Focus on the Future

Stronger as a group

Key figures 2019

K EUR	2019	2018	Change %
Sales	432,421	420,936	2.7 %
EBITDA	41,542	31,342	32.5 %
as % of sales	9.6 %	7.4 %	-
EBIT	14,617	7,314	99.8 %
as % of sales	3.4 %	1.7 %	-
Net profit	9,891	3,131	215.9 %
Earnings per share [1]	1.54	0.49	314.3%
Equity	131,692	124,372	5.9 %
Equity ratio	41.0 %	43.4 %	-
Operating free cash flow	-197	-32,970	-
Total free cash flow	-597	-16,751	-
Net cash / Net debt	-42,612	-39,080	-9.0 %
Investments [2]	52,551	48,671	8.0 %
as % of sales	12.2 %	11.6 %	-
Net working capital	48,702	53,789	– 9.5 %
as % of sales	11.3 %	12.8 %	-
ROCE	6.6	3.6	-
Number of employees (average) [2]	1,594	1,572	1.4%

1) Average number of shares: 6,436,209.
2) Excluding trainees and temporary workers.

Sales
432
€ million

EBITDA
41.5
€ million

Employees
1,594

Contents

THOMAS KARAZMANN

Chief Financial Officer

KLAUS RINNERBERGER

Chairman of the Supervisory Board

WOLFGANG PLASSER

Chief Executive Officer

Letter from the Management Board

DEAR SHAREHOLDERS,

We have reached our goals for another year and look back on a successful, if somewhat challenging, year.

We managed to raise group sales by 2.7 per cent to € 432.4 million in 2019. In light of the enormous challenges facing the automobile industry we are extremely satisfied with the development of revenue and the quality of earnings. The EBITDA margin of 9.6 per cent lies in the upper third of the target corridor of between 8.5 per cent and 10.0 per cent.

In terms of the bottom line, the Group's net profit for the year comes to € 9.9 million, which corresponds to earnings per share of € 1.54. The Management Board and the Supervisory Board will propose a dividend of € 0.04 per share to the Annual General Meeting
in order to keep strengthening the internal financial resources of SHW and support the transformation occurring in the automobile industry by making the necessary investments.

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

The Pumps and Engine Components business segment generated sales of € 312.8 million, matching the level of the previous year. The decrease in domestic sales, which can be attributed to weaker sales of diesel applications, was offset by a pleasing sales trend at our foreign operations. Thanks to the start of production on new projects, the foreign subsidiaries were able to record a significant rise in both sales and earnings.

There was also a pleasing development in both the sales and earnings of the Brake Discs business segment. Overall, EBITDA increased by approximately € 5 million to € 15.5 million. Unit sales of composite brake discs increased by 25 per cent to 1.1 million units, setting a new record.

Close cooperation between SHW AG and Pankl Racing Systems AG was initiated in 2018 already. SHW and Pankl both operate as independent entities under the umbrella of the holding company, Pankl SHW Industries AG. The combination of a traditional manufacturer with a history of more than 650 years and Pankl-Racing team has proved to be very fruitful. Regular contacts between the various line departments and shared projects have already resulted in a number of synergies.

We are convinced that the resulting efficiency and the exchange of experience will set the course for a successful future.

The growth of our group can be attributed to our workforce of approximately 1,600 employees worldwide who, with great dedication and passion, have kept the business of SHW on a stable course through some rough waters.

Unfortunately, the year 2020 began with a shock – the sudden appearance of the coronavirus. The coming months will be extremely testing for our customers, our suppliers and also for us. The short-term and mid-term impact on our sector and on the SHW Group cannot be assessed at present.

The point now is to pull together and combine our strengths. We would be happy if you accompanied us on this journey.

Aalen, March 2020

Wolfgang Plasser
Executive Officer

Thomas Karazmann
Financial Officer

SHW
A company with a profile

With sales of € 432.4 million, SHW AG is the world's leading manufacturer of CO_2 optimised pumps, engine components for all kinds of drive train concepts and high-performance brake discs – for the international automobile industry and the truck and off-highway market, such as agricultural machines, construction machines, stationary motors and wind turbines.

Founded in the 14th century, we are one of the oldest industrial operations in Germany. Over the past 650 years we have made history and shaped the future.

The foundation of our success lies in our workforce of roughly 1,600 employees at nine locations, our responsible corporate governance, and a sense for sustainability. We continually improve our products, foster new innovations and place an emphasis on both quality and speed.

FOOTPRINT – THE FUTURE'S PRESENCE TODAY

The growing expectations placed upon mobility from both consumers and the regulators presents us all with new challenges. We think in terms of the future by developing energy-savings and low-emission concepts for our customers to reduce our joint carbon footprint.

Our objectives are to build on our market strengths and expand our global leadership in terms of both technologies and innovations – with a focus on environmentally-optimised products.

The expansion of our Operational Excellence Programme and the exploitation of synergies within our industrial group creates an excellent foundation from which we can come up with trend-setting product innovations.

BRAKES

POWERTRAIN / CHASSIS

AEROSPACE

Group – growth from division

Since September 2018, SHW AG and Pankl Racing Systems AG have been part of the newly-formed Pankl SHW Industries AG, which is also the majority shareholder with a holding of 76.51 per cent.

Pankl Racing Systems AG is a global leader in mechanical, highly technological products and dynamic components for motor racing, luxury automobiles and the aviation industry. The divisions of Pankl – Racing, High Performance and Aerospace – employ roughly 1,800 workers at 8 locations who manufacture pistons, e-turbos, e-compressors, half-axles, transmissions, radiators, aerial refuelling booms, or cardan shafts, among many others.

Both SHW and Pankl operate as independent entities under the umbrella of the holding company, Pankl SHW Industries AG, but collaborate intensively in interdepartmental teams.

SYNERGIES – TEAM WORK AS A SUCCESS FACTOR

This collaboration creates the conditions for growth in many fields: knowledge, experience, development and the production of powertrain components that are critical to success. This is the foundation upon which the automotive group can extend its innovative lead over the competition.

Our employees constantly think of future engines, gearboxes and brake disc series so that we are always a number of steps ahead of the competition. Positive synergies have already been realised in product development, process management, infrastructure, sales and distribution and also human resources.

By acquiring Lust Hybrid-Technik in 2017 SHW expanded its core competence in hydraulics by adding process expertise in circuit boards.

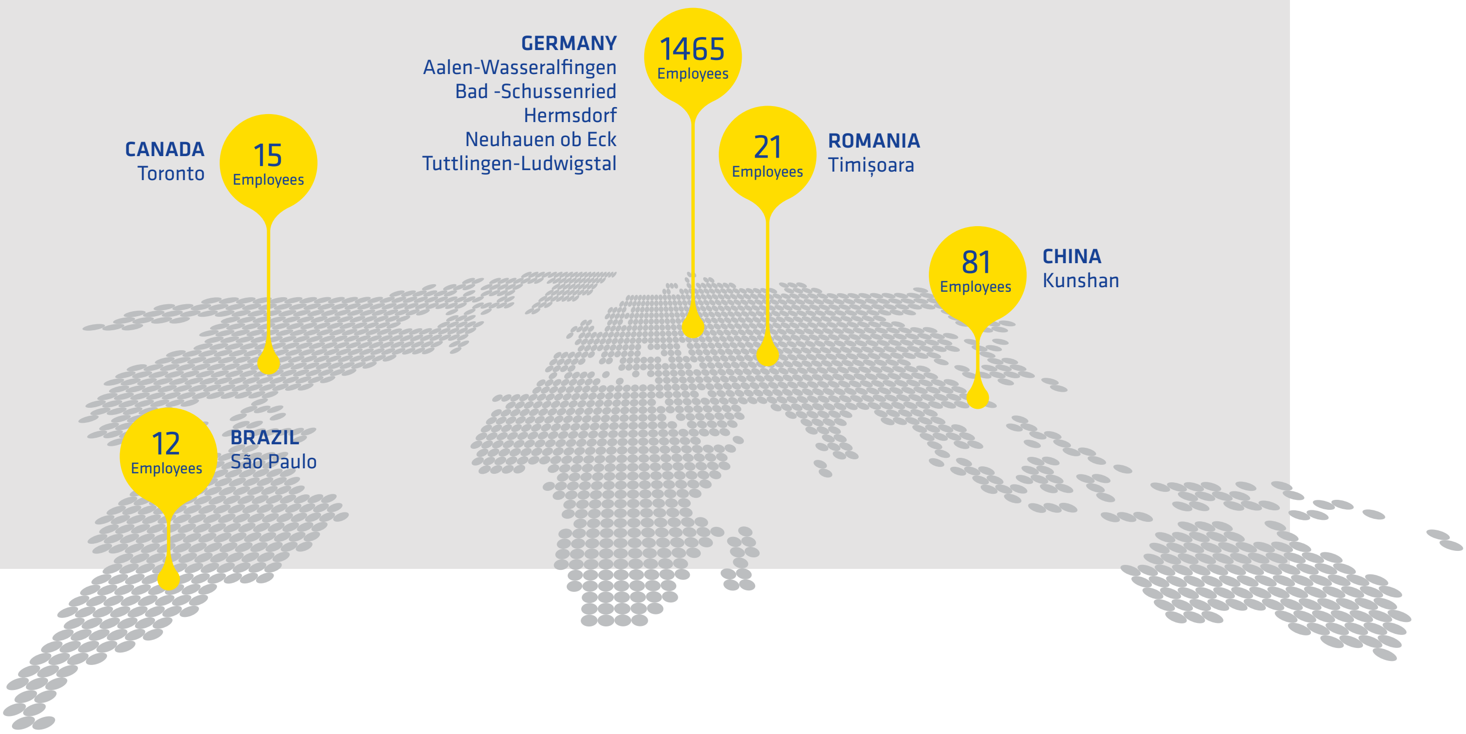
With SHW around the globe

From its nine locations in Europe, North and South America and China, SHW supplies all of the key automobile markets worldwide. This gives the company a strong market presence in the strategically relevant regions!

We manufacture pumps and engine components at three locations in Germany – Bad Schussenried, Aalen-Wasseralfingen and Hermsdorf – and in Kunshan in China, Toronto in Canada as well as in São Paulo in Brazil. We also have another plant in Timişoara in Romania.

Our team in Germany manufactures brake discs at the iron foundry in Tuttlingen-Ludwigstal. Machining of the casts is performed at Neuhausen ob Eck.

The objective of SHW is to keep growing and expand its international presence.



AALEN-WASSERALFINGEN / GERMANY

At this plant, SHW produces high tensile sintered parts for the automobile industry, such as adjustment rings and rotors for variable oil pumps offering reduced consumption, camshaft phaser parts out of steel and aluminium powder and geared balancer shaft systems.

BAD SCHUSSENRIED / GERMANY

Bad Schussenried is a competence centre and production facility in one. The portfolio comprises variable engine oil pumps, primary transmission oil pumps, electric transmission oil pumps, oil/vacuum pumps and camshaft phasers for passenger cars. SHW also manufactures engine oil pumps, transmission oil pumps and fuel pumps for truck and off-highway vehicles.

HERMSDORF / GERMANY

The location of Lust Hybrid-Technik in Hermsdorf addresses the fields of development, industrialisation, production and qualification of complex miniaturised electronics and micro-systems technology. Focus is placed on modern technologies such as hybrid technology, bare die technology, adhesive and solder joints, selective passivation, glob-top and moulding. This specialisation allows the development of customer-specific solutions for high-end miniaturisation, precision sensing, smart power and high temperature applications.

KUNSHAN / CHINA

Since 2016 SHW has manufactured variable engine oil pumps, primary transmission oil pumps, electric transmission oil pumps and oil/vacuum pumps in Kunshan for the automobile industry. Kunshan has launched a new electric transmission oil pump for local Chinese OEMs, which integrates the oil pump and the electric motor. In 2020 the production of the first integrated EOP of the SHW Group was initiated.

TORONTO / CANADA

SHW Canada has been in business since 2014 and concentrates on winning new contracts and on application engineering. We have supplied variable engine oil pumps to a North American automobile manufacturer since 2018.

SÃO PAULO / BRAZIL

SHW Brazil manufactures fixed displacement oil pumps for a North American automobile manufacturer and, since 2019, variable engine oil pumps as well. Since being founded in 2014, the plant has been an integral part of the global production network of the Pumps and Engine Components business segment.

TIMIŞOARA / ROMANIA

At the most recent production plant of the Group, SHW has manufactured selected pump projects from Bad Schussenried and also new projects since 2018.

TUTTLINGEN / GERMANY

Brake discs are grey-cast at the Tuttlingen/Ludwigstal plant. Various alloys can be chosen for the grey-cast, depending on the requirements placed upon the brake disc and the customer's specifications.

NEUHAUSEN OB ECK / GERMANY

The raw brake discs are then machined at the Neuhausen facility ready for assembly or further processed to create light-weight composite brake discs. If desired by the customer, brake discs can also be coated to provide corrosion resistance. Finally, before being shipped to the customer, the brake discs are subject to a final quality control.

Products – less is more for future mobility

SHW offers a broad product portfolio of low power-consumption engine components and gearbox applications. These improve the efficiency of internal combustion engines and their auxiliaries. Lower fuel consumption, greater range for alternative powertrains and lower CO^2 emissions are the positive consequences for the future of mobility.

PUMPS & ENGINE COMPONENTS

SHW develops and manufactures engine oil pumps and transmission pumps for all customer segments. In detail, the team manufactures engine oil pumps, transmission oil pumps, electric auxiliary pumps, vacuum pumps, electric pumps for cars with the stop-start function, oil/vacuum pumps with or without balancer shafts, variable water pumps and camshaft phasers for passenger cars. For the Truck and Off-Highway segment, SHW manufactures engine oil pumps, transmission oil pumps and fuel pumps. The Company offers electric gearbox oil pumps as an auxiliary pump for hybrid powertrains, as powerpack pumps and as cooling oil pumps for hybrid applications. In this field we have been successful at creating a combination of functionality, weight-reduction and down-sizing.

POWDER METALLURGY

SHW's powder metallurgy operation manufactures approximately 30 million sintered parts for the automobile industry each year. The products include gear wheels for pumps, camshaft phasers, as well as chain wheels and rotors of sintered steel or aluminium. This segment is known for its innovative, cost-efficient manufacturing technologies and has gained respect for its sintered parts of highly durable aluminium.

BRAKE DISCS

Another SHW business segment focuses on the production of composite brake discs, ventilated and monobloc brake discs. Our light-weight composite brake disc sets new benchmarks! It not only improves braking performance but also makes a substantial contribution to reducing vehicle weight – and that means lower emissions. In this capacity we also act as a development partner to the automobile industry in engineering, design, simulations and prototype construction. As a result, SHW is able to develop specialist solutions for high-end vehicle models.

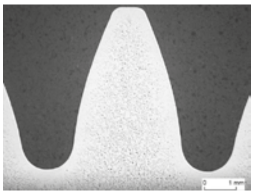
Pumps- and Engine-Components (incl. Powder Metallurgy)

SALES	EBITDA	EMPLOYEES
312.8 € million +0.4% on the previous year	**26.4** € million -3.0 % on the previous year	**1,145**

Brake Discs

SALES	EBITDA	EMPLOYEES
119.6 € million +9.5% on the previous year	**15.5** € million +45.1% on the previous year	**449**

SHW already manufactures the products for tomorrow today



PUMPS
Innovative strength from a symbiosis of CO^2 efficiency and reliability

POWDER METALLURGY
High quality due to SHW's densification processX-Size

BRAKE DISCS
First-in-class combination of light-weight construction and improved technology

Each day we work on making our products more energy efficient, on reducing fuel consumption and on reducing CO^2 emissions in the process. Research and development is a core department at SHW that is key to it securing its position as innovations and technology leader in the market for all kinds of powertrain concepts and also to it extending this lead.

SHW invests heavily in research, for example, in transmission oil pumps for automatic transmissions, the standardisation of auxiliary transmission oil pumps and for the stop-start function. Other promising fields are the electrification of on-board auxiliaries and simultaneous hybridisation of the powertrain, the introduction of a 48V power network, further optimisation of the performance of our composite brake discs or our expertise in hydraulics.

650 years!

SHW was founded back in 1365 and counts among the oldest industrial operations in Germany. From mining to trading in commodities through to our recent products – 650 years of our corporate history are hallmarked by openness, curiosity, hard-work, inventiveness and the drive to succeed.

Our history was always a story about the future!

Schwäbische Hüttenwerke SHW commenced its success story with the smelting of "bean ore". Over the decades, the employees had to continually adapt to changes in the environmental and market conditions and realign themselves accordingly. Innovative strength and a willingness to adapt are hard-wired into our DNA.

2019
In June 2019, SHW AG switched from the regulated market (general standard) of the Frankfurt stock exchange to the free market segment of the Munich stock exchange, m:access. The shareholding of the Pierer Group increased to a total of 76.51 per cent of share capital.

2005
In 2005 the non-automotive businesses and associated entities are spun-off from the SHW Group. Since this date, SHW is registered under the name of Schwäbische Hüttenwerke Automotive GmbH.

1978
From this year onwards, SHW manufactures hydraulic pumps in its newly constructed plant in Bad Schussenried. The automotive supply business becomes increasingly significant in the ensuing years.

1963 & 1950
SHW commences production of sintered moulded parts and, in the 1950s, the production of brake discs at its plant in Tuttlingen-Ludwigstal.

2018
Since September 2018, SHW AG and Pankl Racing Systems AG have been part of the newly-formed Pankl SHW Industries AG, which is also the majority shareholder (50.2 per cent). With this firm, which is held by Pierer Industrie AG, SHW has found the anchor shareholder it has long been looking for.

2017
By acquiring Lust Hybrid-Technik GmbH, SHW reinforces its position in the field of electro-mobility. The company specialises on the development, industrialisation, production and qualification of complex, miniaturised electronics and micro-systems technology.

2011
After the parent company, Schwäbische Hüttenwerke Beteiligungs GmbH, is reorganised as a German stock corporation ("Aktiengesellschaft") the company is registered under the name of SHW AG and goes public. The SHW share starts trading on 7 July 2011 under the ticker symbol SW1 on the Prime Standard of the Frankfurt Stock Exchange.

1925
SHW constructs such an advanced passenger car prototype that no car maker of the time dared to manufacture it – aluminium body, independent suspension, and many other technical advances, which only go into serial production decades later.

1921
Schwäbische Hüttenwerke GmbH (SHW GmbH) is founded by the State of Baden-Württemberg and Gutehoffnungshütte, Aktienverein für Bergbau und Hüttenbetrieb (nowadays MAN SE). The founding shareholders each hold 50 per cent of SHW GmbH. The business activities comprise mining, operating iron works and trading in raw materials.

1365
Extraction of iron ore and smelting activities in the area around Königsbronn mark the birthplace of the plant there and SHW as a whole.

Our history, our values rooted in our past, and our principles make us strong. This is the engine that drives our flexibility, speed of response and innovative power!

