



HOME BASE IN SWABIA -

# AT HOME IN THE WORLD

## KEY FIGURES 2017

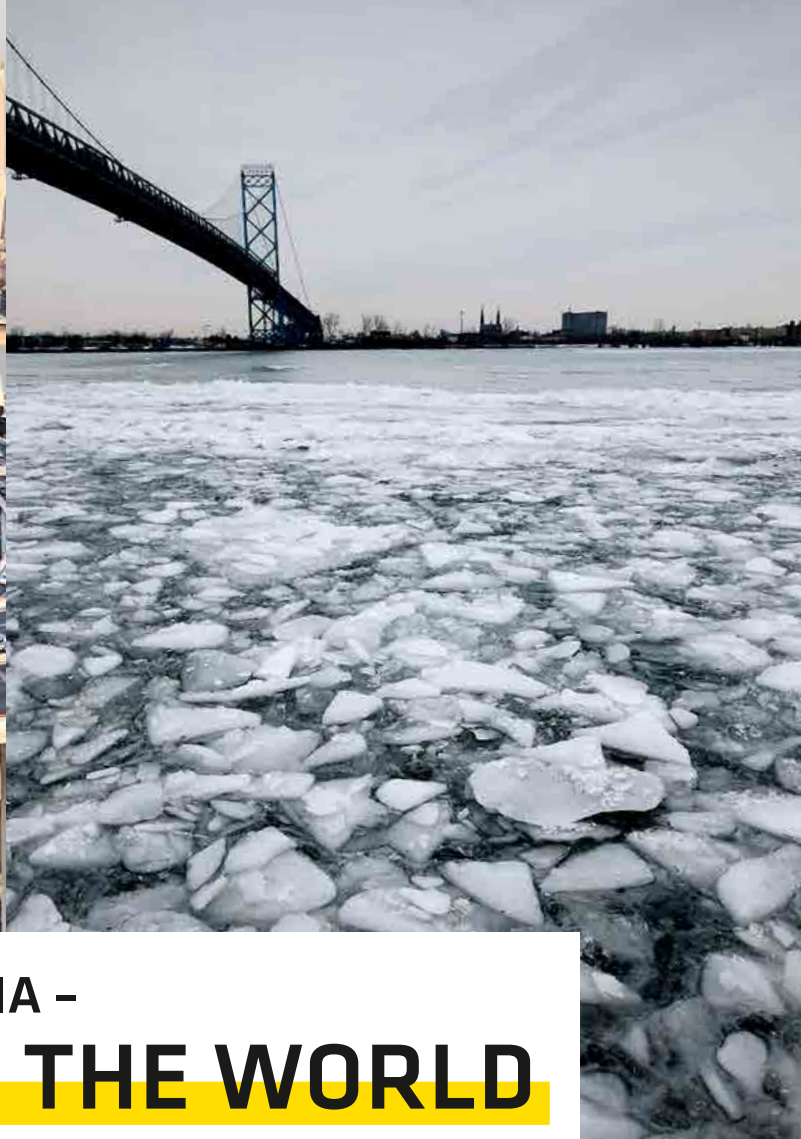
K EUR	2017	2016	Change %
Sales	400,584	405,770	-1.3%
EBITDA	41,271	43,553	-5.2%
as % of sales	10.3	10.7	-
EBIT	17,501	18,938	-7.6%
as % of sales	4.4	4.7	-
Net profit	10,159	12,805	-20.7%
Earnings per share <sup>1)</sup>	1.58	1.99	-20.7%
EBITDA adjusted	41,271	43,553	-5.2%
as % of sales	10.3	10.7	-
EBIT adjusted	17,501	18,938	-7.6%
as % of sales	4.4	4.7	-
Equity	124,904	121,349	2.9%
Equity ratio	48.8	53.2	-
Operating free cash flow	-757	-4,030	-81.2%
Total free cash flow	-9,875	-4,030	145.0%
Net cash / Net debt	-18,170	1,633	-
Investments <sup>2)</sup>	34,550	24,684	40.0%
as % of sales	8.6	6.1	-
Working capital	44,996	49,543	-9.2%
as % of sales	11.2	12.2	-
ROCE	9.4	12.9	-
Number of employees (average) <sup>3)</sup>	1,347	1,287	4.7%

1) Average number of shares: 2016: 6,436,209 shares  
 2) Additions to property, plant and equipment and intangible assets.  
 3) Excluding trainees and temporary workers.

