | **124,179** | **114,167** |

## Joint ventures accounted for using the equity method

As at 30 June 2017, joint ventures accounted for using the equity method of €15.9 million consisted solely of the Chinese joint venture, SHW Longji Brake Discs (LongKou) Co., Ltd. Starting 1 April 2015, this joint venture was included in the consolidated financial statements of SHW AG in accordance with the equity method. The second capital instalment, which translates to roughly €6.8 million, was made at the end of February 2017. In the fourth quarter of 2017 the 51 per cent holding was sold and the cash inflow of EUR 16.2 million for the outstanding purchase price receivable was received at the beginning of 2018.

## Inventories

Inventories are comprised as follows:

| K EUR | **30.06.2018** | 31.12.2017 |
|---|---|---|
| Raw materials and supplies | 19,809 | 17,660 |
| Unfinished products | 20,344 | 16,313 |
| Finished products | 12,375 | 10,445 |
| Advance payments | 2,462 | 1,106 |
| **Total** | **54,990** | **45,524** |

As at 30 June 2018, write-downs of inventories amounted to €4,921 thousand (31 December 2017: €5,078 thousand).

## Trade receivables

Trade receivables are comprised as follows:

| K EUR | **30.06.2018** | 31.12.2017 |
|---|---|---|
| Receivables from customers | 56,620 | 46,458 |
| Impairment losses | – 112 | – 112 |
| Allowance for doubtful debt | – 834 | – 521 |
| **Total** | **55,674** | **45,825** |

## Other provisions and accruals

Other provisions and accruals break down as follows:

| K EUR | 30.06.2018 | 31.12.2017 |
|---|---|---|
| Warranties | 1,608 | 1,608 |
| Other business-related obligations | 3,293 | 8,092 |
| Obligations to employees | 5,262 | 5,341 |
| Litigation | 4,400 | 750 |
| Other provisions and accruals | 277 | 426 |
| **Total** | **14,840** | **16,217** |
| | | |
| of which non-current provisions | 5,307 | 5,386 |

## Financing of the Group

The SHW Group is primarily financed by a new syndicated loan agreement that was entered into on 4 August 2017 with 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 30 June 2018.

As at 30 June 2018, the syndicated loan was drawn on by an amount of €35,949 thousand by means of short-term (money market) loans and €2,391 thousand for bank guarantees. In addition, the Group has taken out three amortising loans with a total volume of €2,550 thousand, of which €1,664 thousand was still outstanding as at 30 June 2018. The amortising loans were – and are – serviced in keeping with the repayments schedule.

## Collateral granted and other financial obligations

The collateral granted and other financial obligations shown in the consolidated financial statements as at 31 December 2017 have not changed significantly in the period from January to June 2018.

## Relationships to related parties

Pankl SHW Industries GmbH (formerly: SHW Beteiligungs GmbH, Wels, Austria – a subsidiary of Pierer Industrie AG, Wels, Austria – and the persons acting jointly with it in the sense of Sec. 2 (5) WpÜG held 3,231,578 shares (50.21 per cent of the share capital and voting rights) of SHW AG as at 16 May 2018. Pierer Industrie AG, Wels, Austria, is a subsidiary of Pierer Konzerngesellschaft mbH, 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. Transactions with entities of the Pierer Group of companies were immaterial in the first half of fiscal year 2018 and in fiscal year 2017 – with the exception of the profit distribution for fiscal year 2017 paid out in relationship to the shareholding.

The consolidated financial statements of SHW AG, Aalen, include all major subsidiaries and joint ventures of SHW AG, Aalen. Supplier and service provider relationships with joint ventures occurred to a minor extent in fiscal year 2017. There were no joint ventures in the first half of 2018.

Related parties include persons in key positions as well as their close relatives. The members of the Management Board and Supervisory Board of SHW AG active during the fiscal year are persons in key positions.

## Subsequent events

No significant events have occurred since the reporting date for the interim financial statements which require additional explanatory disclosures.