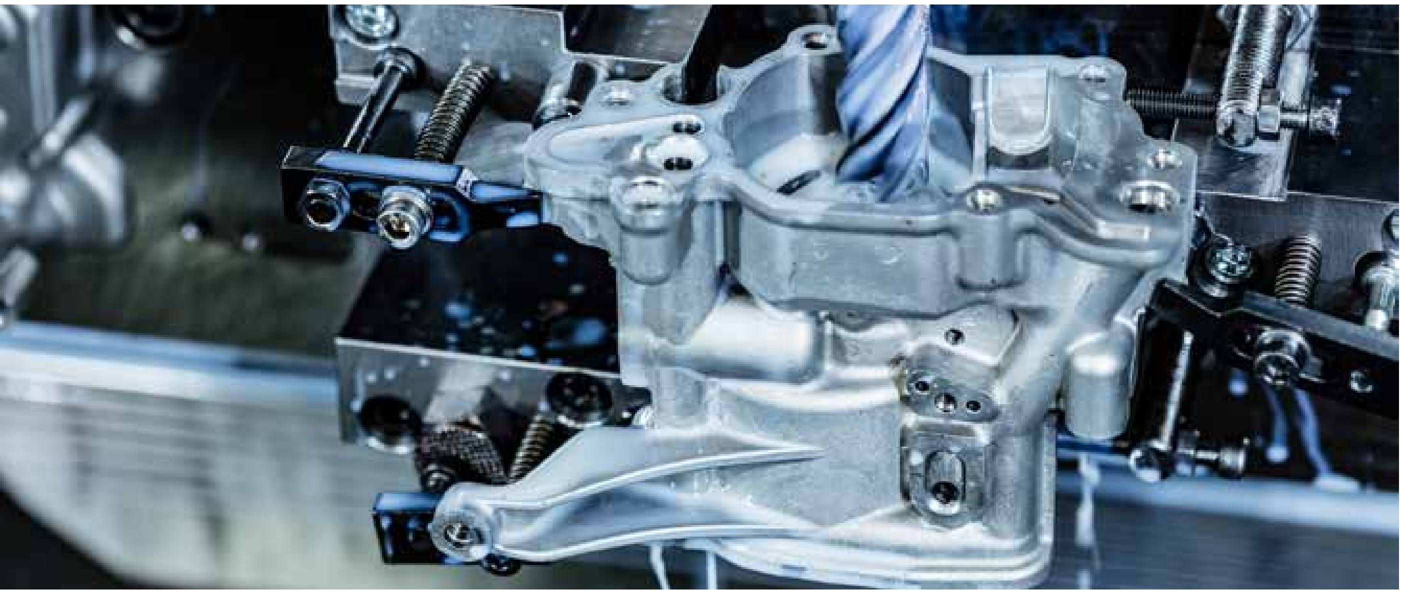
Plus SHW-Power!

Driving forward our internationalisation
and our innovative edge over the competition with
trend-setting core components

We aspire to be the leading system supplier for all major automobile manufacturers – all vehicle platforms should be equipped with that extra "plus" afforded by SHW Power, i.e. one of our systems or components.

Our products contribute to reducing fuel consumption and CO_2 emissions in the automobile sector.

The SHW of the future will be more efficient, more international and even more innovative.



REPORT OF THE SUPERVISORY BOARD

General remarks

Our company was just one of many that had to face the challenges posed by a difficult market environment over the past year. We mastered these challenges and SHW AG has managed to record modest organic growth, despite the headwinds, reaching the group sales and EBITDA announced in the guidance.

At the same time, the company has consistently worked on laying the foundation for its long-term success. The continuous expansion of our portfolio of electrified and CO_2 relevant products is one example. SHW remains on course, and this in times of fundamental change. We are shaping this technological transition with courage, passion and professional excellence.

In the reporting year 2019, 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 three extraordinary meetings held as telephone conferences. One resolution was 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 reports and verbal explanations at the ordinary and extraordinary meetings which were held on 18 March 2019, 22 March 2019, 23 April 2019, 7 May 2019, 5 June 2019, 18 September 2019 and 10 December 2019. 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 2018, the Supervisory Board also addressed the proposal for the appropriation of profits and the motions proposed to the Annual General Meeting on 7 May 2019 as well as the Report of the Supervisory Board for fiscal year 2018, the Corporate Governance Report and Declaration on Corporate Governance for 2018 and the Non-Financial Statement. It also passed resolutions granting discharge to the general managers of subsidiaries and other equity investments.

Furthermore, the Supervisory Board approved various amendments made in the 2019 reporting period to the joint Declaration of Conformity issued by the Management Board and Supervisory Board on 7 May 2019 pursuant to Section 161 AktG on the recommendations of the German Corporate Governance Code (“DCGC”). Upon the shares in SHW being delisted from the regulated market, the obligations of SHW AG arising from the DCGC came to an end, along with the associated statutory disclosure obligations.

At its extraordinary meetings, the Supervisory Board of SHW AG addressed the proposal made to the Annual General Meeting on the election of the independent auditor, the delisting of the shares in SHW from the regulated market, the continuation of free trade of the shares on the Munich stock exchange and the announcement of the public offer from Pierer Industrie AG, the indirect majority shareholder of SHW AG. In addition, the Supervisory Board deliberated on the joint statement of the Management Board and the Supervisory Board on the purchase offer from Pierer Industrie AG and the draft version was approved for publication.

Finally, the Supervisory Board addressed the budget presented by the Management Board of SHW AG for 2020 and the mid-range planning.

If there was a conflict of interest, the member of the board concerned withheld his vote.

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. Three 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. No 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 Supervisory Board was regularly and comprehensively informed of the work of the committees at meetings of the entire Supervisory Board.

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 group management report (previous year: Combined Management Report) for the fiscal year 2019 were audited by the external auditor of the Company, KPMG AG Wirtschaftsprüfungsgesellschaft, 89231 Neu-Ulm, who issued an unqualified audit opinion thereon. The consolidated financial statements of SHW AG for the fiscal year 2019 and the 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 group management report.

KPMG AG Wirtschaftsprüfungsgesellschaft, 89231 Neu-Ulm, has audited the annual financial statements and the consolidated financial statements as well as the group management reports of SHW AG for fiscal year 2019. In this period, Dr. Katja Faul and Mr. Florian Schaich 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 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 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 € 17 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 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 31 December 2019 Pankl SHW Industries AG, Kapfenberg, Austria, (formerly: SHW Beteiligungs GmbH, Wels, Austria) – a subsidiary of Pierer Industrie AG, Wels, Austria, held 76.51 per cent of the voting rights of SHW AG and therefore a voting majority at the Annual General Meeting. 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. KPMG AG Wirtschaftsprüfungsgesellschaft, 89231 Neu-Ulm, reviewed the dependent company report of the Management Board and issued an audit report thereon pursuant to Section 313 AktG.

The external auditor issued the following unqualified audit opinion in accordance with Section 313 (3) AktG:

"On the basis of our audit, we have no reservations as defined by Section 313 (4) AktG to the Dependent Company Report of the Management Board. We therefore render the following unqualified independent auditor's report pursuant to Section 313 (3) AktG on the Dependent Company Report of the

Management Board of SHW AG, Aalen, for the fiscal year 2019, attached as Exhibit 1:

Based on our duly performed audit and assessment, we confirm that

1. the actual disclosures in the report are accurate, and

2. the consideration paid by the Company for the transactions listed in the report was 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.

Composition of the Management Board and Supervisory Board

Changes to the composition of the Management Board in the reporting period 2019 were as follows:

- Mr. Andreas Rydzewski resigned from the Company on 31 March 2019 due to his retirement. During his tenure, Mr. Rydzewski made long-term improvements to the Brake Discs business segment. The Supervisory Board would like to convey its gratitude to Mr. Rydzewski and wishes him all the best for his private life in future.

There were no changes to the composition of the Supervisory Board in the reporting period 2019.

The Supervisory Board also extends its thanks to 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 2020

Yours sincerely,

on behalf of the Supervisory Board

Klaus Rinnerberger
Chairman of the Supervisory Board

THE SHW SHARE

A strong year on the stock exchanges

After a disappointing year in 2018, the international stock exchanges enjoyed a very pleasing year in 2019, recovering the losses made in the previous year. In Europe, both the leading German stock index, the DAX, and the EuroStoxx 50 closed the year 25% up on the previous year. In the USA the Dow Jones was up 22% on the previous year. The Japanese Nikkei and the Hong Kong Hang Seng both improved significantly.

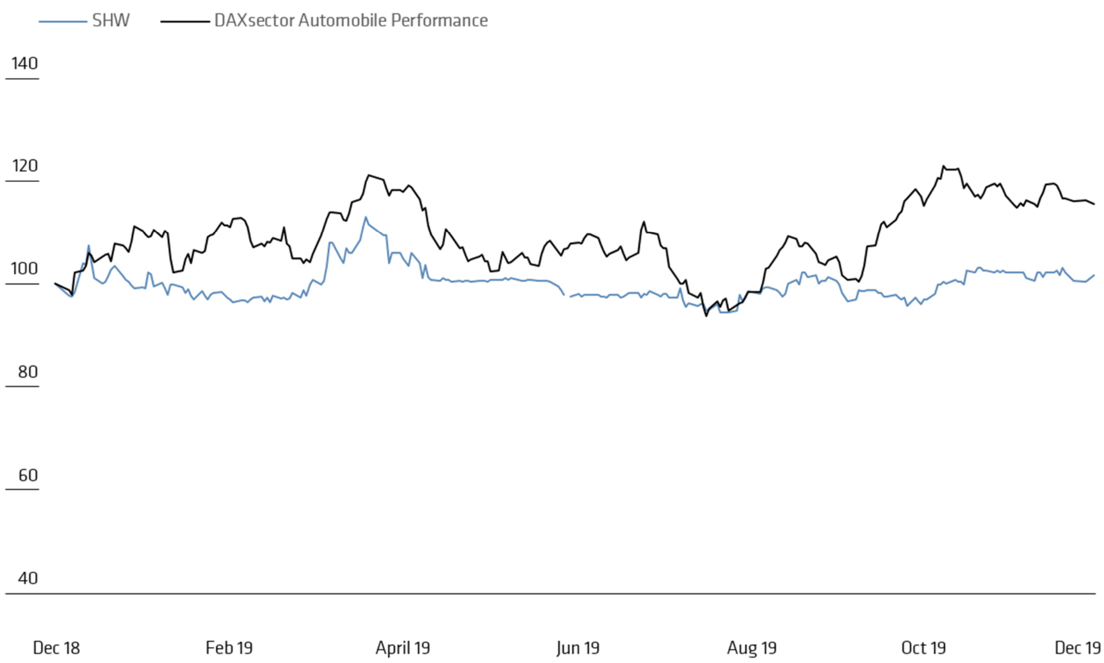
However, the year 2019 was also affected by uncertainties on the capital markets. The trade dispute between the USA and China and the threat of a hard Brexit created uncertainty, particularly in the second half of the year. The exchanges profited from the fact that the central banks continued their expansive monetary policies before the backdrop of weaker economic indicators.

Benchmark index outperforms the SHW share

Continuation of the trade negotiations between the USA and China led to a brighter mood for automobile stocks in the first quarter. However, in the following months, weaker economic signals had a dampening effect on automobile stocks. A positive trend set in again starting in September due to the decision by the USA not to levy punitive tariffs on automobile imports.

Overall, the stock prices of the constituents of the DAXsector Automobile Performance index (CXPA) rose by 15.5 per cent to 1,162 points. The SHW share ended the year 2019 at a share price of € 20.00, thus underperforming the DAXsector Automobile Performance index by 13.9 percentage points.

PRICE TREND FOR SHW SHARE AND DAXSECTOR AUTOMOBILE



Source: Bloomberg

Pankl SHW Industries AG increases its shareholding

Within the framework of a tender offer from Pierer Industrie AG associated with the delisting, a total of 1,586,384 SHW shares were acquired before the expiry of the offer on 21 June. Now, with a holding of 76.51 per cent in both the share capital and the voting rights, Pankl SHW Industries AG is the majority shareholder of SHW AG.

Repositioning on the free trade segment of the Munich stock exchange (m:access)

SHW AG repositioned itself on the stock exchange and shifted its primary listing from the regulated market of the Frankfurt stock exchange to the free trade segment of the Munich stock exchange (m:access) on 26 June 2019. In addition, trading of SHW shares is still possible on the XETRA electronic trading platform of the Frankfurt stock exchange by the inclusion of SHW shares on the quotation board of the Frankfurt stock exchange.

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.

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 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:

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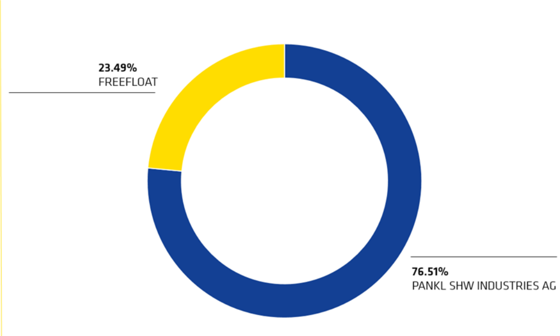
SHAREHOLDER STRUCTURE



GROUP MANAGEMENT REPORT

GROUP MANAGEMENT REPORT

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:

- 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.

The Pumps and Engine Components business segment

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

The Pumps and Engine Components business segment is organised into three divisions. The Passenger Car division focuses on the production of variable engine oil pumps, transmission oil pumps, oil / vacuum pumps with or without balancer shafts and e-pumps. The second division, Truck & Off-Highway produces engine oil, transmission oil and fuel pumps for trucks, agricultural and construction machinery, stationary engines and wind turbines at the Bad Schussenried facility.

PUMPS & ENGINE COMPONENTS			BRAKE DISCS
BAD SCHUSSENRIED / HERMSDORF / TIMIŞOARA / KUNSHAN / SÃO 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 & 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.

The third division, Powder Metallurgy produces sintered engine and transmission components at the Aalen-Wasseralfingen plant. The product portfolio comprises chain wheels and rotors for variable oil pumps offering reduced consumption, camshaft phasers out of steel and aluminium powder and geared balancer shaft systems. The Powder Metallurgy division supplies external customers and also the Bad Schussenried plant.

The Brake Discs business segment

Trendsetter in the field of lightweight brake discs

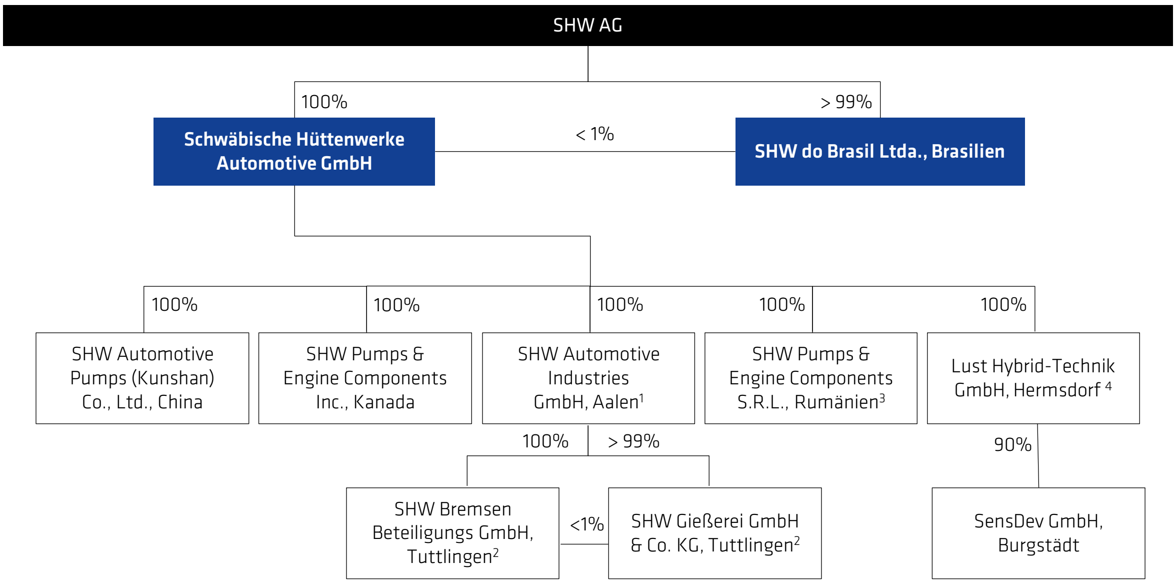
The SHW Group is a trendsetter in the manufacturing of brake discs for high-performance vehicles. The Brake Discs business segment develops and produces monobloc ventilated cast iron brake discs and lightweight brake discs (known as "composite brake discs") which consist of a combination of an iron friction 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.

In order to enhance the flexibility and independence of the Brake Discs business segment, it is intended to spin off the operation in the course of 2020 into a separate legal entity. The new legal entity will be under the umbrella of SHW Automotive Industries GmbH (in future "SHW Brake Systems GmbH") and contain the entities organisationally allocated to it, "SHW Gießerei GmbH & Co. KG" and "SHW Bremsen Beteiligungs GmbH".

OVERVIEW OF GROUP SUBSIDIARIES



1) In future: SHW Brake Systems GmbH, Tuttlingen.
2) Entered in the commercial register in fiscal 2020.
3) Consolidated as at January 2017.
4) Consolidated as at August 2017.

Sales markets

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

External factors

In the European Union, protecting the climate is currently one of the most important political points on the agenda with the goal of limiting the negative impact of climate change.

At the end of 2018 the European Commission laid out its vision for "A Clean Planet for All" – leading the way to a climate neutral EU by 2050.

There are binding CO_2 targets in all major automobile markets, which necessitate substantial reductions from manufacturers and suppliers in the coming years.

Strategy

The key aspects of the "SHW 2020" strategy of internationalisation, operative excellence and innovation for future mobility remain the guidelines for the development of our operating business.

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 significant increase in the unit sales of lightweight composite brake discs. More information on our targets for the fiscal year 2020 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

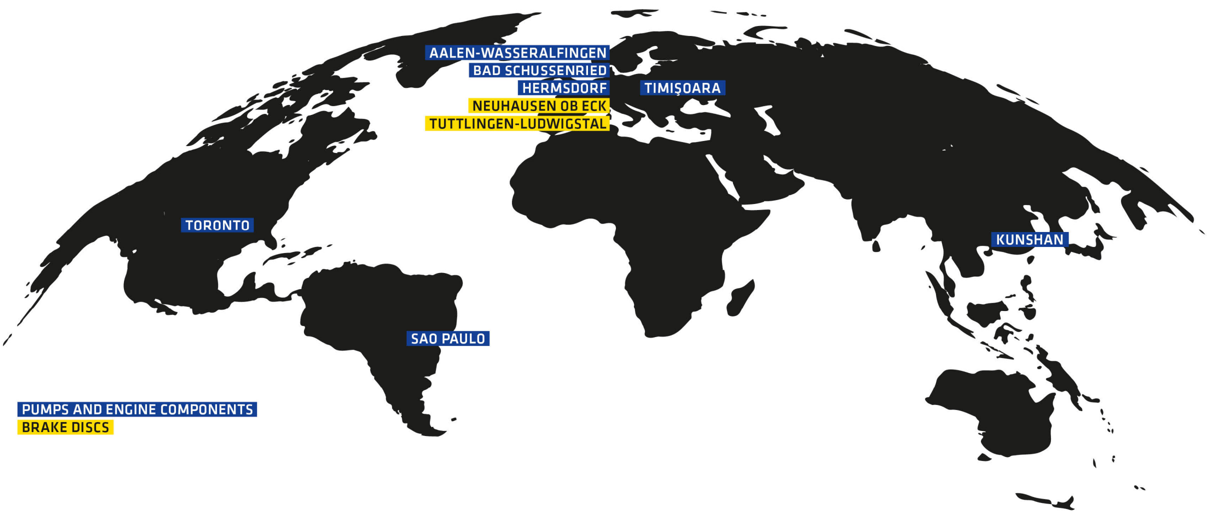
SHW is present in the three strategically relevant regions in order to satisfy the growing demand from customers in Europe, North America and China. The scalability of the pump business allows SHW to expand into other countries – pursuing a best-cost-country approach – with relative ease and making efficient 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.