## TARGET ACHIEVEMENT

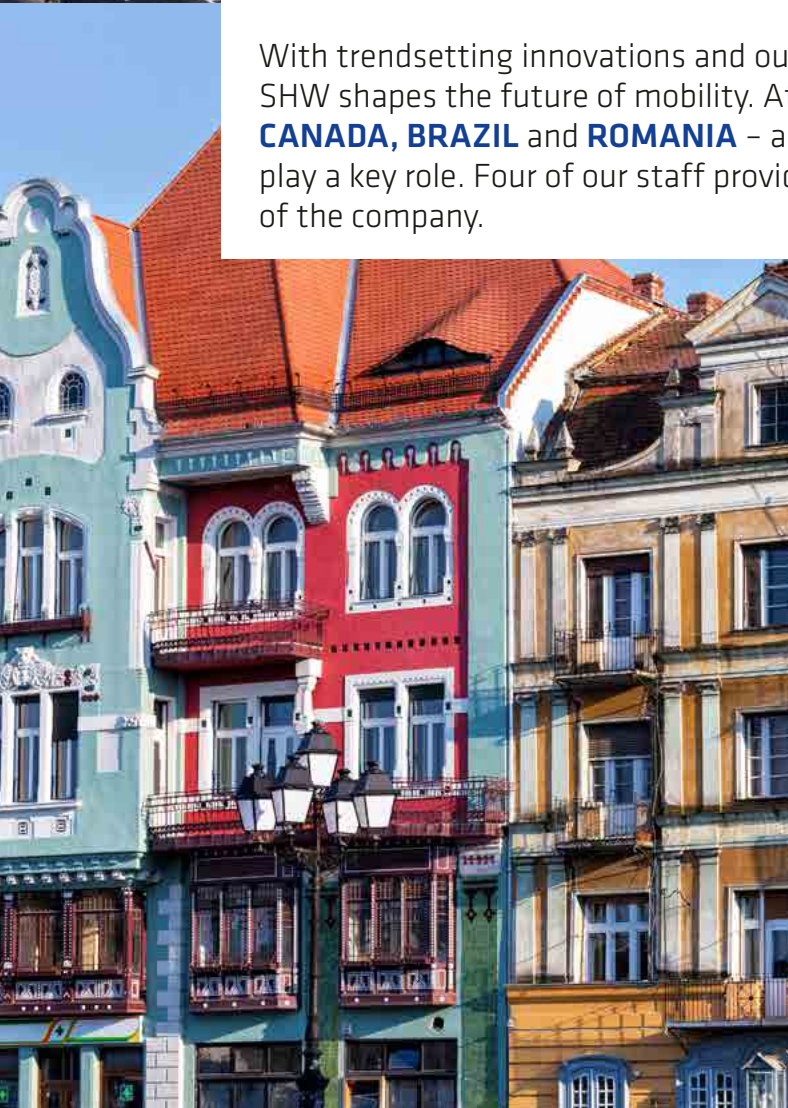
EUR million	Target March 2017	Actual 2017
Sales – Group	400–420	400.6
Sales – Pumps and Engine Components	310–330	305.9
Sales – Brake Discs	etwa 90	94.7
EBITDA - margin	10–11 per cent	10.3 per cent
Net Working Capital Ratio	11–12 per cent	14.6 per cent





## HOME BASE IN SWABIA – **AT HOME IN THE WORLD**

With trendsetting innovations and outstanding automobile components SHW shapes the future of mobility. At this, our new locations in **CHINA**, **CANADA**, **BRAZIL** and **ROMANIA** – and our more than 1.400 employees play a key role. Four of our staff provide insight into the international reach of the company.