## Financial instruments

In accordance with IFRS 7, assets and liabilities carried at fair value in the balance sheet are to be categorised according to the three levels of the fair value hierarchy. This hierarchy reflects the significance of the input data used for measurement and can be divided up as follows:

a) (Unadjusted) prices that are quoted in active markets for identical assets or liabilities (Level 1)

b) Input data that are either directly (as prices) or indirectly observable (derived from prices) for the asset or liability, whereby the input data does not constitute quoted prices pursuant to Level 1 (Level 2)

c) Input data applied to the asset or liability which are not based on observable market data (non-observable input data) (Level 3)

The following tables provide an overview of the carrying amounts (CA) and the fair values (FV) of the financial assets and financial liabilities:

| 30. June 2018 | | CA | FV | Valuation | | |
|---|---|---|---|---|---|---|
| K EUR | Measurement category | | | Amortised cost | Fair value through OCI | Fair value through profit or loss |
| **ASSETS** | | | | | | |
| Other non-current financial assets | | | | | | |
| Cash surrender value of pension insurance policies | AfS | 287 | 287 | 287 | – | – |
| Trade receivables | LaR | 55,674 | *) | 55,674 | – | – |
| Other financial assets | LaR | 327 | *) | 327 | – | – |
| Cash and cash equivalents | LaR | 7,172 | *) | 7,172 | – | – |

*) 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 available-for-sale financial assets recorded as at 30 June 2018.

| 31. December 2017 | | CA | FV | Valuation | | |
|---|---|---|---|---|---|---|
| K EUR | Measurement category | | | Amortised cost | Fair value through OCI | Fair value through profit or loss |
| **ASSETS** | | | | | | |
| Other non-current financial assets | | | | | | |
| Cash surrender value of pension insurance policies | AfS | 287 | 287 | 287 | – | – |
| Trade receivables | LaR | 45,825 | *) | 45,825 | – | – |
| Other financial assets | LaR | 16,311 | *) | 16,311 | – | – |
| Cash and cash equivalents | LaR | 3,868 | *) | 3,868 | – | – |

*) The fair value approximately equals the carrying amount

| 30. June 2018 | | CA | FV | Valuation | | |
|---|---|---|---|---|---|---|
| K EUR | Measurement category | | | Amortised cost | Fair value through OCI | Fair value through profit or loss |
| **Equity and liabilities** | | | | | | |
| Liabilities to banks | FLAC | 37,628 | 37,628 | 37,628 | – | – |
| Trade payables | FLAC | 47,774 | 47,774 | 47,774 | – | – |
| Other non-current financial liabilities | | | | | | |
| Other interest-bearing liabilities | FLAC | 1,010 | 1,010 | 1,010 | – | – |
| Other non-interest-bearing liabilities | FLAC | 1,340 | 1,340 | 1,340 | – | – |
| Liabilities from finance leases | FLAC | 5,338 | 5,338 | 5,338 | – | – |
| Other current financial liabilities | | | | | | |
| Other non-interest-bearing liabilities | FLAC | 7,139 | 7,139 | 7,139 | – | – |
| Liabilities from finance leases | FLAC | 573 | 573 | 573 | – | – |

| 31. December 2017 | | CA | FV | Valuation | | |
|---|---|---|---|---|---|---|
| K EUR | Measurement category | | | Amortised cost | Fair value through OCI | Fair value through profit or loss |
| **Equity and liabilities** | | | | | | |
| Liabilities to banks | FLAC | 22,038 | 22,038 | 22,038 | – | – |
| Trade payables | FLAC | 46,353 | 46,353 | 46,353 | – | – |
| Other non-current financial liabilities | | | | | | |
| Other interest-bearing liabilities | FLAC | 1,000 | 1,000 | 1,000 | – | – |
| Other non-interest-bearing liabilities | FLAC | 330 | 330 | 330 | – | – |
| Liabilities from finance leases | FLAC | 1,303 | 1,303 | 1,303 | – | – |
| Other current financial liabilities | | | | | | |
| Other non-interest-bearing liabilities | FLAC | 4,602 | 4,602 | 4,602 | – | – |
| Liabilities from finance leases | FLAC | 329 | 329 | 329 | – | – |