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.

Strategic field: Innovation

The history of SHW is hallmarked by product innovations that have made a significant contribution to the reduction of vehicle fuel consumption and consequently CO_2 emissions. The group of companies intends to keep its focus on this core competence in future and build on its position as a trendsetter for all types of powertrains. In this way it will have the right answers to the challenges arising during the transformation to e-mobility. 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.

The business activities of the SHW Group focus on the sustainable increase of its enterprise value and on capital-efficient growth. In addition to the development of sales, the most significant financial performance indicators used for the internal management of the SHW Group are EBITDA (defined as consolidated earnings before interest, tax and depreciation of property, plant and equipment and amortisation of intangible assets) and the EBITDA margin (EBITDA divided by 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. Moreover, based on the objectives of the group-wide Cash@SHW project, ROCE (Return on Capital Employed) was anchored in the internal steering processes in fiscal year 2019. Besides earnings indicators, liquidity-related indicators are highly significant. Consequently, the SHW Group continuously monitors and steers the main factors affecting ROCE (measured as EBIT divided by average capital employed). Particular attention is paid to capital efficiency – especially so, given the challenging market environment.

SHW's control system also includes financial management indicators. In this regard, the group of companies analyses liquidity, capital structure and potential market price risks, primarily interest rates and foreign exchange rates. In addition, the net working capital ratio is also relevant.

As well as financial goals, a series of non-financial goals are also considered for the SHW Group. 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.

Change in our stock listing

At the request of the Management Board, the Frankfurt Stock Exchange delisted the shares of SHW AG from trading on the regulated market of the Frankfurt Stock Exchange effective 21 June 2019. The shares will continue to be traded beyond 26 June 2019 on the free market of the Munich stock exchange and also on the XETRA trading platform of Frankfurt Stock Exchange. SHW AG is therefore no longer a capital-market-oriented stock corporation in the sense of Section 267 (3), sentence 2 HGB and no longer qualifies as a large stock corporation. According to the criteria of Section 267 HGB, SHW AG is a small stock corporation as at 31 December 2019. Due to the above, it is no longer mandatory to prepare a management report for fiscal year 2019. This document constitutes a group management report (in prior years a combined group management report and management report).

Employees

Headcount continues to grow

Over the past year the number of employees in the SHW Group (excluding apprentices and hired temps) rose from 56 to 1,594 employees as an annual average.

The average headcount at the locations of the Pumps and Engine Components business segment came to 1,099 employees worldwide. An annual average of 449 staff were employed at the two locations of the Brake Discs business segment (Tuttlingen and Neuhausen ob Eck).

Internal training as key success factor

Within the individual divisions, training of future professionals and managers is a key element of our future success.

At Bad Schussenried a total of 19 trainees were employed as at 31 December 2019. The vocations for apprentices include:

- Industrial mechanics
- Mechatronics
- IT specialist for system integration
- Technical product design
- Industrial business

The Powder Metallurgy division offers apprenticeships in the "operation of powder presses" which is a cornerstone of automated serial production of sintered parts. The focus of vocational training is on apprenticeships for industrial mechanics. As at 31 December 2019, a total of 21 apprentices were employed at the Aalen-Wasseralfingen plant, 18 industrial mechanics, an IT specialist and two dual-track students of mechanical engineering from the Cooperative State University of Heidenheim.

The employees in the Powder Metallurgy division also showed additional engagement in mentoring technical trade and bachelor theses.

Long-service awards in recognition of continuity

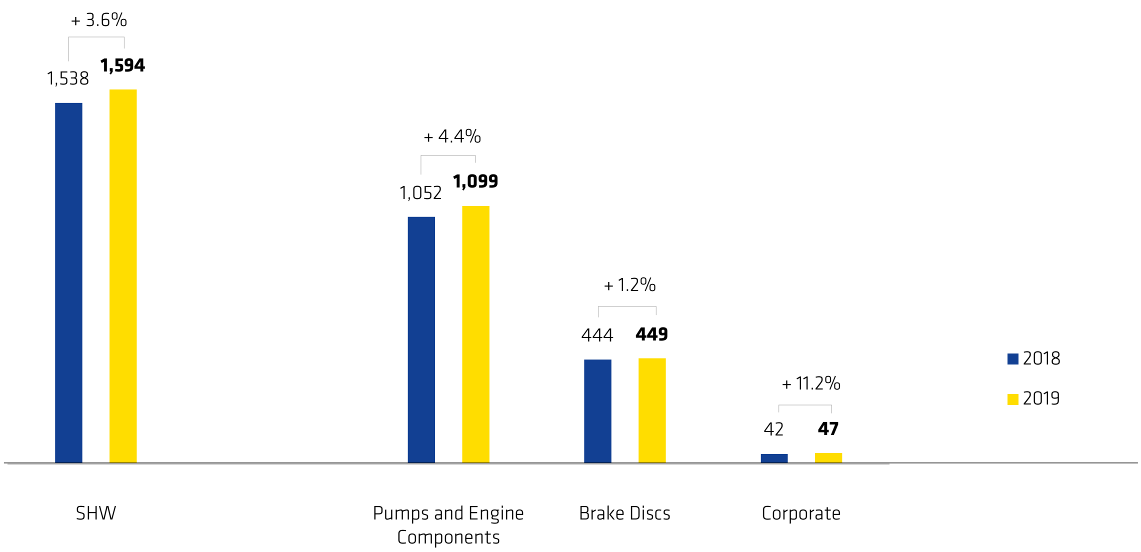
In the year 2019 celebrations were held to acknowledge the many years of service of a number of employees.

At Bad Schussenried four employees celebrated their 40th anniversary of being with the firm in fiscal year 2019. In addition, three employees celebrated 25 years of service and six more employees celebrated ten years of service.

At the Aalen-Wasseralfingen plant, management congratulated one employee on 40 years of service in the Powder Metallurgy division. In addition, one employee celebrated 25 years of service and six more employees celebrated ten years with the company.

At the Tuttlingen and Neuhausen ob Eck plants, five employees celebrated their 40th anniversary at the location. One employee celebrated their 25th anniversary and another five their 10th anniversaries in the Brake Discs business segment.

EMPLOYEES IN THE SHW GROUP



Research and development

Electrically driven pumps for engine and transmission applications

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 one of the first companies to develop variable oil / vacuum pumps (known as “tandem pumps”) which are installed as a single unit in the engine’s oil pan. In Europe, SHW is viewed as a trendsetter for these tandem pumps. In the reporting year SHW commenced series production of the second generation of the tandem pump which features a significant decrease in the amount of power needed to drive the pump.

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, whether in plug-in hybrid vehicles (PHEV), in vehicles with dedicated hybrid powertrains (DHT) or 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. It has also expanded its testing platforms by adding testbeds, assembly stations and electronics laboratories in order to perform all engineering of electric oil pumps inhouse at the location in Bad Schussenried. In addition, electronic assemblies for prototypes and series production can be manufactured at the SHW subsidiary, Lust-Hybrid Technik GmbH (LHT).

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.

Therefore, the development department is 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 are 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 reduced 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 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.

In addition, projects were pursued in the advance development stage with the goal of powder metallurgy-based manufacturing of products which to date mainly have been conventionally produced out of steel. 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.

The innovation of lightweight brake discs

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.

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 intellectual property relating to pumps and engine components, brake discs, alloys and sintered metal parts through a large number of industrial property rights such as patents, utility models and brands and by filing registrations for these industrial property rights. The intellectual property is primarily registered in Europe, North America and Asia. In isolated cases, patents are jointly held with customers but may be unrestrictedly used by both parties.

BUSINESS REPORT

Macroeconomic environment

The global economy at a glance

Not only Brexit, but also the escalating trade war between the USA and China burdened the global economy in 2019. The associated uncertainty on the markets had a particular impact on global demand for industrial goods and investment goods. Global trade and production slowed down sharply as a result. In addition to the issues posed by global politics, Germany was surrounded by structural problems in the automobile industry.

As a result, global economic growth decelerated in 2019 to 2.9 per cent (previous year 3.6 per cent) on the basis of the available data (Bankhaus Lampe, February 2020).

In light of the increase in the downside risks to the economy, the monetary policies in the USA and the euro area performed a 180° turn at the beginning of 2019 and moved away from the course of normalisation previously announced. The Fed countered the rise in risks to the economy with a total of three cuts to the key lending rate. The European Central Bank, on the other hand, only reduced the deposit facility rate to -0.5 per cent in autumn and commenced with asset purchases in November.

In the **United States of America** the boom phase continued, although growth slowed down as the effects of the tax reform in the previous year wore off. Gross domestic product slid to 2.3 per cent (previous year 2.9 per cent).

With regard to the steady development of employment and household revenue, consumer spending proved once again to be the most important pillar of the economy.

Due to fiscal easing, the financing conditions for residential construction improved. By contrast, investments in plant and equipment and commercial buildings were noticeably subdued in some areas. Even the US industry was affected by the weak global demand and production interruptions (e.g. Boeing).

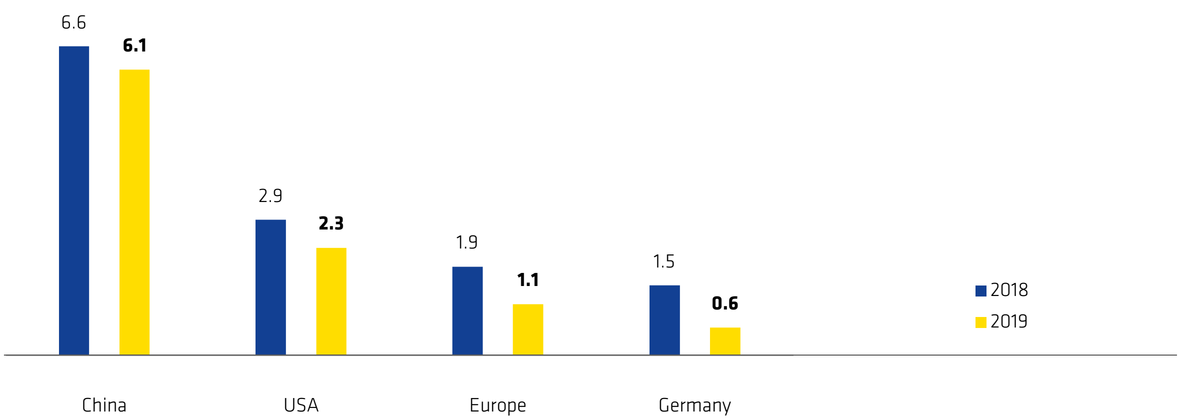
Economic growth in the **euro area** in fiscal year 2019 was reserved. Countries with more dependence on the domestic economy, such as France, tended to develop more positively than export-oriented countries. Export-dependent countries, such as Germany were much more heavily affected by the global cyclical downturn in demand and the global trade conflicts.

The industrial sector in **Germany** did not manage to free itself of the recession. Here too, economic output was supported by both private and public-sector consumption as well as the construction sector. At 0.6 per cent, GDP in 2019 was significantly lower than in the previous year when it came to 1.5 per cent. The last time that growth was comparably low was in 2013.

In the euro area, GDP growth amounted to 1.1 per cent, compared to 1.9 per cent in the previous year.

According to the available GDP figures for China, economic growth slowed to 6.1 per cent in the reporting year (previous year 6.6 per cent). The trade war with the USA placed a burden on the economy. The government and central bank of China responded by introducing well-balanced stimulus packages aimed at preventing an even worse slow-down in economic growth. In 2019 the Chinese administration continued to manage the imbalance in the economy resulting from high levels of overcapacity in industry and the high credit risks originating from a strong rise in corporate debt in the previous years.

GDP GROWTH BY REGION IN %



Source: Bankhaus Lampe; 2019: Forecast for 2020; Krüger, Hepperle

Industry environment

The key factor for any assessment of the industry environment of SHW is the production of light vehicles (vehicles of less than six 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 Markit, production of light vehicles (vehicles of less than six tonnes) decreased more rapidly worldwide in 2019 than in the previous year (down 0.5 per cent), falling by 5.8 per cent from 94.2 million units to 88.8 million units. In fiscal year 2019 not one single region recorded a positive growth rate.

As the strongest region, China generated a production volume of 24.6 million units, which represents a loss of 8.3 per cent in comparison to the previous year.

Europe also recorded a decrease of 4.3 per cent to 21.0 million units. This reduction in production volume is partly attributable to Germany, where production fell by 8.4 percentage points to 4.8 million units (previous year -8.9 per cent). In addition to Germany, production in the UK dropped much more rapidly, falling by 13.9 per cent to 1.3 million units. Turkey saw a fall of 5.7 per cent in production volume to 1.4 million units and, similarly, France recorded a fall of 5.4 per cent to 2.2 million units.

In North America production volume of light vehicles slid from 17.0 million units to 16.3 million units (-3.8 per cent). Comparable figures were posted in South America for 2019, where production volume decreased by -4.0 per cent to 3.3 million units.

Japan and South Korea remained relatively steady, with vehicle production falling slightly by 0.5 per cent to 13.2 million units. By contrast, Southern Asia recorded a sharper fall of 8.5 per cent in light vehicle production from 9.2 million units to 8.4 million units.

Diesel engines continue to disappear from the market

The production of power trains for light vehicles (of less than six tonnes) decreased worldwide by 5.8 per cent to 88.7 million units in 2019. Production of gasoline engines decreased by 5.6 per cent to 71.2 million units as compared to the previous year. The production of diesel engines, at 17.0 million units, failed to match the level of the previous year by 9.4 per cent. Electric motors recorded a growth rate of 28.7 per cent to 1.9 million units but nevertheless continued to play a minor role.

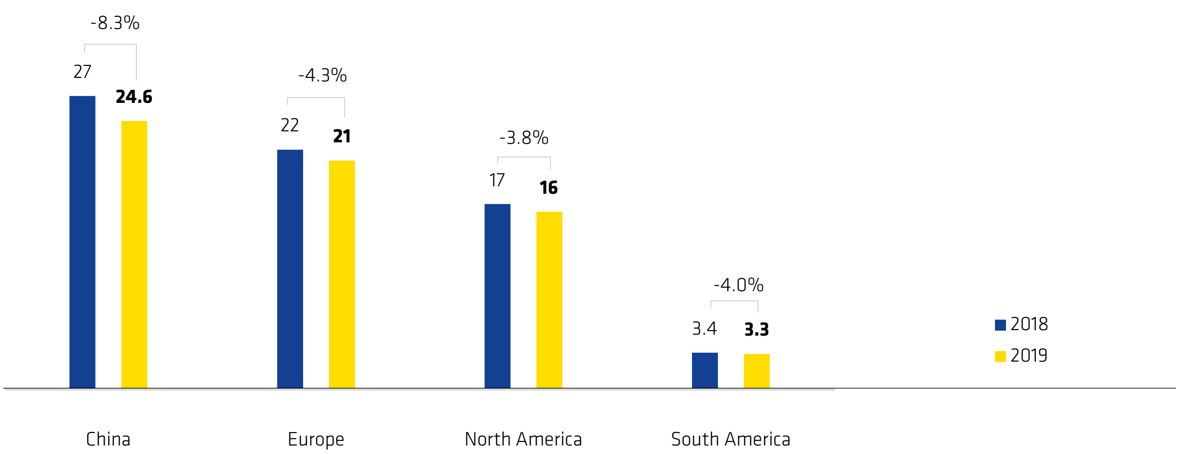
Automatic transmissions match the level of the previous year

In 2019, transmission production decreased worldwide by 5.8 per cent to 88.8 million units. In addition, production of automatic transmissions fell by 2.4 per cent, from 57.3 million units in the previous year to 55.9 million units.

China was the main source of growth here, with 1.9 per cent growth in automatic transmissions to 12.9 million units.

In Europe production of automatic transmissions almost matched the level of the previous year at 9.0 million units (previous year 9.1 million units). The number of manual transmissions in Europe decreased by 11.4 per cent to 10.9 million units.

LIGHT VEHICLE PRODUCTION BY REGION (IN M UNITS)



Source: IHS – January 2020

Competitive situation and market position of SHW

In addition to various multinational suppliers to the automobile industry, SHW is one of the leading manufacturers of pumps and engine components for passenger cars in Europe. Some car makers manufacture their own pumps and engine components. Our internationalisation strategy is to follow the most important sales markets and global OEMs. In the segment of lightweight brake discs, composite brake discs in particular, SHW sees itself as a trendsetter.

Goal attainment 2019

The group sales of SHW AG of € 432.4 million, up 2.7 per cent on the previous year, are above the sales guidance of 2 per cent above the previous year issued in an ad hoc announcement on 4 December 2019. The original sales forecast had assumed group sales of between € 440 million and € 480 million, which had to be adjusted downwards due to the adverse market environment in the automotive sector.

The Group's EBITDA margin of 9.6 per cent lies in the upper third of the target corridor of between 8.5 per cent and 10 per cent.

Group EBITDA of € 41.5 million is also within the corresponding corridor of € 37.4 million to € 48.0 million.

Investments in property, plant and equipment and intangible assets of € 43.4 million (excluding the effects of IFRS 16) lie within the target corridor of € 40 million to € 45 million. Depreciation and amortisation of property, plant and equipment and intangible assets of € 25.5 million (excluding IFRS 16) are slightly below the planned range of € 27 million to € 29 million.

The net working capital ratio of 11.3 per cent (previous year 12.8 per cent) reached the target of 11 to 12 per cent.

At € 312.8 million, sales of the Pumps and Engine Components business segment fell below the lower end of the targeted corridor of € 320 million to € 355 million.

With sales of € 119.6 million the Brake Discs business segment lies almost within the corridor originally targeted of between € 120 million and € 125 million.

Course of business

Financial performance

Group sales up 2.7 per cent

Group sales amounted to € 432.4 million in 2019, 2.7 per cent above the previous year's figure of € 420.9 million.

Cost of sales ratio virtually unchanged

The cost of sales increased in line with sales to € 378.3 million (previous year € 368.0 million). At 87.5 per cent (previous year 87.4 per cent) the cost of sales ratio is virtually unchanged. The gross margin (defined as gross profit divided by sales) dipped slightly to 12.5 per cent (previous year 12.6 per cent).

Selling and administrative expenses influenced by internationalisation

Selling expenses increased in fiscal year 2019 by € 0.6 million compared to the previous year to € 12.8 million. The ratio of selling expenses to sales of 3.0 per cent lies at roughly the same level as the previous year. General administrative expenses increased by € 1.0 million to € 19.1 million. The ratio of administrative expenses to sales therefore rose slightly from 4.3 per cent to 4.4 per cent. Both of these factors are related to the internationalisation strategy of the SHW Group and the establishment and expansion of international locations.

Research and development costs increased

Research and development costs expensed through profit and loss of € 11.4 million in fiscal year 2019 were slightly above the level of the previous year. In addition, development costs of € 4.5 million (previous year € 4.8 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 decreased slightly to 3.7 per cent (previous year 3.8 per cent). Amortisation of capitalised development costs amounted to € 1.0 million in fiscal year 2019 (previous year € 1.5 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 € 3.8 million, the net balance of other operating expenses and income is € 8.0 million down on the level of the previous year of € -4.2 million. On the one hand this is due to the reduction of risk and negotiating successes in the fiscal year 2019 that enabled certain provisions to be released and non-recurring income realised. The sale of office buildings led to a rise in other operating income. Other non-recurring operating expenses from litigation and the associated legal expenses and advisory fees of € 1.2 million had the contrary effect.