# COMPANY PROFILE

The **AUTOMOBILE FUTURE** future is characterised by a globally increasing need for mobility and a regulatory environment that demands a significant reduction in vehicle emissions. With its extensive portfolio of CO<sub>2</sub> optimising products, the SHW Group can benefit from this trend.

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

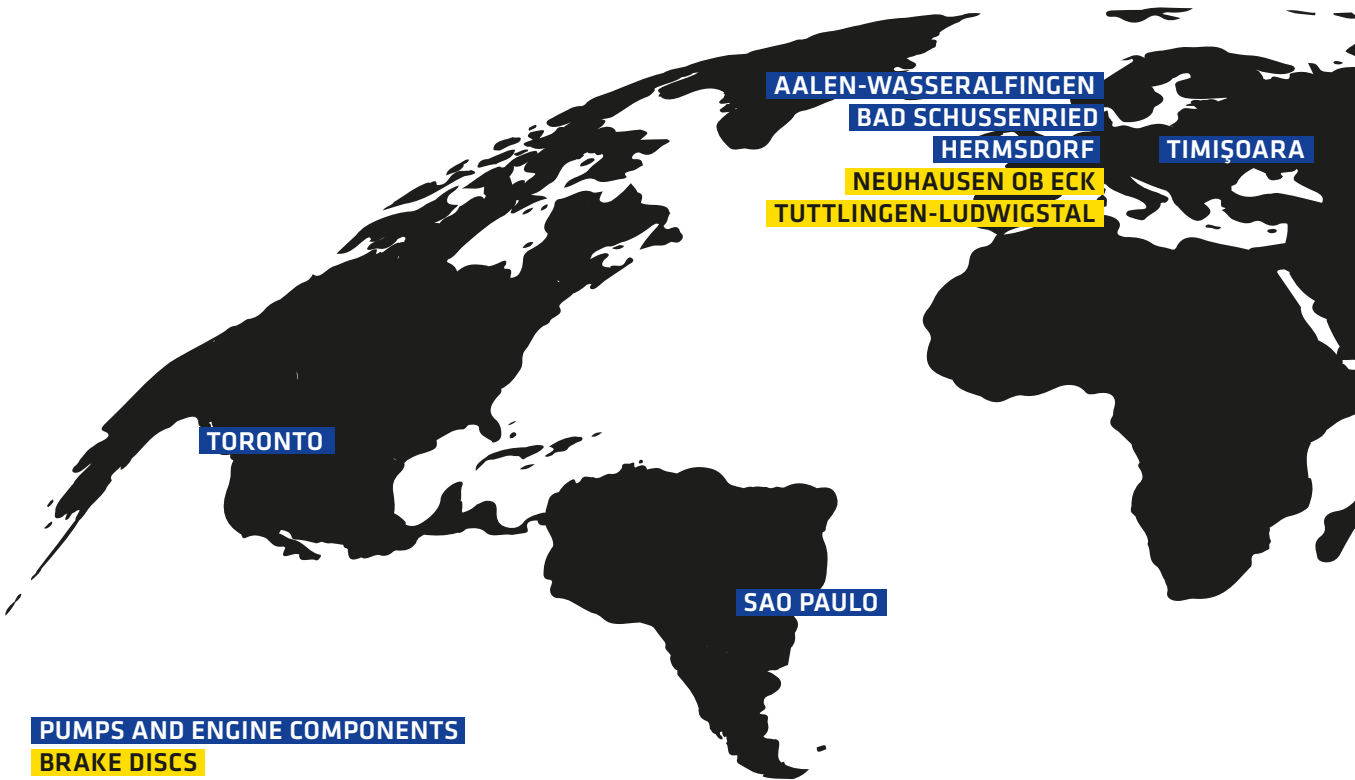
As a reliable partner, we create value-added for our customers and shareholders. We are striving towards becoming one of the global leaders in the production of pumps and engine components for all kinds of powertrains and, with our lightweight composite brake disc, we are seeking greater market penetration – always with the goal of supporting

our customers at meeting both current and future CO<sub>2</sub> targets and facilitating environmentally-friendly mobility.