CA Carrying amount
FV Fair value
AfS Available for Sale
LaR Loans and Receivables
FLAC Financial Liabilities measured at Amortised Cost

## Segment reporting

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 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. Financial expenses, financial income and income taxes are administered at Group level. The Pumps and Engine Components segment manufactures engine oil pumps and transmission oil pumps as well as sintered metallurgy products for the automotive industry. The Brake Discs segment produces unprocessed and processed monobloc brake discs and composite brake discs for the automotive industry. Transactions between the segments are essentially based on market conditions identical to those that apply to transactions with third parties.

### Segment information for the period from 1 January to 30 June

| | Pumps and Engine Components | | Brake Discs | | Other elimination/ consolidation effects | | Group | |
|---|---|---|---|---|---|---|---|---|
| K EUR | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Segment sales | 165,336 | 155,352 | 54,965 | 47,342 | 0 | 0 | 220,301 | 202,694 |
| Segment EBIT | 2,179 | 8,533 | 2,677 | 1,158 | – 4,367 | – 1,413 | 489 | 8,278 |
| Segment EBITDA | 11,476 | 17,867 | 5,028 | 3,128 | – 4,041 | – 1,221 | 12,463 | 19,774 |
| Financial result | 0 | 0 | 0 | 0 | – 824 | – 520 | – 824 | – 520 |
| Profit or loss of joint ventures accounted for using the equity method | 0 | 0 | 0 | 302 | 0 | 0 | 0 | 302 |
| Earnings before tax | 2,179 | 8,533 | 2,677 | 1,460 | – 5,191 | – 1,933 | – 335 | 8,060 |
| Segment depreciation / amortisation | 9,297 | 9,334 | 2,351 | 1,970 | 326 | 192 | 11,974 | 11,496 |
| Segment investments | 9,220 | 11,641 | 7,083 | 2,674 | 644 | 402 | 16,947 | 14,717 |
| Number of customers with sales > 10% of total sales | 2 | 2 | 1 | 1 | | | 1 | 2 |
| VW Group | 53,172 | 62,435 | 34,526 | 26,341 | | | 87,698 | 88,776 |
| Daimler Group | 17,808 | 21,354 | 40 | 29 | | | 17,848 | 21,383 |

# ASSURANCE OF THE LEGAL REPRESENTATIVES

To the best of our knowledge, and in accordance with the applicable reporting principles for interim reporting, the interim consolidated financial statements give a true and fair view of the results of operations, net assets and financial position of the Group, and the interim group management report represents 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 in the remainder of the fiscal year.

Aalen, 27 July 2018

The Management Board of SHW AG

**Wolfgang Plasser**
*Chief Executive Officer*

**Martin Simon**
*Chief Financial Officer*

**Andreas Rydzewski**
*Member of the Management Board*

# IMPRINT

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The English version of the Financial Report is a translation of the German version of the Financial Report. The German version of this Financial Report is legally binding.

**Forward-looking statements**

This report contains forward-looking statements about SHW AG and the SHW Group, which are marked by such words and expressions as “expect”, “intend”, “plan”, “assume”, “are aimed at”, and similar formulations. Numerous factors, many of which are outside the sphere of influence of SHW AG, influence the business activities, the success, the business strategy and the results of SHW AG. Forward-looking statements are not historical facts and therefore contain known and unknown risks, uncertainties and other important factors that could lead to actual developments diverging from expectations. These forward-looking statements are based on the current planning, objectives, estimates and projections and consider all events that have occurred prior to date on which this report was released. In light of these risks, uncertainties and other relevant factors, SHW AG does not accept any liability other than the obligations required by the law and does not intend to roll forward such forward-looking statements or adjust them to reflect future events and developments. Although the greatest care has been exercised to ensure that the information and facts contained herein are accurate and that opinions and expectations are appropriate, no liability is accepted or guarantee issued that the information and opinions contained herein are complete, accurate, suitable and/or exact.