KEY PERFORMANCE INDICATORS: SHW GROUP

K EUR	2019	2018	Change %
Sales	432,421	420,936	2.7%
EBITDA	41,542	31,342	32.5%
as % of sales	9.6%	7.4%	-
EBIT	14,617	7,314	99.8%
as % of sales	3.4%	1.7%	-
Net profit	9,891	3,131	215.9%
Equity	131,692	124,372	5.9%
Equity ratio	41.0%	43.4%	-
Net working capital	48,702	53,789	– 9.5%
as % of sales	11.3%	12.8%	-
Investments	52,551	48,671	8.0%
as % of sales	12.2%	11.6%	-

EBITDA margin of 9.6 per cent

Consolidated EBITDA came to € 41.5 million in fiscal year 2019 compared to € 31.3 million in the previous year. At 9.6 per cent, the EBITDA margin is above the previous year's figure of 7.4 per cent (previous year excluding non-recurring effects 9.4 per cent). Disregarding the impact of IFRS 16, EBITDA and EBITDA margin would have amounted to € 39.9 million and 9.2 per cent accordingly.

The trends in the margins of the two business segments differed. We refer to the comments in the section on the business segments.

At € 26.9 million (€ 1.4 million of which is due to IFRS 16), depreciation and amortisation was € 2.9 million or 12.1 per cent above the level of the previous year.

Consolidated EBIT increased from € 7.3 million to € 14.6 million. The EBIT margin amounts to 3.4 per cent, compared to 1.7 per cent in the previous year.

Higher financial expenses

The net financial result comes to a net expense of € 2.1 million (previous year € 1.5 million). In addition to higher interest expenses for pension obligations, the increase is due to higher interest expenses for the Group's debt finance on account of greater use of borrowings.

Tax rate down significantly

Income taxes amounted to € 2.6 million in 2019 (previous year € 2.7 million). The SHW Group's tax rate amounted to 20.8 per cent for fiscal year 2019, compared to 45.9 per cent in the previous year. The sharp fall in the tax rate, despite the significant rise in earnings before tax, is due to the recognition of deferred tax assets on unused tax losses at foreign subsidiaries, which has been fully exercised for the first time. Reference is made to the tax reconciliation and the notes on income taxes in the notes to the consolidated financial statements (Note 21).

Net profit of the Group rises significantly

The net profit of the Group after tax increased by € 6.8 million to € 9.9 million. Earnings per share come to € 1.54 compared to € 0.49 in the previous year. 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 2019.

Business segments

Pumps and Engine Components

Sales at € 312.8 million

The Pumps and Engine Components business segment achieved sales of € 312.8 million in fiscal year 2019 (previous year € 311.7 million). Sales in the Passenger Car division increased from € 227.0 million to € 234.4 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 Truck & Off-Highway division recorded a decline in sales of 8.9 per cent to € 33.6 million (previous year € 36.9 million). The Powder Metallurgy division deteriorated slightly by 2.8 per cent to € 32.2 million (previous year € 33.1 million). Lust Hybrid-Technik GmbH (LHT) contributed € 12.6 million (previous year € 14.7 million) to the sales of the business segment. The Chinese subsidiary more than doubled its sales to € 35.2 million (previous year € 16.0 million).

KEY PERFORMANCE INDICATORS: PUMPS AND ENGINE COMPONENTS

K EUR	2019	2018	Change %
Sales	312,813	311,705	0.4 %
EBITDA	26,366	27,169	– 3.0 %
as % of sales	8.4 %	8.7 %	-
EBIT	7,214	8,941	– 19.3 %
as % of sales	2.3 %	2.9 %	-
Investments	38,952	34,377	13.3 %
as % of sales	12.5 %	11.0 %	-

Slight decrease in EBITDA and EBITDA margin

The business segment's earnings before interest, tax, depreciation and amortisation (EBITDA) of € 26.4 million is down € 0.8 million on the previous year (€ 27.2 million). The EBITDA margin decreased from 8.7 per cent to 8.4 per cent. Disregarding the impact of IFRS 16, EBITDA and EBITDA margin would have amounted to € 25.3 million and 8.1 per cent accordingly.

Thanks to the start of production on new projects, the Chinese subsidiary was able to record a significant rise in sales and earnings. Sales and earnings at the Group's foreign locations in Canada, Brazil and Romania developed according to plan.

Depreciation and amortisation in the Pumps and Engine Components business segment of € 19.2 million (including € 1.0 million from the effect of IFRS 16) is up € 0.9 million on the previous year.

Earnings before interest and tax (EBIT) of the Pumps and Engine Components business segment decreased accordingly by € 1.7 million or 19.3 per cent compared to the previous year to € 7.2 million (previous year € 8.9 million). The EBIT margin amounts to 2.3 per cent (previous year 2.9 per cent).

Brake Discs

Sales increased to € 119.6 million

In fiscal year 2019, sales in the Brake Discs business segment increased by 9.5 per cent compared with the previous year to € 119.6 million (previous year € 109.2 million).

At 3.9 million units, the unit sales of brake discs matches that of the previous year (3.8 million units). The higher-priced composite brake disc product line reached a new sales record of almost 1.1 million units (up 24.7 per cent on the previous year).

KEY PERFORMANCE INDICATORS: BRAKE DISCS

K EUR	2019	2018	Change %
Sales	119,608	109,231	9.5 %
EBITDA	15,506	10,690	45.1 %
as % of sales	13.0 %	9.8 %	-
EBIT	8,672	5,649	53.5 %
as % of sales	7.3 %	5.2 %	-
Investments	12,491	12,823	– 2.6 %
as % of sales	10.4 %	11.7 %	-

Significant improvement in EBITDA and EBITDA margin

The business segment's earnings before interest, tax, depreciation and amortisation (EBITDA) increased by € 4.8 million in fiscal year 2019 to € 15.5 million. The EBITDA margin amounts to 13.0 per cent (previous year 9.8 per cent). Disregarding the impact of IFRS 16, EBITDA and EBITDA margin would have amounted to € 15.1 million and 12.6 per cent accordingly.

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 € 6.8 million (of which € 0.4 million can be attributed to the effects of IFRS 16) is € 1.8 million above that of the previous year (€ 5.0 million).

Correspondingly, earnings before interest and tax (EBIT) increased by € 3.1 million to € 8.7 million (previous year € 5.6 million). The EBIT margin, measured against sales, increased to 7.3 per cent, compared to 5.2 per cent in the previous year.

Financial position

NET ASSET POSITION

K EUR	2019	2018	Change absolute	Change %
Non-current assets	**194,418**	**163,610**	**30,808**	**18.8 %**
of which other intangible assets	15,184	11,380	3,804	33.4 %
of which property, plant and equipment	155,763	134,742	21,021	15.6 %
of which other (financial) assets	3,942	3,836	106	2.8 %
Current assets	**126,516**	**123,184**	**3,332**	**2.7 %**
of which inventories	56,165	58,816	– 2,651	– 4.5 %
of which trade receivables	44,425	50,943	– 6,518	– 12.8 %
of which liquid funds	15,321	5,003	10,318	206.2 %
Total assets	**320,934**	**286,794**	**34,140**	**11.9 %**

Total assets increased by 11.9 per cent

At the end of the fiscal year 2019 total assets were 11.9 per cent up on the previous year, a rise of € 34.1 million.

Internally generated assets associated with development costs led to an increase of € 3.8 million in other intangible assets.

Investments of € 43.4 million (see the section on cash flows, investing activities) and the initial recognition of right-of-use assets of € 9.1 million (IFRS 16) led to an increase in property, plant and equipment of € 21.0 million. As at 31 December 2019 investment commitments amounted to € 17.9 million.

Inventories decreased by € 2.7 million on account of improved stock management. The decrease in trade receivables as at the reporting date is largely a result of the decrease in the November and December sales of the SHW Group compared to the same period of the previous year (down € 6.4 million to € 64.3 million).

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

In December 2019 SHW entered into a (non-recourse) factoring agreement. The balance of receivables sold came to € 5.6 million as at the reporting date.

Cash flows

On 4 August 2017 SHW AG entered into a new syndicated loan agreement securing credit lines totalling € 80.0 million and providing it a solid cash basis. The syndicated loan agreement has an agreed term of five years and an option for renewal. The second renewal option was exercised in fiscal year 2019. The agreed covenants (net debt and equity ratio) were complied with as at 31 December 2019. As at 31 December 2019, the credit promised under the existing syndicated loan agreement was drawn on by an amount of € 40.0 million in the form of four short-term loans, overdrafts of € 0.3 million and bank guarantees totalling € 2.0 million.

SHW uses a derivative financial instrument in the form of an interest swap for hedging purposes (cash flow hedge). The effects of this hedge were immaterial as at the reporting date.

FINANCIAL POSITION

K EUR	2019	2018	Change absolute	Change %
Equity	**131,692**	**124,372**	**7,320**	**5.9 %**
Non-current liabilities and accruals	**69,796**	**47,357**	**22,439**	**47.4 %**
of which liabilities to banks	15,301	5,409	9,892	182.9 %
of which other financial liabilities	11,522	6,046	5,476	90.6 %
Current liabilities and accruals	**119,446**	**115,065**	**4,381**	**3.8 %**
of which liabilities to banks	42,632	38,674	3,958	10.2 %
of which trade payables and contract liabilities	51,888	55,970	– 4,082	– 7.3 %
of which other pensions	4,004	5,663	– 1,659	– 29.3 %
Total assets	**320,934**	**286,794**	**34,140**	**11.9 %**

Equity ratio at 41.0 per cent

The equity of the Group rose by € 7.3 million as at 31 December 2019 in comparison to the previous year (comprising the Group's comprehensive income after tax of € 7.6 million less the profit distribution of € 0.3 million for the fiscal year 2018 made in 2019). Due to the sharp rise in the balance sheet total, the equity ratio decreased from 43.4 per cent to 41.0 per cent.

Non-current liabilities and provisions increased, primarily due to four long-term investment loans for buildings and production equipment and long-term lease liabilities (IFRS 16).

With regard to current liabilities, provisions and accruals, liabilities to banks increased on account of slightly higher use of the syndicated bank loan and new investment loans. The decrease in trade payables and contract liabilities mainly results from the much lower level of business and investing activity in November and December 2019 in comparison to the last two months of the previous year. In particular, the utilisation and reversal of provisions recognised for business-related obligations led to a corresponding decrease in current other provisions.

Net working capital ratio within the target corridor

The net working capital ratio, measured against sales of the last twelve months, decreased from 12.8 per cent to 11.3 per cent on account of targeted working capital management and therefore lies within the mid-term targeted corridor of 11 per cent to 12 per cent.

NET WORKING CAPITAL

K EUR	2019	2018	Change absolute	Change %
Inventories	56,165	58,816	– 2,651	– 4.5 %
Trade receivables	44,425	50,943	– 6,518	– 12.8 %
Trade payables	– 50,883	– 54,521	3,638	– 6.7 %
Contract liabilities	– 1,005	– 1,449	444	– 30.6 %
Net working capital	**48,702**	**53,789**	**– 5,087**	**– 9.5 %**
as % of sales	11.3 %	12.8 %	-	-

Operating free cash flow significantly above the level of the previous year

At € 42.4 million, the cash flow from operating activities in the fiscal year 2019 was significantly up on the level of the previous year of € 7.0 million. This is largely due to the higher net profit of the Group for the year and effective working capital management.

The cash flow from investing activities related to property, plant, and equipment and intangible assets of € 42.6 million was approximately € 2.6 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 was therefore slightly negative at € -0.2 million, but improved considerably in comparison to the previous year (€ -33.0 million).

Total free cash flow of € -0.6 million in 2019 (previous year € -16.8 million) resulted from the cash payment of € 0.4 million for the first contingent price instalment for LHT. In the previous year, total free cash flow was dominated by the € 16.2 million in cash received from the sale of the investment in a joint venture in China.

DERIVATION OF THE CHANGE IN NET LIQUIDITY

K EUR	2019	2018
Cash flow from operating activities	42,397	6,988
Cash flow from investing activities (intangible assets and property, plant and equipment)	– 42,594	– 39,958
Operating free cash flow	**– 197**	**– 32,970**
Cash flow from investing activities (subsidiaries, financial assets)	– 400	16,219
Total free cash flow	**– 597**	**– 16,751**
Other items (particular dividend payments)	– 2,935	– 4,159
Change in net liquidity	**– 3,532**	**– 20,910**

Net financial liabilities of € -42.6 million

The change in net liquidity led to the SHW Group carrying net financial liabilities (defined as the balance of cash and cash equivalents and liabilities to banks) as at 31 December 2019 of € -42.6 million (previous year € -39.1 million).

In addition to the total free cash flow described above (€ -0.6 million), dividend payments (€ -0.3 million) and payments for leases (€ -2.6 million) result in a decrease of € 3.5 million in net liquidity.

As at 31 December 2019, the SHW Group had cash and cash equivalents of € 15.3 million (previous year € 5.0 million). Liabilities to banks of € 57.9 million (previous year € 44.1 million) consist of four short-term loans amounting to € 40.0 million and overdrafts of € 0.3 million drawn under the syndicated loan agreement as well as eight bullet loans amounting to € 17.7 million. We refer to Notes (34) and (38) in the notes to the consolidated financial statements for more information.

Capital expenditure at high levels

Additions to property, plant and equipment and intangible assets amounted to € 52.6 million in fiscal year 2019 (of this amount € 9.1 million is due to IFRS 16; previous year additions of € 48.7 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 leases.

The Pumps and Engine Components business segment recorded additions of € 39.0 million (€ 7.4 million due to IFRS 16; previous year € 34.4 million), including investments for research and development amounting to € 4.5 million (previous year € 4.8 million). These investments focused on new assembly lines, a warehouse and logistics hub. The Brake Discs business segment invested a total of € 12.5 million (€ 1.6 million due to IFRS 16; previous year € 12.8 million). The focus here was on composite brake discs and included new machining lines, automation and a new building for the staff.

In addition to the cash flow from operating activities planned for fiscal year 2020, 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 2020.

Higher ROCE due to positive development of earnings

ROCE

K EUR	**2019**	2018
Goodwill	7,441	7,441
Customer base	730	826
Other intangible assets	15,184	11,380
Property, plant and equipment	155,763	134,742
Deferred tax assets	11,358	5,385
Other (financial) assets (non-current)	3,942	3,836
Inventories	56,165	58,816
Trade receivables	44,425	50,943
Income tax assets	145	1,425
Other (financial) assets	10,460	6,997
Capital employed asset item	**305,613**	**281,791**
Deferred tax liabilities	-7,129	-3,015
Other pensions (non-current)	-45	-45
Other financial liabilities (non-current and non-interest bearing)	-1,302	-326
Other liabilities (non-current)	-464	-643
Trade payables	-50,883	-54,521
Contract liabilities	-1,005	-1,449
Other financial liabilities (current and non-interest bearing)	-5,556	-5,032
Income tax liabilities	-1.882	-99
Other pensions (current)	-4,004	-5,663
Other liabilities (current)	-10,346	-8,523
Capital employed liability item	**-82,616**	**-79,316**
Capital employed	222,997	202,475
EBIT	14,617	7,314
ROCE	**6.6 %**	**3.6 %**

The return on capital employed (ROCE) increased from 3.6 per cent to 6.6 per cent in fiscal year 2019. Excluding the first-time recognition of right-of-use assets (IFRS 16: € 9.1 million), ROCE comes to 6.8 per cent.

The increase in ROCE can be largely attributed to the increase in EBIT and the decrease in working capital.

Overall statement on the economic position

Given the extremely challenging automotive business, the Management Board of SHW AG considers the Group's business performance in 2019 to be satisfactory on the whole. The Group's sales of € 432.4 million (previous year € 420.9 million) and the EBITDA margin (9.6 per cent) lie in the upper half of the range expected for the fiscal year. After taking account of the slight increase in depreciation and amortisation, EBIT of € 14.6 million was generated in the year (previous year € 7.3 million).

After deducting financial expenses and taxes on income, the net earnings of the Group come to € 9.9 million (previous year € 3.1 million).

The net working capital ratio, measured against sales of the last twelve months, decreased from 12.8 per cent to 11.3 per cent on account of targeted working capital management and therefore lies within the mid-term targeted corridor of 11 per cent to 12 per cent.

With an equity ratio of 41.0 per cent and net financial liabilities of € -42.6 million, the Management Board views SHW's financial profile as being adequate in light of the sufficient free credit lines available to it.

At the time of issuing this group management report, the Management Board of SHW AG is satisfied with the economic situation of the SHW Group.

With its innovative product portfolio and its current orders, the Management Board of SHW AG considers the Group to be well positioned to actively shape the transition occurring in the automotive sector despite the challenges. 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 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	2019	2018
1. Sales	**1,000**	**1,000**
2. Cost of sales	– 1,000	– 1,000
3. Gross profit	**0**	**0**
4. General administrative expenses	– 2,777	– 4,546
5. Other operating income	1,036	1,671
6. Other operating expenses	0	– 1.651
7. Income from investments	9,480	9,715
8. Income from tax levies paid by controlled companies	985	660
9. Income from loans of financial assets	85	59
10. Other interest and similar income	1,298	1,004
11. Interest and similar expenses	– 277	– 211
12. Income taxes	– 2,374	– 1,448
13. Earnings after tax	**7,456**	**5,253**
14. Other taxes	– 9	– 23
15. Net profit for the year	**7,447**	**5,230**
16. Profit carried forward	32	59
17. Net retained profit	**7,479**	**5,289**

Earnings after income tax increased from € 5.3 million in the previous year to € 7.5 million. This is largely attributable to the following factors:

- Reduction in general administrative expenses (dominated by a change in two positions on the Management Board in the previous year)
- Reduction in other operating income net of other operating expenses: The net balance in the previous year contained non-recurring expenses from litigation and other operating income of an identical amount from allocating costs to affiliated companies
- Increase in income tax expenses on account of the positive development in earnings and the consequences from the last tax audit

The income from profit transfers, shown under profit and losses from profit and loss transfer agreements, 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	31.12.2019	31.12.2018
Non-current assets	146,859	146,159
Current assets, including deferred expenses	37,834	31,176
Total assets	**184,693**	**177,335**
Equity	182,422	175,232
Accruals and liabilities	2,147	2,103
Total capital	**184,569**	**177,335**

Non-current assets mainly comprise the unchanged investment in SHW Automotive GmbH of € 141.3 million.

Current assets mainly comprise receivables from the transfer of profit and loss in the amount of € 9.5 million (previous year € 9.7 million) as well as an interest-bearing loan to SHW Automotive GmbH of € 27.3 million (previous year € 18.9 million). CIT and VAT credits decreased from € 2.0 million to € 0.6 million.

SHW AG's equity increased by € 7.2 million compared with the reporting date of the previous year. This increase resulted from the net profit for fiscal year 2019 of € 7.5 million less a dividend payment to the shareholders of € 0.3 million. The equity ratio remains unchanged at 98.8 per cent.

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 Group of companies. 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.

To ensure that our risk management system is as effective as possible, we utilise a group-wide integrated risk management system which identifies, assesses, manages, monitors and systematically reports risks. The risk management system is aligned towards identifying potential risks at an early stage by constantly monitoring the relevant markets, regions, customers and suppliers as well as internal processes in order to take effective counteraction.

The core objective of our risk management system is to safeguard and raise the Company's enterprise value.