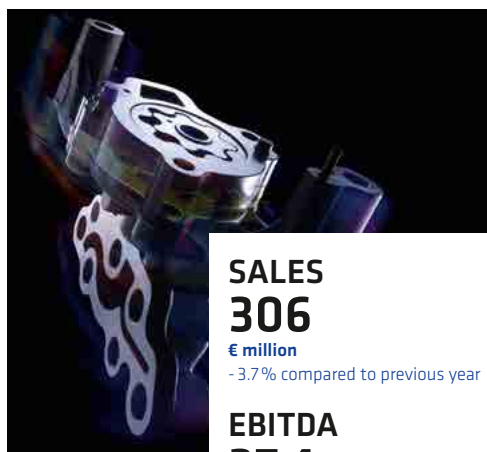
The coming years will be dominated by the establishment and expansion of new locations in China, Canada, Brazil and Romania.

## MAP OF OUR LOCATIONS

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



# BUSINESS SEGMENTS



**SALES**  
**306**

€ million

- 3.7% compared to previous year

**EBITDA**  
**37,4**

€ million

- 0.2% compared to previous year

**EMPLOYEES**  
**904**

as of 31 December 2017

+ 7.0% compared to previous year

## PUMPS AND ENGINE COMPONENTS

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

## BRAKE DISCS

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



KUNSHAN



**SALES**  
**95**

€ million

+ 7.3% compared to previous year

**EBITDA**  
**7,3**

€ million

- 7.7% compared to previous year

**EMPLOYEES**  
**401**

as of 31 December 2017

+ 4.4% compared to previous year

# CONTENTS



## 4 FOREWORD



## 4 LETTER FROM THE MANAGEMENT BOARD

## 6 HOME BASE IN SWABIA – AT HOME IN THE WORLD

## 23 REPORT OF THE SUPERVISORY BOARD

## 26 THE SHW SHARE

## 28 CONSOLIDATED GROUP MANAGEMENT REPORT AND MANAGEMENT REPORT

- 29 Background of the Group
- 36 Business report
- 47 Annual financial statements of SHW AG
- 49 Risk report
- 57 Opportunities
- 58 Forecast
- 61 Subsequent events
- 61 Final declaration on the dependent company report pursuant to  
Section 312 (3) AktG
- 62 Corporate Governance

## 79 CONSOLIDATED FINANCIAL STATEMENTS

- 80 Consolidated Income Statement
- 81 Consolidated Statement of Comprehensive Income
- 82 Consolidated Balance Sheet
- 84 Consolidated Statement of Cash Flows
- 86 Consolidated Statement of Changes in Equity
- 87 Notes to the Consolidated Financial Statements

## 125 INDEPENDENT AUDITOR'S REPORT

## 129 ASSURANCE OF THE LEGAL REPRESENTATIVES

- 131 Financial Calendar & Imprint







# LETTER FROM THE MANAGEMENT BOARD

The **SHW OF THE FUTURE** will be more efficient, even more innovative, and, above all, more international. In 2020 roughly 30 per cent of sales will be due to business outside of Europe.

## DEAR SHAREHOLDERS,

in 2017 we reached our goals for group sales and EBITDA margin: group sales of € 401 million are above the target of € 400 million and the EBITDA margin of 10.3 per cent is above the target of 10 per cent.

With regard to the bottom line, the group's net profit for the year comes to € 10.2 million and represents earnings per share of € 1.58. The Management Board and the Supervisory Board will propose a dividend of € 0.50 per share to the Annual General Meeting.

Let's have a look at the development of our two business segments:

In the Pumps and Engine Components business segment lower product sales for diesel engines in the Passenger Car division and the lower scope of delivery for the second generation of an electric transmission oil pump were two factors in particular impacting sales. The high-margin Truck & Off-Highway and Powder Metallurgy divisions both increased their sales significantly. Positive product mix effects, productivity improvements and non-recurring effects all contributed to an improvement in the EBITDA margin from 11.8 per cent to 12.2 per cent. The start of production commenced at our Chinese location in Kunshan without any problems as work began on two new series.

The Brake Discs business segment set a new sales record of almost 600 thousand units of our lightweight composite brake discs. The EBITDA margin was positively influenced by volume and product mix effects and productivity gains. Negative factors were higher purchase costs for scrap metal and other raw materials and the associated contractual delay in adjusting material surcharges.