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

Risks are presented after considering risk mitigation measures (net presentation).

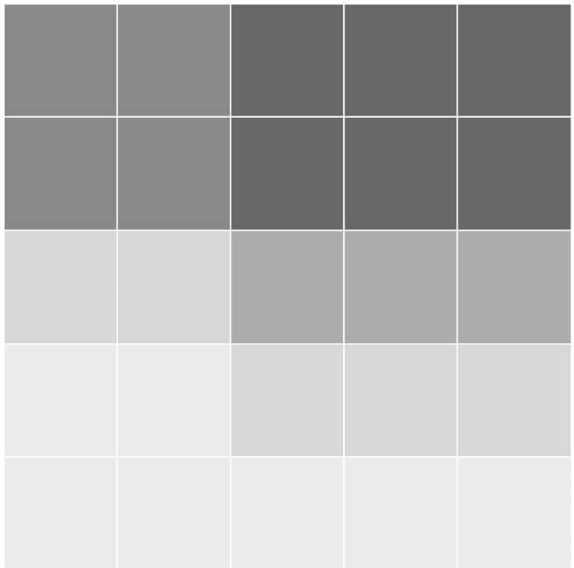
Types of risk	Probability	Financial impact
Strategic risks		
Macroeconomic and industry risks	Medium	High
Market structure risks	High	High
Risks of consolidation in the industry and competition	Medium	Medium
Operating risks		
Market penetration risks	Low	Medium
Customer risks	Low	High
Delivery call-off risks	High	High
New product launches and project risks	Low	High
Cost risks	Medium	Medium
Supplier risks	Medium	High
IT risks	Low	Medium
Acquisition and integration risks	Very 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

Future development of the SHW Group' business is heavily dependent on the development of the global economy. In addition, risks can arise from political and social change. It remains to be seen to what extent trade wars and customs disputes will dampen export activity. Political tensions or trade restrictions between individual countries, such as between the USA and Mexico, or China, could have a substantial impact on the sales and earnings of the SHW Group.

As a supplier to the automobile industry, the business development of the SHW Group is directly and substantially dependent upon the fundamental transition occurring in the automobile industry. This transformation is being driven by such trends as electrification, autonomous driving, digitisation and connectivity as well as mobility services. Risks could arise from the transition in the mobility sector, such as the gathering pace of innovation, increasing complexity of new technologies, increasing competition, high adaptive pressure to meet changes in the sector and more stringent requirements for strategy and management processes.

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 US / Mexico. 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. The first activities to work the Indian market have been undertaken (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 group of companies would react by adjusting its capacities and cost-structures accordingly throughout the entire value chain in order to safeguard the 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 key automobile markets – North America and Europe – is not considered likely in 2020. However, the risks of an economic downturn have risen, particularly on account of the rise in political tensions and trade wars, the continuing sovereign debt crisis in some euro countries and the economic impact of the outbreak of the coronavirus.

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 CO_2 emissions and the associated ban on diesel cars from the year 2019 have led to a sudden slump in demand for diesel vehicles in Europe from fiscal year 2018 and a corresponding announcement by car makers that they would adjust their product portfolios accordingly. This trend has continued.

The transformation in the automotive sector 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 continue to 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 group of companies' 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 rapidly and at high quality.

SHW has placed the correct focus on product development, in order to align the product portfolio to the continuing transformation of the automobile industry.

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 a trendsetter 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 and China – which are currently SHW's key vehicle markets – 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 one customer which exceeded 10 per cent of group sales. The share of sales realised with SHW's largest customer increased slightly from 38.1 per cent to 39.6 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, India, 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 for 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 2019 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, particularly due to the transformation process that is sweeping the industry, 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 AG 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.

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

The risk of credit losses on receivables has not increased any further for the globally positioned customers of the SHW Group. 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 is currently low.

Financing risks

With an equity ratio of 41.0 per cent, net liquidity as at 31 December 2019 of € -42.6 million and sufficient free credit lines, the financial base of the SHW Group is robust.

The 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 2019.

As SHW can fall back on additional debt and equity instruments, 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. In connection with the locations in Romania, 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, the Canadian dollar and the Romanian leu 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 2019, interest rates in the euro area remained at a very low level. Due to the current zero-interest rate policy of the European Central Bank we do not anticipate 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 2019, 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 2019 was conducted based on the planning for the period from 2020 to 2023, and assumptions made regarding future developments.

While the SHW Group's goodwill was classified as non-impaired as at 31 December 2019, even after considering the scenario analyses, the need for impairment at a future date cannot be ruled out in principle.

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.

At present the spread of the coronavirus is affecting the development of the global economy in 2020 and this is having a knock-on impact on the financial markets. The impact of the coronavirus on the development of fiscal year 2020 cannot be fully predicted at present.

Unless otherwise indicated in the description of risks, the outlined risks do not specifically refer to the individual business 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 SHW'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 with a reduction of 15 and 30 per cent respectively.

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 – several new customer orders are going into production in the Pumps and Engine Components business segment in fiscal year 2020, 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 within the Group, in addition to the operating synergies (for example 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.

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 group of companies 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.

In conclusion, the Management Board of SHW AG has rated the opportunities available to the SHW Group as being of medium significance.

FORECAST

Outlook for the overall economy and for the industry

Global economy: growth to stabilise

The corona virus that spread from China will have a negative impact on the development of the global economy, particularly in the first six months of 2020. Based on an assessment made by Bankhaus Lampe, the global economy will enjoy moderate growth in 2020, low inflation rates and, in most cases, more expansive monetary policies from the central banks. This conclusion has been derived from the late stage of the economic cycle, the lack of growth drivers and geopolitical tensions. The trade conflict between the USA and China will, at best, only ease temporarily and will continue to create uncertainty on the market. In spite of the very expansive monetary policies, global GDP is expected to rise by 2.9 per cent. Demand for oil is projected to remain subdued. Noticeable growth is forecast in emerging markets. By contrast, the growth perspectives for industrial nations are dimmer than in the previous year.

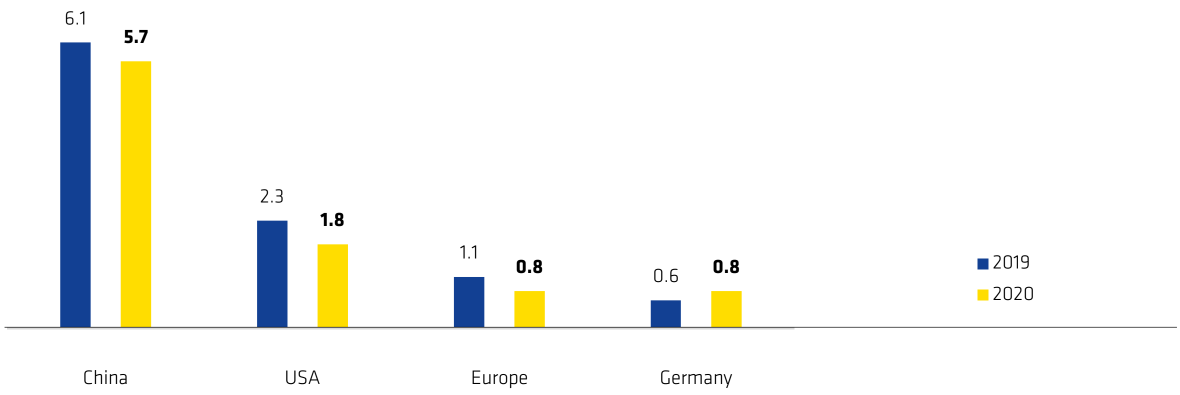
In the US, GDP growth is expected to slow noticeably in 2020 to 1.8 per cent (previous year 2.3 per cent). The fiscal policies pursued in 2020 are likely to remain slightly expansive. Risks to the economy generally arise from trade disputes which continue to leave their mark on the real economy and will probably result in declining private sector investment.

The subdued growth of the euro area is likely to continue. GDP growth will fall back to 0.8 per cent (previous year 1.1 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 unresolved trade dispute, which could hit the European automobile industry particularly hard, constitute an additional risk for the economic outlook. As a result, countries that are more aligned towards their domestic economy are expected to enjoy better growth than those oriented towards the export industry. Economic growth will be boosted by fiscal policies that can be characterised as slightly expansive and the more expansive monetary policy of the ECB.

In Germany, the economic downturn will most likely continue into 2020. This can be attributed to the cyclical downturn of the global economy and the structural problems confronting the automobile industry. As an export nation, Germany is facing uncertainties on account of the global trade war and the uncertain impact of Brexit on the economy. However, there is no sign that domestic demand will weaken. GDP growth of 0.8 per cent is forecast.

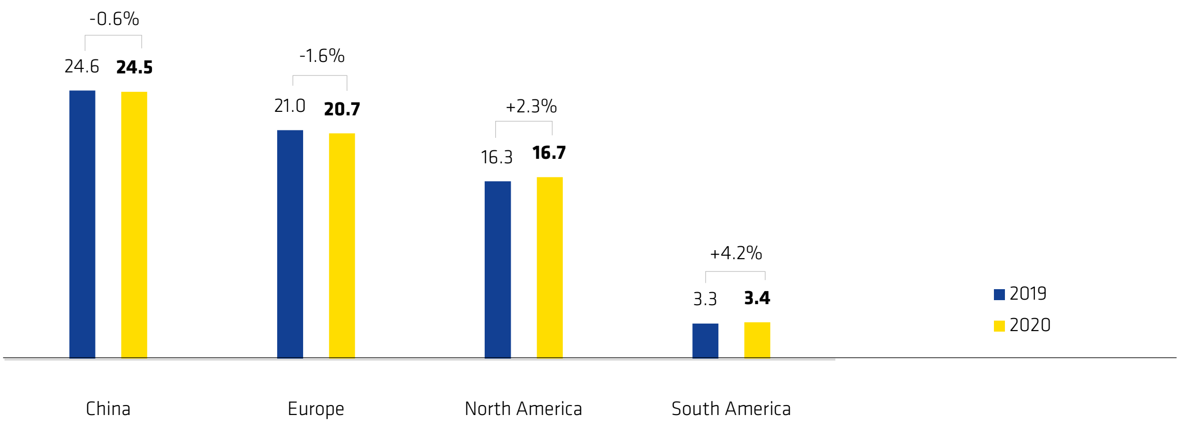
In China, a further slow-down in GDP growth in expected. The economists at Bankhaus Lampe predict growth of 5.7 per cent in 2020, compared to 6.1 per cent in 2019. Factors that may further dampen the economy are expected in the form of the trade war and weaker domestic demand. To prevent a more serious downturn, the Chinese government and central bank are likely to launch further precautionary stimulus packages, as in the previous year. However, the corona virus and the high levels of corporate debt remain risk factors for the outlook.

GDP GROWTH BY REGION IN %



Source: Forecast 2019/20: Bankhaus Lampe Economic Research

LIGHT VEHICLE PRODUCTION BY REGION (IN M UNITS)



Source: IHS – January 2020

Slight reduction in vehicle production

The IHS market research institute expects global light vehicle production (vehicles of less than six tonnes) to decrease slightly by 0.2 per cent in 2020, from 88.8 million vehicles to 88.6 million vehicles.

In Europe stronger production growth is forecast in Spain (+6.9 per cent to 3.0 million units), Italy (+10.1 per cent to 0.9 million units) and the Slovak Republic (+2.9 per cent to 1.1 million units).

German automobile production is expected to increase slightly to a volume of 4.9 million units.

With regard to China, IHS assumes there will be a slight decrease in vehicle production. In South America, by contrast, rapid growth of 4.2 per cent to 3.4 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 decrease slightly by 0.2 per cent to 88.6 million units. The decrease will be accounted for by gasoline engines (down 0.2 per cent to 71.3 million units) and diesel engines (down 6.9 per cent to 14.4 million units). Growth is expected in the production of electric motors (+42.8 per cent to 2.8 million units).

In China, motor production will fall to 24.7 million units. The production of gasoline engines is projected to fall by 0.9 per cent to almost 21.8 million units. Production of diesel engines is expected to fall by 1.5 per cent. The largest volume growth will be in electric motors, which are expected to see growth of 21.8 per cent to 1.1 million units.

With growth of 130.8 per cent to 0.8 million 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 80.4 per cent of the total market, followed by diesel engines, which account for 16.2 per cent. The remainder is accounted for by electric motors (3.1 per cent).

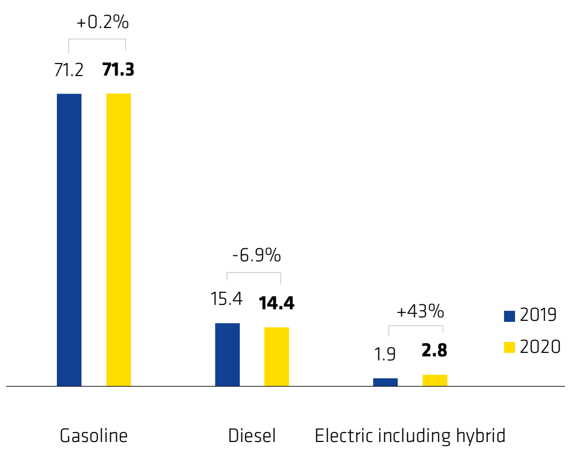
SHW remains well positioned, with its product solutions for internal combustion engines – both diesel and gasoline – as well as electric engines, to exploit any growth opportunities that arise.

Automatic transmissions continue to gain market share

The production of automatic transmissions should increase by 1.7 per cent globally to 56.8 million units in 2020. IHS is forecasting transmission production growth of 3.8 per cent in China to 13.4 million units. In Europe production of automatic transmissions is expected to grow by 2.6 per cent to 9.3 million units. In North America, unit growth of 2.3 per cent to 13.7 million units is expected.

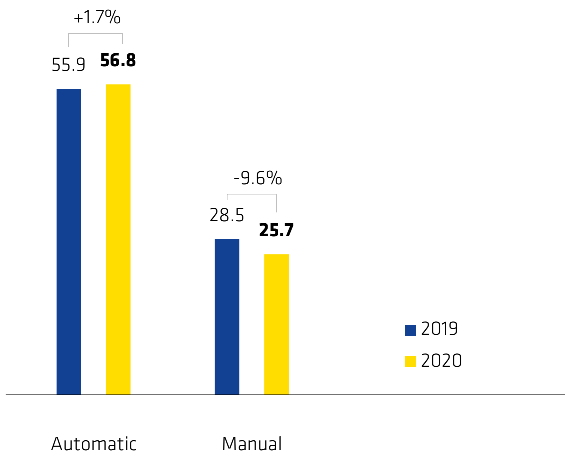
Based on estimates by the IHS research institute, production of manual transmissions will decline by 9.6 per cent worldwide. This will particularly affect China (down 18.7 per cent to 5.6 million units) and Europe (down 11.0 per cent to 9.7 million units). Thanks to its product portfolio in the primary 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.

ENGINE PRODUCTION WORLDWIDE (IN M UNITS)



Source: IHS – January 2020

TRANSMISSION PRODUCTION WORLDWIDE (IN M UNITS)



Source: IHS – January 2020

Outlook for the Group

Sales expected to range between € 430 million and € 450 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 € 430 million to € 450 million in the fiscal year 2020.

Of this total, the Pumps and Engine Components business segment is forecast to generate sales of between roughly € 310 million and € 320 million and the Brake Discs business segment sales of between € 120 million and € 130 million, with the share of higher-value composite brake discs continuing to increase in 2020.

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 2020. This is based on the assumptions that the foreign operations will continue to develop, that conditions on the European market will remain difficult, and that the Brake Discs business segment will develop in line with the planning. EBITDA should range between roughly € 37.4 million and € 44.0 million accordingly.

An EBITDA margin slightly above the previous year is forecast for the Pumps and Engine Components business segment and EBITDA should be significantly above the previous year.

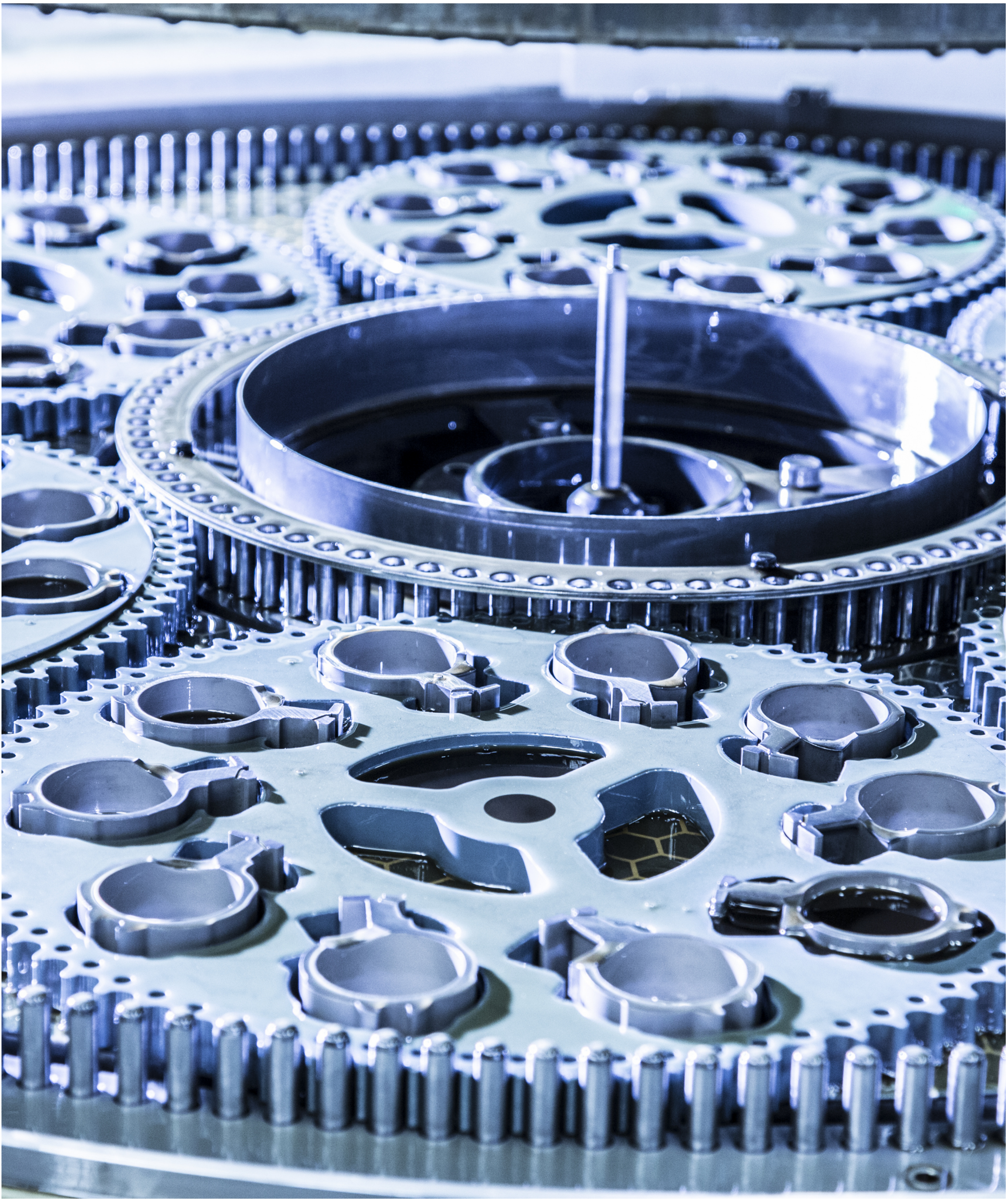
The EBITDA margin and EBITDA of the Brake Discs business segment are both forecast to be up slightly on the previous year.

ROCE – further optimisation targeted

Optimising the efficient use of capital remains a further area of focus for the Management Board in fiscal year 2020. The activities conducted throughout the Group are bundled in the Cash@SHW project. The medium-term goal is to reach a sustainable ROCE of over 10 per cent. The short-term goal is to lie within a corridor of between 6 per cent and 9 per cent.

Covid-19 pandemic

The above forecasts were drawn up before the outbreak of the Covid-19 pandemic and are based on the sector-specific conditions that were typical as at that date. In the present situation, the level of uncertainty on the market is elevated, with major restrictions placed on private individuals and companies alike. The economy is expected to take a substantial hit. At the time of issuing the group management report, the specific effects are not yet foreseeable. However, we perceive risks such as a short-term slump in demand and a negative effect on our performance indicators.



CONSOLIDATED FINANCIAL STATEMENTS OF SHW AG

CONSOLIDATED INCOME STATEMENT

For the fiscal year from 1 January to 31 December 2019

K EUR	Note	2019	2018
Sales	**(14)**	**432,421**	**420,936**
Cost of sales	(22)	– 378,340	– 367,955
Gross profit		**54,081**	**52,981**
Selling expenses	(15), (22)	– 12,840	– 12,196
General administrative expenses	(16), (22)	– 19,108	– 18,122
Research and development costs	(17), (22)	– 11,353	– 11,139
Other operating income	(18)	8,063	3,565
Other operating expenses	(19)	– 4,226	– 7,775
Earnings before interest and tax		**14,617**	**7,314**
Financial income	(20)	8	5
Financial expenses	(20)	– 2,129	– 1,527
Earnings before tax		**12,496**	**5,792**
Deferred taxes	(21)	949	– 1.196
Current income tax	(21)	– 3,554	– 1,465
Earnings after tax		**9,891**	**3,131**
Net profit		**9,891**	**3,131**
Earnings per share in € (basic and diluted)*		1.54	0.49

* 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 2019

K EUR	**2019**	2018
Net profit	**9,891**	**3,131**
Items that will not be reclassified to profit or loss in future periods		
Actuarial gains / losses from pension provisions and similar obligations before tax	– 3,038	279
Tax effect	863	– 79
Items that may be reclassified to profit or loss in future periods		
Currency translation differences	– 51	– 645
Tax effect	0	0
Changes in the fair value of derivates held for hedging purposes recognised in equity	– 88	0
Tax effect	0	0
Other comprehensive income after tax	**– 2,314**	**– 445**
Total comprehensive income after tax	**7,577**	**2,686**
Net profit for the year attributable to		
shareholders of SHW AG	9,891	3,131
holders of non-controlling interests	0	0
Total comprehensive income after tax attributable to		
shareholders of SHW AG	7,577	2,686
holders of non-controlling interests	0	0

CONSOLIDATED BALANCE SHEET

As at 31 December 2019

ASSETS

K EUR	Note	31.12.2019	31.12.2018
Goodwill	(25)	7,441	7,441
Customer base	(25)	730	826
Other intangible assets	(25)	15,184	11,380
Property, plant and equipment	(25)	155,763	134,742
Deferred tax assets	(21)	11,358	5,385
Other financial assets	(26)	309	333
Other assets	(26)	3,633	3,503
Non-current assets		**194,418**	**163,610**
Inventories	(27)	56,165	58,816
Trade receivables	(28)	44,425	50,943
Other financial assets	(29)	1,397	217
Income tax assets	(21)	145	1,425
Other assets	(29)	9,063	6,780
Cash and cash equivalents	(30)	15,321	5,003
Current assets		**126,516**	**123,184**
Total assets		**320,934**	**286,794**

EQUITY AND LIABILITIES

K EUR	Note	31.12.2019	31.12.2018
Subscribed capital	(31)	6,436	6,436
Capital reserves	(31)	38,510	38,510
Revenue reserves	(31)	95,697	86,063
Other reserves	(31)	– 8,951	– 6,637
Equity		**131,692**	**124,372**
Employee benefits	(32)	35,335	32,199
Deferred tax liabilities	(21)	7,129	3,015
Liabilities to banks	(34)	15,301	5,409
Other financial liabilities	(34)	11,522	6,046
Other provisions	(33)	45	45
Other liabilities	(34)	464	643
Non-current liabilities and provisions		**69,796**	**47,357**
Liabilities to banks	(34)	42,632	38,674
Trade payables	(34)	50,883	54,521
Contract liabilities	(14)	1,005	1,449
Other financial liabilities	(34)	8,694	6,136
Income tax liabilities	(21)	1,882	99
Other provisions	(33)	4,004	5,663
Other liabilities	(34)	10,346	8,523
Current liabilities, provisions and accruals		**119,446**	**115,065**
Total equity and liabilities		**320,934**	**286,794**

CONSOLIDATED CASH FLOW STATEMENT

For the fiscal year from 1 January to 31 December 2019

K EUR	Note	2019	2018
1. Cash flow from operating activities			
Net profit		9,891	3,131
Depreciation / amortisation (+) of fixed assets	(25)	26,925	24,028
Income tax expenses through profit or loss (+)	(21)	3,554	1,465
Income taxes paid (-)		– 490	– 2,835
Financing costs through profit or loss (+)	(20)	2,129	1,527
Interest paid (-)		– 893	– 620
Financial investment income through profit or loss (-)	(20)	– 8	– 5
Interest received (+)		7	5
Increase (+) / decrease (-) in provisions	(32), (33)	– 2,393	– 6,446
Change in deferred taxes		– 992	1,260
Other non-cash expenses (+) / income (-)		1,007	2,047
Gain (-) / loss (+) from the disposal of assets		– 570	– 32
Increase (-) / decrease (+) in inventories, trade receivables and other assets	(27), (28), (29)	2,877	– 23,196
Increase (+) / decrease (-) in trade payables and other liabilities	(34)	1,353	6,659
Cash flow from operating activities		**42,397**	**6,988**

K EUR	Note	2019	2018
2. Cash flow from investing activities			
Cash received (+) from the disposal of property, plant and equipment		1,669	158
Cash paid (-) for investments in property, plant and equipment		– 38,136	– 34,955
Cash paid (-) for investments in intangible assets		– 6,127	– 5,161
Cash paid (-) for the acquisition of subsidiaries		0	0
Cash received (+) from disposal of financial assets		0	16,219
Cash paid (-) for investments in financial assets		– 400	0
Cash flow from investing activities		**– 42,994**	**– 23,739**
3. Cash flow from financing activities			
Cash received (+) from the assumption of financial liabilities	(34), VI.	14,988	22,503
Cash paid (-) for the redemption of financial liabilities	(34), VI.	– 1,138	– 458
Dividends paid (-) to shareholders	(31)	– 257	– 3.218
Cash paid (-) for leases	VI., VIII.	– 2,626	– 897
Cash flow from financing activities		**10,967**	**17,930**
4. Cash and cash equivalents at the end of the period			
Cash-effective changes in cash and cash equivalents (sum of positions 1-3)		10,370	1,179
Exchange rate-related changes in cash and cash equivalents		– 52	– 44
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)	5,003	3,868
Cash and cash equivalents at the end of the period	**(30)**	**15,321**	**5,003**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the fiscal year from 1 January to 31 December 2019

K EUR	Subscribed capital (Note 31)	Capital reserves (Note 31)	Revenue reserves (Note 31)	Other reserves (Note 31)	**Total equity**
As at 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
As at 31 December 2018	**6,436**	**38,510**	**86,063**	**– 6,637**	**124,372**

*) € 0,5 per share

K EUR	Subscribed capital (Note 31)	Capital reserves (Note 31)	Revenue reserves (Note 31)	Other reserves (Note 31)	**Total equity**
As at 1 January 2019	**6,436**	**38,510**	**86,063**	**– 6,637**	**124,372**
Changes from actuarial gains and losses	0	0	0	– 2,175	– 2,175
Changes in the fair value of derivates held for hedging purposes recognised in equity	0	0	0	– 88	– 88
Foreign currency translation differences	0	0	0	– 51	– 51
Other comprehensive income	**0**	**0**	**0**	**– 2,314**	**– 2,314**
Net profit for 2019	0	0	9,891	0	9,891
Total comprehensive income for the period	**0**	**0**	**9,891**	**– 2,314**	**7,577**
Dividends paid *)	0	0	– 257	0	– 257
As at 31 December 2019	**6,436**	**38,510**	**95,697**	**– 8,951**	**131,692**

*) € 0.04 per share

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

I. General background

1. The Company

SHW AG 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 2019 were approved by the Management Board on 28 February 2020 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 2019 as to be applied in the EU. All interpretations of the International Financial Reporting Interpretations Committee (IFRIC) relevant for fiscal year 2019, 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 20 January 2020, the shareholders of Lust Hybrid-Technik GmbH, Hermsdorf (LHT), and, by resolution of 20 January 2020, 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 20 January and 6 February 2020, respectively, for publication.

3. Change in presentation

Due to a change in presentation that has no effect on profit or loss, the comparative figures for fiscal year 2018 were restated in fiscal year 2019. The cost of sales has decreased by € 1,000 thousand and general administrative expenses increased by € 1,000 thousand.

4. New and amended standards and interpretations applicable in the year 2019

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 01 January 2019:

Standard/ Interpretation		Status	To be applied from
AIP 2015-2017	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	revised	01.01.2019
Amendments zu IAS 19	Employee benefits: Plan amendment, curtailment or settlement	revised	01.01.2019
Amendments zu IAS 28	Long-Term Interests in Associates and Joint Ventures	revised	01.01.2019
Amendments zu 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

SHW AG applied IFRS 16 for the first time, effective from 1 January 2019. We expect that the first-time application of the other amendments will not have any effect, or will not have any significant effect, on the consolidated financial statements of SHW AG.

Reference is made to the detailed presentations and breakdowns on IFRS 16 in Note (39). The impact on the date of transition is summarised as follows:

K EUR	01.01.2019
Right-of-use asset - property, plant and equipment	6,985
Deferred tax assets *	0
Lease liabilities	6,985
Revenue reserves	0

* netted against deferred tax liabilities

When discounting its lease liabilities from operating leases to present value, SHW AG applied the incremental borrowing rate applying on 1 January 2019. The weighted average interest rate is 1.2 per cent.

K EUR	01.01.2019
Obligations arising from operating leases pursuant to IAS 17 and carried as at 31 December 2018 disclosed in the consolidated financial statements	6,730
discounted using the incremental borrowing rate as at 1 January 2019	6,527
Liabilities from finance leases as at 31 December 2018	5,802
Leases not recognised on the basis of a practical expedient for low-value assets	0
Leases not recognised due to having a lease term of 12 months or less from the date of first-time application	– 862
Leases with options to extend the lease, where exercise is reasonably certain	2,661
Other	– 1,341
Lease liabilities as at 1 January 2019	**12,787**

Related to the balance sheet total as at 31 December 2018, the first-time application of IFRS 16 results in an increase of roughly 2.4 per cent. Due to depreciation and interest charges on leases brought about by IFRS 16 in place of the expenses from operating leases recognised in the past, first-time application has had a positive impact on EBITDA. Recognition of right-of-use assets in fiscal year 2019 resulted in depreciation of € 1,427 thousand and interest expenses of approximately € 80 thousand. Relative to EBITDA in fiscal year 2019 this represents an increase of approximately 4.0 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 has also led to an improvement in the cash flow from operating activities of € 1,612 thousand and a deterioration of the cash flow from financing activities of € 1,612 thousand.

5. Standards, interpretations and amendments to published standards not yet mandatory in 2019 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
Amendments conceptual framework	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 IFRS 3	Business combinations	revised	01.01.2020
IFRS 17	Insurance contracts	new	00.01.1900

We expect that future application of the 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 2019, the capitalised development costs amount to € 11,681 thousand (previous year € 8,493 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 2019, the provision for pensions and similar obligations amounted to € 29,779 thousand (previous year € 27,057 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").
- When determining whether exercise of any options to extend the lease is reasonably certain in the sense of IFRS 16.

II. Consolidation methods and basis of consolidation

7. Consolidation principles and methods

The consolidated financial statements comprise the financial statements of SHW AG and all of its subsidiaries (with the exception of SensDev GmbH, Burgstädt, SHW Bremsen Beteiligungs GmbH, Tuttlingen, and SHW Gießerei GmbH & Co. KG, Tuttlingen, which were not included on grounds of immateriality) over which it exercises control 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 2019.

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	**2019**	2018	**2019**	2018
Brazil	BRL	4.5157	4.4440	4.4175	4.3294
Canada	CAD	1.4598	1.5605	1.4822	1.5329
China	RMB	7.8205	7.8751	7.7237	7.8156
Romania	RON	4.783	4.6635	4.7501	4.6558

III. Notes to the income statement

14. Sales

The sales presented in the consolidated income statement include revenue from contracts with customers (IFRS 15).

Sales are measured on the consideration agreed on in a contract with a customer. The SHW Group basically recognises revenue on the date on which control over the good or service is transferred to the customer, which is always 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.

The Pumps and Engine Components business segment achieved sales of € 312,813 thousand in fiscal year 2019 (previous year € 311,705 thousand). Revenue of the Brake Discs business segment increased by 9.5 per cent in comparison to the comparable period of the previous year to € 119,608 thousand (previous year € 109,231 thousand).

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

GEOGRAPHIC SEGMENTS

1 January until 31 December	Germany		Rest of Europe		America		Asia		Other		Total	
K EUR	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Revenue from contracts with customers	215,203	227,100	145,301	154,288	12,996	10,125	48,032	29,404	10,889	19	432,421	420,936

As at 31 December 2019 contract liabilities amounted to € 1,005 thousand (previous year € 1,449 thousand). Contract liabilities mainly consist of the advance payments received from customers for preparatory work prior to the commencement of serial production. Revenue of € 1,449 thousand (previous year € 736 thousand) was realised in the course of fiscal year 2019 from the net balance of contract liabilities carried at the beginning of fiscal year 2019.

As in the previous year, the incremental costs of obtaining contracts of € 3,391 thousand (previous year € 3,146 thousand) are presented under non-current other assets and € 787 thousand (previous year € 710 thousand) under current other assets as at 31 December 2019. 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 € 764 thousand in the fiscal year (previous year € 387 thousand). No impairment losses were recorded on recognised the incremental costs of obtaining contracts as at 31 December 2019. 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 group 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 2019, the additionally capitalised development costs amounted to € 4,531 thousand (previous year € 4,752 thousand). 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 € 3,733 thousand (previous year € 1,377 thousand), gains on the disposal of non-current assets of € 1,429 thousand (previous year € 32) and income from settlement payments and insurance indemnification payments of € 1,360 thousand (previous year € 580 thousand).

19. Other operating expenses

Other operating expenses mostly consist of the costs incurred for litigation (including the associated legal expenses and consulting fees) of € 1,225 thousand (previous year € 6,302 thousand). In addition, losses on the disposal of non-current assets were incurred at € 929 thousand (previous year € 168 thousand) and other legal expenses and consulting fees of € 489 thousand (previous year € 323 thousand).

20. Financial result

The financial result breaks down as follows:

K EUR	2019	2018
Financial income	8	5
Financial expenses		
Interest and similar expenses	– 1,056	– 815
Interest in the addition to pension provisions	– 753	– 463
Interest expense from leases	– 320	– 249
	– 2,129	**– 1,527**
Financial result	**– 2,121**	**– 1,522**

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 € 889 thousand (previous year € 546 thousand) determined using the effective interest rate method, see also 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	
	2019	2018	**2019**	2018
Loans and receivables (AC)	– 252	– 20	– 260	– 25
Other non-current financial assets (AC)	– 24	– 14	– 24	– 14
Financial liabilities (AC)	– 1,376	– 1,064	0	0
Total	**– 1,652**	**– 1,098**	**– 284**	**– 39**

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

Tax assets of € 145 thousand (previous year € 1,425 thousand) relate to rights to reimbursement of withholding tax. Income tax liabilities of € 1,882 thousand (previous year € 99 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	**2019**	2018
Current taxes	**– 3,554**	**– 1,465**
Current year	– 3,359	– 1,462
Adjustments for previous years	– 195	– 3
Deferred taxes	**949**	**– 1,196**
Recognition / reversal of temporary differences	– 560	– 568
Effect of tax loss recognised	1,509	– 628
Total	**– 2,605**	**– 2,661**

The deferred tax income recognised directly in equity resulted from the revaluation of defined benefit obligations by an amount of € 863 thousand (previous year deferred tax expenses of € 79 thousand) and by an amount of € 35 thousand from marking derivatives to market.

b) Reconciliation of effective tax rate

K EUR	**2019**	2018
Earnings before tax	12,496	5,792
Expected income tax (28,4 [previous year 28,4] per cent)	3,549	1,645
Tax-free income, non-deductible expenses	88	76
Taxes from previous years	195	3
Reduction in assessed value	– 14	– 14
Add backs (pursuant to Section 8 of the German Trade Tax Act- GewStG)	52	52
Unrecognised deferred tax assets from loss carryforwards	0	501
Impairment losses on deferred tax assets from loss carryforwards	0	242
Recognition of the tax effects arising from unused tax loss carryforwards not recognised to date	-1,220	0
Deviating foreign tax rates	89	195
Other	-134	-39
Income taxes	**2,605**	**2,661**
Effective tax rate	20.8 %	45.9 %

In Germany, corporate income tax (including the solidarity surcharge) totalled 15.8 per cent in 2019. Trade tax amounts to 12.6 per cent, with an average assessment rate of 359.0 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 € 3,986 thousand (previous year € 5,410 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 2019 or 2018 and will not have an income tax impact in 2020.

c) Composition of deferred taxes

	Consolidated balance sheet	
K EUR	**31.12.2019**	31.12.2018
Deferred income tax assets		
Property, plant and equipment	13	13
Inventories	709	481
Other current assets	5	36
Employee benefits	4,975	3,949
Non-current liabilities and provisions	2,942	0
Current liabilities, provisions and accruals	587	302
Unused tax losses	2,127	604
Total	**11,358**	**5,385**
Deferred income tax liabilities		
Intangible assets	3,540	2,683
Property, plant and equipment	3,221	80
Other non-current assets	50	53
Other current assets	114	148
Non-current liabilities and provisions	177	25
Current liabilities, provisions and accruals	27	26
Total	**7,129**	**3,015**

d) Deferred taxes directly recognised in equity

K EUR	Before tax	Tax income / expense	After tax
2019			
Actuarial gains / losses from pension provisions and similar obligations	– 3,038	863	– 2,175
Currency translation differences	– 51	0	– 51
Derivatives	– 123	35	– 88
Total	**– 3,212**	**898**	**– 2,314**
2018			
Actuarial gains / losses from pension provisions and similar obligations	279	– 79	200
Currency translation differences	– 645	0	– 645
Derivatives	0	0	0
Total	**– 366**	**– 79**	**– 445**

e) Unrecognised deferred tax assets

There are no unused tax losses carried as at 31 December 2019 (previous year € 3,637 thousand).

In fiscal year 2019 deferred tax assets on unused tax losses of € 1,245 thousand (previous year € 0 thousand) were recognised at the Canadian subsidiary, SHW Pumps & Engine Components Inc., for the first time.

The deferred tax assets recognised on the unused tax losses at the Chinese subsidiary, SHW Automotive Pumps (Kunshan) Co., Ltd. (€ 0 thousand as at the reporting date, € 66 thousand in the previous year) could be fully used in fiscal year 2019.