Our staff of approximately 1,350 employees with their extraordinary commitment have made these results possible. To them, we express our heartfelt thanks.

In addition, we used the year 2017 to set the course for our future strategy. The process expertise in semiconductors gained with the acquisition of Lust Hybrid-Technik GmbH takes us a substantial step forward in the development and production of integrated e-pumps. In addition, we have decided to focus more strongly on the growing field of high-quality lightweight composite brake discs in future and therefore divested of our 51 per cent holding in the joint venture, SHW Longji Brake Discs (LongKou) Co., Ltd. to our Chinese joint venture partner.





Last but not least, we have taken out a new syndicated bank loan of € 80 million which allows us to finance the expected organic growth in the coming years and look towards additional acquisitions.

In sum, it can be stated that we have laid all the groundwork to take off again from this year.

Within the framework of the “SHW 2020” strategy, sales should be raised to a volume of over € 600 million by 2020. Of this amount, roughly 30 per cent will be attributable to business outside of Europe. The EBITDA margin should rise to at least 12 per cent in the same period. It is also planned to significantly improve the return on capital employed (ROCE) and operating free cash flow.

After a period of consolidation in the years 2016 and 2017, SHW is once again on the move. Dear shareholders, we would be happy if you accompany us on this journey.

Aalen, March 2018

Sincerely yours

A handwritten signature in black ink, appearing to read 'Simon'.

**Martin Simon**  
Chief Financial Officer

A handwritten signature in black ink, appearing to read 'Boshoff'.

**Dr. Frank Boshoff**  
Chief Executive Officer

A handwritten signature in black ink, appearing to read 'Rydzewski'.

**Andreas Rydzewski**  
Member of the Management Board



**Dr Frank Boshoff**

Chief Executive Officer

**Martin Simon**

Chief Financial Officer

# HOME BASE IN SWABIA

The roots of SHW go all the way back to 1365 when the extraction of iron from what is known locally as bean ore began on the **SWABIAN JURA**.

Thanks to the Swabian mindset of its workforce – diligence, ingenuity, tenacity, an inclination to push the limits of what is technically feasible and a good business sense – SHW has always managed to adjust to changes in the business environment ever since. Innovation and willingness to change are firmly anchored in the DNA of SHW – in the past, present and future.



# AT HOME IN THE WORLD

**Andreas Rydzewski**

Member of the  
Management Board

With the establishment of foreign operations at locations in **CHINA**, **CANADA**, **BRAZIL** and **ROMANIA**, SHW is currently transforming into a global automotive supplier.

In 2020 it is expected that roughly 30 per cent of Group sales will be generated outside of Europe and approximately 15 per cent of the workforce will be employed outside of Europe. The commitment, open-mindedness, willingness to learn and integrity of the SHW workforce are the foundation for a successful future of SHW.







邓可志

Jason Deng

正门

Main entrance



Since 2016 SHW has maintained its own production location in Kunshan, just one hour's drive from the megacity Shanghai.

At Kunshan SHW manufactures variable engine oil pumps, primary transmission oil pumps, electrically driven transmission oil pumps and oil/vacuum pumps with and without balancer shaft, for local and international car makers.







# ONE TEAM, ONE VISION – ONE SHW

After a successful year in 2017 the **CHINESE SUBSIDIARY**, SHW Automotive Pumps (Kunshan), is now preparing for the start-of-production for the next high-volume series. One employee tells us of his day.

**The Kunshan location occupies a key role in the internationalisation of the oil pump business. Jason Deng (邓可志) is Head of Production at the facility and ensures that everything in the production department runs according to plan.**

“To put it simply, I ensure that the right number of our pumps arrives at our customers at the right time,” is how Deng describes his function, as he says hello to his colleagues on the shop floor. “My other **tasks** generally include organisational development, quality management and, at present, setting up production space in our second plant on site.”