Of the total deferred tax assets recognised on unused tax losses an amount of € 114 thousand (previous year € 178 thousand) is attributable to the Brazilian subsidiary, SHW do Brasil Ltda.

Deferred tax assets of € 299 thousand (previous year € 195 thousand) on unused tax losses are carried at LHT.

Deferred tax assets of € 470 thousand (previous year € 165 thousand) on unused tax losses are carried by the Romanian subsidiary, SHW Pumps & Engine Components SRL in fiscal year 2019.

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	2019	2018
Cost of raw materials and supplies	236,257	243,177
Cost of purchased services	13,510	12,838
Total cost of materials	**249,767**	**256,015**

PERSONNEL EXPENSES

K EUR	2019	2018
Wages and salaries	92,694	85,790
Social security contributions and pension expenses	18,031	16,426
Total personnel expenses	**110,725**	**102,216**

Pension expenses comprise the addition to pension provisions (excluding the interest component) of € 545 thousand (previous year € 805 thousand). Statutory pension insurance expenses totalled € 7,368 thousand (previous year € 6,943 thousand).

Depreciation and amortisation

Depreciation and amortisation of intangible assets and property, plant and equipment totalled € 26,925 thousand (previous year € 24,028 thousand), of which € 1,427 thousand is due to the application of IFRS 16 in fiscal year 2019. 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	2019	2018
Auditing services	208	221
of which for previous years	0	38
Other assurance services	13	29
Tax advisory services	0	9
Other services	4	4

Other advisory services consist mainly of the audit pursuant to Section 64 (5) sentence 4 Renewable Energies Act (Erneuerbare-Energien-Gesetz – EEG).

The tax advisory services were not provided by the independent auditor. Other expenses occurring in fiscal year 2019 amounted to € 11 thousand (previous year € 24 thousand).

24. Employees

Annual average number of employees:

EMPLOYEES

	2019	2018
Pumps and Engine Components business segment		
direct employees	518	523
indirect employees	580	556
Brake Discs business segment		
direct employees	287	291
indirect employees	162	157
Corporate		
indirect employees	47	45
	1,594	**1,572**

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.

IV. Notes to the consolidated balance sheet

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

K EUR	Acquisition and production costs						
	As at 1.1.2019	Additions from first-time consolidation	Additions	Reclassi-fications	Disposals	Exchange rate differences	As at 31.12.2019
Intangible assets							
Goodwill	7,441	0	0	0	0	0	7,441
Customer base	963	0	0	0	0	0	963
Internally generated assets	16,483	0	4,531	0	– 329	0	20,685
Other intangible assets	11,135	0	1,596	– 38	0	2	12,695
	36,022	**0**	**6,127**	**– 38**	**– 329**	**2**	**41,784**
Property, plant and equipment							
Land, land rights and buildings	58,130	0	12,722	513	– 584	– 120	70,661
Technical equipment and machinery	169,981	0	13,154	15,291	– 1,043	158	197,541
Other equipment, operating and office equipment	34,455	0	8,912	820	– 960	– 5	43,222
Advance payments and assets under construction	18,793	0	11,636	– 16,586	– 282	123	13,684
	281,359	**0**	**46,424**	**38**	**– 2,869**	**156**	**325,108**
Total	**317,381**	**0**	**52,551**	**0**	**– 3,198**	**158**	**366,892**

K EUR	Acquisition and production costs						
	As at 1.1.2018	Additions from first-time consolidation	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**

	Depreciation and amortisation							Net carrying amounts	
	As at 1.1.2019	Additions	Reclassi-fications	Disposals	Write-ups	Exchange rate differences	As at 31.12.2019	31.12.2019	1.1.2019
	0	0	0	0	0	0	0	7,441	7,441
	137	96	0	0	0	0	233	730	826
	7,990	1,014	0	0	0	0	9,004	11,681	8,493
	8,248	942	0	0	0	2	9,192	3,503	2,887
	16,375	**2,052**	**0**	**0**	**0**	**2**	**18,429**	**23,355**	**19,647**
	15,437	3,568	0	– 245	0	– 20	18,740	51,921	42,693
	110,739	16,029	0	– 982	0	– 28	125,758	71,783	59,242
	20,441	5,276	0	– 872	0	2	24,847	18,375	14,014
	0	0	0	0	0	0	0	13,684	18,793
	146,617	**24,873**	**0**	**– 2,099**	**0**	**– 46**	**169,345**	**155,763**	**134,742**
	162,992	**26,925**	**0**	**– 2,099**	**0**	**– 44**	**187,774**	**179,118**	**154,389**

	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**

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.

Intangible right-of-use assets from leases are not recognised in keeping with IFRS 16 (practical expedient).

Additions to internally generated assets mainly resulted from capitalised development costs of € 4,531 thousand (previous year € 4,752 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 € 17,865 thousand (previous year € 14,520 thousand).

The residual book value of property, plant and equipment originally leased under finance leases (IAS 17) as at 31 December 2019 is € 4,775 thousand (previous year € 5,614 thousand). The acquisition costs for assets originally leased under finance leases amount to € 6,817 thousand (previous year € 6,817 thousand). Accumulated depreciation amounted to € 1,203 thousand at the start of the fiscal year and to € 1,921 thousand at the end of the fiscal year. Accordingly, in fiscal year 2019 depreciation totalled € 733 thousand (previous year € 785 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 two (previous year two) cash-generating units (CGUs) for impairment testing:

- Pumps and Engine Components CGU
- Brake discs CGU

The sub-segments of pumps, engine components and electronic components are allocated to the Pumps and Engine Components CGU.

The recoverable amount of the two (previous year two) 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 2020 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 9.4 per cent discount rate was used (previous year 10.0 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	31.12.2019	31.12.2018
Pumps and Engine Components	4,619	4,619
Brake Discs	2,822	2,822
Total	**7,441**	**7,441**

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 2.6 and 8.0 per cent.

Discount rates

The discount rate was derived from a base interest rate after tax of 0.1 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 0.5 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	**31.12.2019**	31.12.2018
Cash surrender value of pension insurance policies	249	273
Loan to a non-consolidated subsidiary (SensDev GmbH, Burgstädt)	60	60
Total	**309**	**333**

Of the other non-current assets, a total of € 3,604 thousand (previous year € 3,503 thousand) are prepaid expenses, of which € 3,391 thousand (previous year € 3,146 thousand) are incremental costs of obtaining contracts.

27. Inventories

K EUR	**31.12.2019**	31.12.2018
Raw materials and supplies	22,841	21,425
Unfinished products	15,093	19,652
Finished products	18,231	17,739
Total	**56,165**	**58,816**

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 2019 amounted to € 6,925 thousand (previous year € 6,824 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 € 253,739 thousand (previous year € 256,015 thousand).

The net realisable value totalled € 56,165 thousand (previous year € 58,816 thousand).

28. Trade receivables

K EUR	31.12.2019	31.12.2018
Receivables from customers	45,340	51,598
Impairment losses	– 184	– 234
Allowance for doubtful debt	– 731	– 421
Total	**44,425**	**50,943**

Trade receivables of € 383 thousand are carried against SensDev GmbH, Burgstädt, a non-consolidated subsidiary.

In order to improve its liquidity, SHW entered into a (non-recourse) factoring agreement with Oberbank AG on 13 December 2019. As at 31 December 2019 the net balance of sold receivables came to € 5,580 thousand.

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	2019	2018
Allowance for impairment losses as at 1 January	**655**	**633**
Additions (expenses from impairment losses)	116	126
Utilisation	0	– 3
Reversals (other operating income)	– 166	– 1
Change in the allowance for doubtful debts	310	– 100
Allowance for impairment losses as at 31 December	**915**	**655**

29. Current other financial assets and other assets

Current other financial assets chiefly consist of a right to a refund payment of € 1,100 thousand (previous year € 0 thousand).

Current other assets mainly consist of VAT assets of € 4,125 thousand (previous year € 2,672 thousand), advance payments on inventories of € 1,557 thousand (previous year € 1,558 thousand) and outstanding reimbursements of electricity and energy tax of € 777 thousand (previous year € 867 thousand) and current deferred incremental costs of obtaining contracts of € 787 thousand (previous year € 710 thousand).

30. Cash and cash equivalents

K EUR	31.12.2019	31.12.2018
Cash in banks, cheques, cash in hand	15,321	5,003
Total	**15,321**	**5,003**

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 2019, other reserves decreased by € 2,175 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	derivatives	Foreign currency translation	**Total other reserves**
As at 1 January 2018	– 5,056	0	– 1,136	– 6,192
Other comprehensive income	200	0	– 645	– 445
As at 31 December 2018	**– 4,856**	**0**	**– 1,781**	**– 6,637**
Other comprehensive income	– 2,175	– 88	– 51	– 2,314
As at 31 December 2019	**– 7,031**	**– 88**	**– 1,832**	**– 8,951**

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 2019. This would be equivalent to a total dividend distribution of € 257,448.36 for 6,436,209 no-par value shares.

32. Employee benefit obligations

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

K EUR	31.12.2019	31.12.2018
Pension provisions and similar obligations	29,779	27,057
Provisions for semi-retirement obligations	2,761	2,582
Provisions for service anniversary bonuses	2,795	2,560
Total	**35,335**	**32,199**

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 4 October 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 € 29,779 thousand (previous year € 27,057 thousand), including death benefits of € 180 thousand (previous year € 174 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 € 7.4 million were paid to the statutory pension scheme in Germany (previous year € 6.9 million). In addition, contributions of approximately € 0.3 million (previous year € 0.1 million) were paid into special-purpose funds.

The following assumptions have been made:

in %	31.12.2019	31.12.2018
Interest rate	1.1	1.9
Pension trend	1.8	1.8

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 losses (previous year actuarial gains) resulting from a change in actuarial assumptions and demographic factors or from experience-based adjustments amounted to € 3,038 thousand in the fiscal year (previous year € 279 thousand).

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

K EUR	31.12.2019	31.12.2018
Defined benefit obligation (funded)	305	287
Defined benefit obligation (unfunded)	29,625	26,917
Total defined benefit obligation (DBO)	**29,930**	**27,204**
Fair value of plan assets	– 151	– 147
Pension provisions	**29,779**	**27,057**

Die Entwicklung der Pensionsrückstellung ist wie folgt:

K EUR	
Provision as at 1 January 2018	**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**
Current service cost	545
Interest cost	501
Pension payments	– 1,358
Actuarial gains and losses from the change in actuarial assumptions	3,721
Actuarial gains and losses from the change in demographic factors	0
Actuarial gains and losses from experience adjustments	– 683
Compensation	– 4
Reversal	0
Provision as at 31 December 2019	**29,779**

The defined benefit obligation (DBO) developed as follows:

K EUR	2019	2018
Defined benefit obligation (DBO) 1 January	**27,204**	**28,048**
Current service cost	545	805
Interest cost	505	467
Pension payments	– 1,358	– 1,408
Actuarial gains and losses from the change in actuarial assumptions	3,721	– 851
Actuarial gains and losses from the change in demographic factors	0	287
Actuarial gains and losses from experience adjustments	– 683	285
Compensation	– 4	– 324
Reversal	0	– 105
Defined benefit obligation (DBO) 31 December	**29,930**	**27,204**

Plan assets developed as follows:

K EUR	2019	2018
Fair value of plan assets as at 1 January	**147**	**143**
Interest income	4	4
Plan assets as at 31 December	**151**	**147**

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 2020.

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

K EUR	2019	2018
Current service cost	545	805
Net interest cost	501	463
Net pension cost	**1,046**	**1,268**

Liabilities from defined benefit plans are as follows:

K EUR	31.12.2019	31.12.2018
Active employees	11,720	9,299
Former employees with vested rights	2,024	1,716
Pensioners / other	16,035	16,042
Pension provisions	**29,779**	**27,057**

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 € 1,313 thousand in fiscal year 2020. Pension payments of this amount are also expected for the years to come. The pension plan costs in 2020 are expected to amount to € 1,128 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 2019 interest rate of 1.1 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 %)	32,764	29,930
Change in interest rate 2.4 % (+0.5 %)	27,500	29,930
Change in inflation rate 1.3 % (-0.5 %)	28,361	29,930
Change in inflation rate 2.3 % (+0.5 %)	31,658	29,930
Change in life expectancy +1 year	31,463	29,930

The weighted duration of pension provisions as at 31 December 2019 remains unchanged at 17.3 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 2018	**4,891**
Additions	647
Utilised	– 396
Provision as at 31 December 2018	**5,142**
Additions	1,245
Utilised	– 831
Provision as at 31 December 2019	**5,556**

33. Other provisions

K EUR	As at 31.12.2018	Additions from first-time consolidation	Utilised	Reversals	Reclassi-fication	Additions	**As at 31.12.2019**
Warranties	1,648	0	– 149	– 329	0	0	1,170
Other business-related obligations	3,835	0	– 698	– 2,483	0	2,145	2,799
Other provisions	225	0	– 131	– 22	0	8	80
Total	**5,708**	**0**	**– 978**	**– 2,834**	**0**	**2,153**	**4,049**
of which non-current provisions	45	0	0	0	0	0	45

K EUR	As at 31.12.2017	Additions from first-time consolidation	Utilised	Reversals	Reclassi-fication	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

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 of € 45 thousand (previous year € 45 thousand) comprise obligations to archive business documents.

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 € 2,643 thousand (previous year € 3,662 thousand).

34. Liabilities

K EUR	31.12.2019	31.12.2018
Non-current liabilities to banks	15,301	5,409
Other non-current financial liabilities	11,522	6,046
Other non-current liabilities	464	643
Non-current liabilities	**27,287**	**12,098**
Current liabilities to banks	42,632	38,674
Trade payables	50,883	54,521
Other current financial liabilities	8,694	6,136
Income tax liabilities	1,882	99
Other liabilities	10,346	8,523
Current liabilities	**114,437**	**107,953**
Total	**141,724**	**120,051**

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 2019. 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 € 42,283 thousand had been drawn from the syndicated loan (previous year € 37,695 thousand) and € 2,000 thousand (previous year € 2,391 thousand) for bank guarantees. In addition, the SHW Group took out four long-term loans in fiscal year 2019 of a total amount of € 12,440 thousand. The interest paid on the loans lies in the range of the interest paid under the syndicated loan agreement. Two of these loans were repaid in fiscal year 2019 as scheduled (€ 191 thousand). In fiscal year 2019 an amount of € 833 thousand was repaid as scheduled on the loan of € 5,000 thousand taken out in 2018. At Lust Hybrid-Technik GmbH, Hermsdorf, three existing loans were repaid in the reporting period as scheduled by an amount of € 143 thousand. The loans totalling € 2,550 thousand were taken out in the years 2010, 2013 and 2015. Reference is made to Note (35).

Trade payables

Of total trade payables, an amount of € 107 thousand (previous year € 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 leases of which € 10,097 thousand (previous year € 5,107 thousand from finance leases) are non-current and € 2,516 thousand (previous year € 695 thousand from finance leases) 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 € 622 thousand are current (previous year € 613 thousand non-current and € 409 thousand 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 2019, but the corresponding invoice was only recognised in fiscal year 2020.

Other liabilities

As in the previous year, other liabilities mainly consist of obligations towards employees. Current other liabilities towards employees consist of liabilities for overtime and work-time credits (€ 2,868 thousand, previous year € 2,524 thousand), bonuses/management incentives (€ 867 thousand, previous year € 986 thousand) severance payments (€ 1,724 thousand, previous year € 984 thousand), income tax liabilities (€ 1,883 thousand, previous year € 99 thousand) and vacation accrued (€ 800 thousand, previous year € 812 thousand).

Furthermore, liabilities from wage and church tax (€ 1,288 thousand, previous year € 1,280 thousand) and employers' liability insurance (€ 949 thousand, previous year € 850 thousand) are reported under current other liabilities.

Moreover, other liabilities also include a sum of € 490 thousand (previous year € 584 thousand) in deferred government grants for projects and capital expenditures (non-current portion € 440 thousand (previous year € 490 thousand), current portion € 50 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 and other financial obligations

There were no contingent liabilities in fiscal years 2019 or 2018.

As at 31 December 2018 other financial obligations from rental agreements and (operating) leases pursuant to IAS 17 were reported at € 6,730 thousand. As at 1 January 2019 SHW has adopted IFRS 16, which replaces IAS 17, among other standards. A reconciliation of other financial obligations from rental agreements and (operating) leases as at 31 December 2018 to the lease liabilities reported under IFRS 16 can be found in Note (4).

As at 31 December 2019 the contractual purchase obligations for intangible assets and property, plant and equipment amount to € 17,865 thousand (previous year € 14,520 thousand).

V. 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 € 3,957 thousand 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 € 4.8 million. Furthermore, there were no cash outflows from the capitalisation of property, plant and equipment within the scope of leases pursuant to IFRS 16 of € 9,117 thousand.

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 € 40,000 thousand (previous year € 30,000) and overdrafts to € 2,283 thousand (previous year € 7,695 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 leases	Sundry other financial liabilities	**Total liabilities from financing activities**
As at 1 January 2019	**5,409**	**38,674**	**5,802**	**0**	**49,885**
Changes from the acquisition of subsidiaries	0	0	0	0	0
Changes in due term (non-current to current)	9,892	-9,892	0	0	0
Cash received (+) from the assumption of financial liabilities	0	14,988	0	0	14,988
Cash paid (-) for the redemption of financial liabilities	0	-1,138	0	0	-1,138
Non-cash changes	0	0	0	0	0
New leases	0	0	9,117	0	9,117
Interest expense from leases	0	0	320	0	320
Cash paid (-) for leases	0	0	-2,626	0	-2,626
Fair value adjustments	0	0	0	0	0
As at 31 December 2019	**15,301**	**42,632**	**12,613**	**0**	**70,546**

K EUR	Non-current liabilities to banks	Current liabilities to banks	Liabilities from leases	Sundry other financial liabilities	**Total liabilities from financing activities**
As at 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 leases	0	0	4,818	0	4,818
Interest expense from leases	0	0	249	0	249
Cash paid (-) for leases	0	0	-897	0	-897
Fair value adjustments	0	0	0	0	0
As at 31 December 2018	**5,409**	**38,674**	**5,802**	**0**	**49,885**

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.

VI. 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.

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 the SHW Group carries a derivative financial instrument in the form of an interest swap that is measured at fair value and used in a designated cash flow hedge.

37. Classification and fair values

The Company has the following types of financial instruments:

K EUR	Measurement category acc. to IFRS 9	Carrying amount as at 31.12.2019	Fair value as at 31.12.2019	Valuation: Amortised cost	Valuation: Fair value through OCI	Valuation: Fair value through profit or loss
ASSETS						
Other non-current financial assets	AC	309	309	309	–	–
Trade receivables	AC	44,425	*)	44,425	–	–
Other financial assets	AC	1,397	*)	1,397	–	–
Cash and cash equivalents	AC	15,321	*)	15,321	–	–

*) 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 2019.

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

AC: Amortized cost

K EUR	Measurement category acc. to IFRS 9	Carrying amount as at 31.12.2019	Fair value as at 31.12.2019	Valuation		
				Amortised cost	Fair value through OCI	Fair value through profit or loss
EQUITY AND LIABILITIES						
Liabilities to banks	AC	57,933	57,933	57,933	–	–
Trade payables	AC	50,883	50,883	50,883	–	–
Other non-current financial liabilities						
Other interest-bearing liabilities	AC	0	0	0	–	–
Interest swaps used for hedging purposes	FVOCI	123	123	–	123	–
Other non-interest-bearing liabilities	AC	1,302	1,302	1,302	–	–
Liabilities from leases	AC	10,097	10,097	10,097	–	–
Other current financial liabilities						
Other interest-bearing liabilities	AC	622	622	622	–	–
Other non-interest-bearing liabilities	AC	5,556	5,556	5,556	–	–
Liabilities from leases	AC	2,516	2,516	2,516	–	–

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	–	–
Interest swaps used for hedging purposes	FVOCI	0	0	–	–	–
Other non-interest-bearing liabilities	AC	326	326	326	–	–
Liabilities from 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 leases	AC	695	695	695	–	–

AC: Amortized cost

FVOCI: Fair Value OCI

The following overview of maturities illustrates how the cash flows from liabilities (not discounted) affect the Group's liquidity situation as at 31 December 2019:

K EUR	**Total**	2020	2021	2022	2023	2024 et seq.
Non-current liabilities						
Liabilities to banks	15,301	0	2,642	2,610	2,599	7,450
Other financial liabilities	11,522	0	2,511	2,021	1,876	5,114
Current liabilities						
Trade payables	50,883	50,751	132	0	0	0
Liabilities to banks	42,632	42,632	0	0	0	0
Other financial liabilities	8,694	8,694	0	0	0	0
Total	**129,032**	**102,077**	**5,285**	**4,631**	**4,475**	**12,564**

The situation as at 31 December 2018 was as follows:

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**

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	**31.12.2019**	31.12.2018
Liabilities to banks	57,933	44,083
Trade payables	50,883	54,521
Cash and cash equivalents	– 15,321	– 5,003
Net financial liabilities	**93,495**	**93,601**

Credit risk

On the reporting date, trade receivables display the following age structure and loss allowances for expected credit losses using the simplified approach of IFRS 9:

					of which not impaired and overdue in the following time bands					
K EUR	**Carrying amount**	of which neither impaired nor overdue	of which impaired and not overdue	of which impaired and overdue	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 31.12.2019	**45,340**	**36,955**	**0**	**915**	**4,711**	**1,130**	**760**	**120**	**103**	**646**
As at 31.12.2018	51,177	43,392	0	234	5,483	1,303	114	318	177	156

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. The calculation of expected credit losses 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 € 42,568 thousand (previous year € 35,665 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 € 42.3 million (of which € 2.0 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.

The interest rate profile of interest-bearing financial instruments is as follows:

	nominal value	
K EUR	**2019**	2018
Fixed-interest instruments		
Financial liabilities	– 21,368	– 13,209
Effects from interest swaps	0	0
	– 21,368	**– 13,209**
Variabla-interest instruments		
Financial liabilities	– 49,797	– 37,698
Effects from interest swaps	– 123	0
	– 49,920	**– 37,698**

Foreign exchange risks exist with regards to the foreign subsidiaries and were not material for the Group in the past fiscal year.

Collateral issued

Land charges totalling € 6,370 thousand were entered into in fiscal year 2019 as collateral for two loans of SHW Automotive GmbH. In addition, two further loans totalling € 6,070 thousand were secured by collateral assignments of machines in fiscal year 2019. The loan at SHW Automotive GmbH originating from fiscal year 2018 (outstanding principal of € 3,958 thousand as at 31 December 2019) is secured by a land charge. The loans carried by Lust Hybrid-Technik GmbH (outstanding principal as at 31 December 2019: € 1,450 thousand) are secured by land charges, collateral assignment of machines and a global assignment of the trade receivables carried by the entity. Reference is made to Note (34).

VII. Leases

39. Leases

IFRS 16 "Leases" was adopted for the fiscal year beginning on 1 January 2019. The modified retrospective method was applied during first-time application without modifying the figures of earlier periods. Reference is made to Note (4) for information on the impact of adopting the standard on the date of transition.

The practical expedients allowed by IFRS 16 for the transition were applied when assessing leases. Consequently, IFRS 16 is only applied to contracts that qualified as leases beforehand. Contracts that did not qualify as leases under the definitions of IAS 17 and IFRIC 4 were not reassessed. IFRS 16 was only applied to contracts that were entered into or amended on or after 1 January 2019.

The change in the definition of a lease mainly relates to the concept of control. According to IFRS 16 whether a contract contains a lease or not is decided on the basis of whether the lessee obtains control over an identified asset from the lessor for a fixed period and whether the lessor receives consideration from the lessee in return.

Generally, the SHW Group recognises a right-of-use asset and a corresponding lease liability for operating leases that were previously not recognised in the balance sheet. The historical cost of the right-of-use asset is measured at the present value of future lease payments plus any lease payments made on or before the commencement date, any initial direct costs and the estimated costs of dismantling, removing or restoring the leased asset. Any lease incentives received are deducted from cost. When measuring the right-of-use asset upon first-time application, initial direct costs are ignored. SHW AG applies the practical expedient of not making any distinction between non-leasing and leasing components in the contract.

The following elements are considered in the measurement of lease liabilities:

- fixed payments, including in-substance fixed payments
- variable lease payments that depend on an index or (interest) rate, which are initially measured at the index or (interest) rate applicable on the commencement date
- amounts expected to be paid under residual value guarantees
- exercise price of a purchase option, if it is reasonably certain that the SHW Group will exercise this option
- payments of penalties for prematurely terminating the lease, unless the Group is reasonably certain it will not terminate the lease prematurely

Upon initial recognition, lease liabilities are measured at the present value of all outstanding lease payments as at the date of commencement, discounted using the interest rate implicit in the lease or, if this cannot be readily determined, using the incremental borrowing rate. The SHW Group regularly applies the incremental borrowing rate which it determines using comparable third-party loans adjusted for country and currency specific factors. The associated right-of-use asset is recorded at the same amount as the lease liability.

The SHW Group also applies the practical expedients provided by IFRS 16 to not recognise right-of-use assets and lease liabilities for short-term leases (with a term of twelve months or less) and low-value assets. These lease payments are expensed on a straight-line basis over the term of the lease or some other systematic basis. Leases that terminate on or before 31 December 2019 are accounted for as short-term leases, regardless of their original term.

Subsequent measurement involves depreciating the right-of-use asset on a straight-line basis over the expected residual term of the lease. If title to the underlying asset passes to the SHW Group at the end of the lease or if the cost of the right-of-use asset considers a purchase option for the SHW Group, the right-of-use asset is depreciated over the economic life of the underlying asset. In addition, right-of-use assets are subject to regular impairment testing, if necessary, and adjusted to reflect certain remeasurements of the lease liability. No impairment testing was conducted on the date of transition. The lease liability is measured at amortised cost using the effective interest rate method. It is remeasured if future lease payments that depend on a change in an index or (interest) rate change, or if the SHW Group changes its assessment of the prospective payments under a residual value guarantee, or if the SHW Group changes its assessment of whether any options to buy the asset or extend or terminate the lease will be exercised or not, or if there is a change to an in-substance fixed lease payment.

Depreciation of right-of-use assets is allocated to the expenses of the respective function, in accordance with IFRS 16. Lease liabilities are written up to record the time value of money by charging interest expenses. To date, all lease expenses of operating leases as defined by IAS 17 have been posted to the costs of the respective function.

With regard to leases which qualified as finance leases to date, the carrying amounts of the leased asset and the lease liability pursuant to IAS 17 were rolled over to the carrying amount of the right-of-use asset and lease liability as at 1 January 2019, unless the SHW Group applied the practical expedient for low-value assets which exempts it from the need to recognize the lease in the balance sheet.

To date a lease was classified as a finance lease if essentially all opportunities and risks relating to ownership were transferred to the lessee by the lease agreement. All other leases were classified as operating leases.

If the fundamental opportunities and risks related to the ownership of the asset lay with the SHW Group, the lease was treated as a finance lease. At the inception of the lease, the leased asset was recognised at the lower of fair value or the present value of the minimum lease payments. The corresponding liability to the lessor was recorded in the consolidated balance sheet as a financial lease obligation. The lease payments were divided into an interest component and a repayment component, with the interest expenses being directly reported through profit or loss unless it could be unambiguously allocated to a qualifying asset. The obligations from finance leases reported in the previous year related to 16 items of property, plant and equipment and the terms of the leases ranged from 3 to 10 years. In individual cases there were options to prolong the lease or purchase the asset.

All other leases were classified as operating leases by which the payments were expensed on a straight-line basis over the term of the lease. These mainly resulted from rent and operating leasing agreements for motor vehicles, telephone equipment, computer and office hardware, machinery and warehouses.

The SHW Group leases a number of different assets. These mainly consist of halls, machinery, motor vehicles and office hardware.

31 DECEMBER 2019

K EUR	Minimum lease payments	Interest included in lease payments	**Liabilities from leases**
Within one year	2,809	293	2,516
Between one and five years	7,326	757	6,569
More than five years	3,685	157	3,528
Total	**13,820**	**1,207**	**12,613**

31 DECEMBER 2018

K EUR	Minimum lease payments	Interest included in lease payments	**Liabilities from 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**

Information on leases where the SHW Group acts as lessee:

RIGHT OF USE ASSETS

K EUR	As at 1.1.2019	Amortisation of right-of-use assets	Additions to right-of-use assets	Disposals of right-of-use assets	**As at 31.12.2019**
Land, land rights and buildings	5,464	– 832	1,079	0	5,711
Technical equipment and machinery	0	– 38	554	0	516
Other equipment, operating and office equipment	1,521	– 557	499	– 5	1,458
Total	**6,985**	**– 1,427**	**2,132**	**– 5**	**7,685**

AMOUNTS RECOGNISED IN THE INCOME STATEMENT

K EUR	**2019**
Amortisation of right-of-use assets	– 1,427
Interest expense on lease liabilities	– 320
Expenses from short-term leases	– 1,240
Expenses from leases for low-value assets	0
Expenses from variable lease payments not included in the measurement of lease liabilities	– 192

The total cash outflow from leases amounts to € 2,626 thousand.

Leases where the SHW Group acts as the lessor did not play any relevant role in the reporting period.

VII. Related party disclosures and company boards

41. Business relationships with related parties

Pankl SHW Industries AG, Kapfenberg, Austria, – a subsidiary of Pierer Industrie AG, Wels, Austria, – informed the Company in a securities notification pursuant to Section 20 (1) and (4) AktG, dated 26 July 2019, that it directly held more than one quarter of the shares and simultaneously had a majority holding in SHW AG, thereby providing it with the majority vote 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. The ultimate parent company preparing consolidated financial statements is Pierer Konzerngesellschaft mbH, Wels, Austria. These consolidated financial statements are filed with the commercial register of the State Court of Wels, Austria, under the number FN 134766 k. SHW AG prepares consolidated financial statements for the smallest group of companies.

Transfers of goods and services with other entities in the Pierer group of companies amounted to € 869 thousand in fiscal year 2019 (previous year € 162 thousand). As at the reporting date, liabilities to affiliated companies amounted to € 107 thousand (previous year € 71 thousand).

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 2019, the Management Board of SHW AG comprised the following members:

Wolfgang Plasser, Kaltenleutgeben, Austria

- Chairman of the Management Board and managing director of SHW Automotive GmbH
- 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

Thomas Karazmann, Vienna, Austria

- Chief Financial Officer and managing director of SHW Automotive GmbH
- Chief Financial Officer of Pankl Racing Systems AG, Kapfenberg, Austria

Andreas Rydzewski, Zweiflingen (until 31 March 2019)

- Member of the Management Board and managing director of SHW Automotive GmbH

The Supervisory Board members in fiscal year 2019 were:

Klaus Rinnerberger, Gießhübl, Austria, 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
- Member of the Supervisory Board of Pierer Mobility AG, Wels, Austria
- Member of the Supervisory Board of Pankl Racing Systems AG, Kapfenberg, Austria (26 April 2019)
- Head of the Advisory Board of Schachinger Logistik Holding GmbH, Hörsching, Austria

Alfred Hörtenhuber, Wels, Austria, Deputy Chairman

- Member of the Management Board of Pierer Industrie AG, Wels, Austria (until 31 March 2019)

Further mandates:

- Chairman of the Supervisory Board of SHW Automotive GmbH
- Member of the Supervisory Board of Pankl Racing Systems AG, Kapfenberg, Austria
- Member of the Supervisory Board of Pierer Mobility AG, Wels, Austria

Stefan Pierer, Wels, Austria

- Sole shareholder and CEO of Pierer Industrie AG, Wels, Austria
- Majority shareholder (60.87 per cent) and Chairman of the Board of Pierer Mobility 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
- Chairman of the Supervisory Board of Westpark Wels AG (formerly Wirtschaftspark Wels Errichtungs- und Betriebs-Aktiengesellschaft), Wels, Austria
- Member of the Supervisory Board of W Verwaltungs AG, 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

- 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 Pierer Mobility 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 (until 15 May 2019)
- Managing shareholder of QINO JB Ltd., Limassol, Cyprus
- Managing Director of QINO PIPE One Ltd., Limassol, Cyprus

Friedrich Roithner, Linz, Austria

- Chief Financial Officer of Pierer Industrie AG, Wels, Austria
- Chief Financial Officer of Pierer Mobility 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
- Chairman of the Supervisory Board of KTM Components GmbH, Munderfing, Austria
- Member of the Supervisory Board of Westpark Wels AG (formerly Wirtschaftspark Wels Errichtungs- und Betriebs-Aktiengesellschaft), Wels, Austria
- Chairman of the Supervisory Board of abatec group AG, Regau, Austria
- Chairman of the Supervisory Board of W Verwaltungs AG, Munderfing, Austria

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

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

- Member of the Full Works Council of SHW Automotive GmbH and member of the Works Council of SHW Automotive GmbH, Ludwigstal plant (Tuttlingen)

43. Total remuneration of the members of the Management Board and Supervisory Board

K EUR	**2019**	2018
Benefits due in the short term (remuneration)	628	960
Benefits due in the long term (remuneration)	23	90
Post-employment benefits	4	69
Other benefits due and benefits upon termination of the employment relationship	0	1,657

Provisions of € 0 thousand (previous year € 394 thousand) were created for termination benefits. A total of € 249 thousand has been recognised as provisions for pension obligations to former members of the Management Board (previous year € 84 thousand).

The total remuneration of the Supervisory Board amounted to € 221 thousand during the fiscal year (excluding the reimbursement of expenses, previous year € 203 thousand). No payments were made to former members of the Supervisory Board.

IX. Events after the reporting period (significant events after the balance sheet date)

Since January 2020 the coronavirus has continued to spread worldwide (coronavirus pandemic). According to an estimate released by the ifo Institute in March 2020, the German economy is expected to grow by 0.06 percentage points less than it would have, had the pandemic not occurred. Nevertheless, there are some signs that the German economy could be more heavily affected. However, at the SHW Group we expect a decline in incoming orders due to production stops by our customers. We also anticipate that sales of all products in our entire sales territory – depending on the duration and intensity of the epidemic – will decline as overall production falls in comparison to fiscal year 2019. Due to the rapidly changing developments and associated high level of uncertainty, we are unable to make any reliable assessment of the financial impact.

On 17 March 2020, the two spin-offs (spin-off of the iron foundry operation of Schwäbische Hüttenwerke Automotive GmbH to SHW Gießerei GmbH & Co. KG and spin-off of the brakes operation from Schwäbische Hüttenwerke Automotive GmbH to SHW Brake Systems GmbH) were notarised.

Apart from the events described above, there have not been any particularly significant events since the reporting date which would require disclosure here.

X. Schedule of shareholdings

as at 31 December 2019 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/Timişoara, Romania	100
Lust Hybrid-Technik GmbH, Hermsdorf, Germany	100
SHW Bremsen Beteiligungs GmbH, Tuttlingen*)	100
SHW Gießerei GmbH & Co. KG, Tuttlingen *)	100
SensDev GmbH, Burgstädt, Germany *)	90

*) Not consolidated on grounds of immateriality (total assets of SensDev as at 31 December 2018: € 503 thousand, net loss for 2018: € 60 thousand; total assets of SHW Bremsen Beteiligungs GmbH as at 31 December 2019: € 25 thousand; total assets of SHW Gießerei GmbH & Co. KG as at 31 December 2019: € 1 thousand)

Aalen, 24 March 2020

Wolfgang Plasser
Chairman of the Management Board

Thomas Karazmann
CFO

INDEPENDENT AUDITORS' REPORT

To SHW AG, Aalen

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 at 31 December 2019, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the financial year from 1 January to 31 December 2019 as well as the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of SHW AG for the financial year from 1 January to 31 December 2019.

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 2019, and of its financial performance for the financial year from 1 January to 31 December 2019, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

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 group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB 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 Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. 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 group management report.

Other Information

The executive directors are responsible for the other information. The other information comprises the information in the annual report with the exception of the audited consolidated financial statements and the audited group management report as well as our audit opinion.

Our audit opinions on the consolidated financial statements and on the group management report 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 group management report or our knowledge obtained in the audit, or

- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

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, financial position 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 group management report 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 group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

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 group management report 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 group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB 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 group management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, 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 group management report 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 group management report 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 group management report. 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 group management report 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 group management report. 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.

Neu-Ulm, 24 March 2020

KPMG AG

Wirtschaftsprüfungsgesellschaft

signed, Dr. Katja Faul	signed, Florian Schaich
Wirtschaftsprüfer [German Public Auditor]	Wirtschaftsprüfer [German Public Auditor]

FIVE-YEAR SUMMARY

K EUR	**2019**	2018	2017	2016	2015
Sales	432,421	420,936	400,584	405,770	463,478
EBITDA	41,542	31,342	41,271	43,553	42,675
as % of sales	9.6 %	7.4 %	10.3 %	10.7 %	9.2 %
EBIT	14,617	7,314	17,501	18,938	20,132
as % of sales	3.4 %	1.7 %	4.4 %	4.7 %	4.3 %
Net profit	9,891	3,131	10,159	12,805	14,351
Earnings per share [1]	1.54	0.49	1.58	1.99	2.26
Equity	131,692	124,372	124,904	121,349	116,240
Equity ratio	41.0 %	43.4 %	48.8 %	53.2 %	50.4 %
Operating free cash flow	– 197	– 32,970	– 757	– 4,030	18,097
as % of sales	0.0 %	– 7.8 %	– 0.2 %	– 1.0 %	3.9 %
Total free cash flow	– 597	– 16,751	– 9,875	– 4,030	9,056
as % of sales	– 0.1 %	– 4.0 %	– 2.5 %	– 1.0 %	2.0 %
Net cash / Net debt	– 42,612	– 39,080	– 18,170	1,633	12,328
Investments [2]	52,551	48,671	34,550	24,684	23,923
as % of sales	12.2 %	11.6 %	8.6 %	6.1 %	5.2 %
Net working capital	48,702	53,789	43,890	48,278	32,406
as % of sales	11.3 %	12.8 %	11.0 %	11.9 %	7.0 %
ROCE	6.6 %	3.6 %	9.1 %	12.9 %	17.2 %
Number of employees (average) [3]	1,594	1,572	1,347	1,287	1,287

1) Average number of shares: 2019, 2018, 2017, 2016: 6.436.209 shares / 2015: 6.359.263 shares.

2) Additions to property, plant and equipment and intangible assets.

3) Excluding trainees and temporary workers.

Financial Calendar

March 31, 2020	Annual Report 2019
June 23, 2020	Annual General Meeting 2020
August 28, 2020	Half-year issuer Report 2020

Imprint

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

Annual Report 2019