Each day has a fixed routine: after a tour through the production facility and a **team meeting**, he looks closely at the performance indicators of the plant. How many pumps have been produced so far? How many more need to be manufactured or reworked? He also monitors the throughput times and compliance with delivery schedules. In this way, Deng ensures that the groundwork is laid for SHW to manage the serial production of the next large-volume contracts without any problems.

Deng is committed to the company, its mentality and its “German” values. “SHW has an excellent reputation in the automotive industry, not least

## 公司效益良好

Good figures



Jason Deng is happy about the good performance indicators

because of its outstanding problem-solving skills. Our customers really appreciate us for this – and this was also a key factor in my decision to join SHW in 2015. Our customers get products of exactly the same **quality** from our plant in Kunshan that they are familiar with from Germany, for we comply strictly with customer requirements and the internal SHW specifications and standards.”

In the past year, important steps for the future were taken once again at Kunshan. The three newly installed production lines will greatly increase production capacity from 2018 onwards.

Deng is particularly proud of the new cleanroom. “Our customers set very high standards on the **cleanliness** of our products,” he explains. “We have set up a special area accordingly, where we wash and pack our pumps before they pass along a special transfer belt to the assembly plant. This has given customer satisfaction another boost and made us fit for the start-of production of the coming high-volume series.”

In his free time, Deng likes trips to the more rural regions of China and prefers reading books about the history of China, the Ming dynasty in particular, that was founded in 1364. “Nowadays, events like this appear to lie in the remote past. Yet just one year after it was founded, thousands of kilometres away, the foundation stone was laid for one of the oldest industrial companies in Germany: SHW. This shows that despite all the cultural and language differences between us, we have a lot in common. We at SHW are a big team. We pursue a common vision: providing the best solutions to our customers worldwide and for the automobility of the future.





“AUTOMOBILE MANUFACTURERS  
APPRECIATE SHW’S SKILL AT  
FINDING SOLUTIONS.”

Jason Deng

干净  
Cleanliness



The pumps are washed in the clean room

质量优良

Quality



Three new production lines increase production capacity

大规模生产

Large-scale production





# MISSION: MOTOR CITY

**TORONTO, CANADA** A strong presence in North America is a strategic cornerstone of SHW's internationalisation strategy. Holger Kretschmann and his team have had their finger on the pulse of this important automobile market for a long time.

On today's schedule, Holger Kretschmann, sales manager at the Canadian subsidiary, SHW Pumps & Engine Components Inc., has a meeting in the US, just across the border. His destination: the headquarters of a major automobile manufacturer in Detroit. But before he can set off, he has to clear his drive of fresh snow. Everything is white. Snow is piled high on both sides of the street. Kretschmann lives in Canada. For him it is just a "bit of snow".

The fact that Kretschmann is once again driving to the famous Motor City today is as little of a coincidence as his choice of residence. Windsor is Canada's southernmost city and lies on the other bank of the Detroit River, directly on the US border. "From here I only need an hour to reach the most important OEMs in North America, despite the border crossing," declares Kretschmann, as he gets into his Audi Q5 and starts the engine. "That is perfect for working closely together."



**"TRAVELLING A LOT, ALSO ACROSS BORDERS, THAT IS NATURALLY PART OF MY JOB."**

Holger Kretschmann, Sales Manager



Windsor, Canada: Holger Kretschmann sets off for Detroit

After half-an-hour's drive he reaches the Ambassador Bridge across the Detroit River. Today, there is no other point along the 8,900 km border between the two nations with more traffic. In response to the question of how much time he spends on the road for trips like this, he replies, "Being on the road, also across borders, is a natural part of my job. The real part of the trip starts when you arrive at the customer. We want to show the North American car makers that using our components will pay off for them, and we can prove it. Sharing the journey with SHW is the right way. But we need to give them very very good arguments. That is what makes the job so interesting." The last stage of the journey leads him over Interstate 75, which connects six states from Florida in the south to Michigan in the north. Arriving at the customer's premises, his job is to find a parking space – no easy task!





**9:03 A.M.**

... which leads over the Detroit river and at the same time serving as border crossing



**8:47 A.M.**

After a few kilometres it is not far to the Ambassador Bridge ...

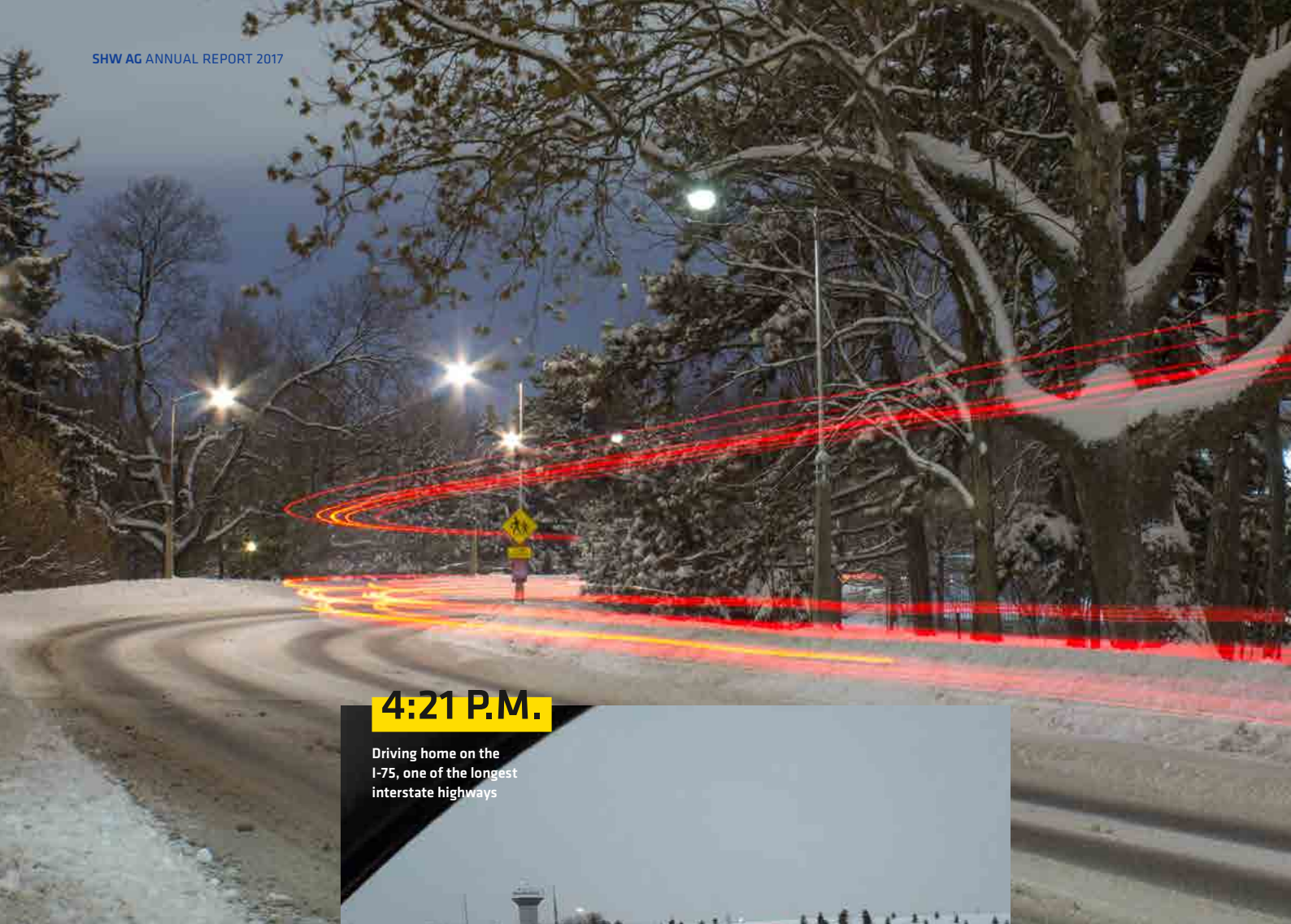


**One hour – Holger doesn't need to plan in any more time than this for the trip to Detroit.**

No other employee at SHW Pumps & Engine Components Inc. is as close to the customer. With the head offices of the Big Three based there, Motor City is one of the most important centres of the North American automobile industry.

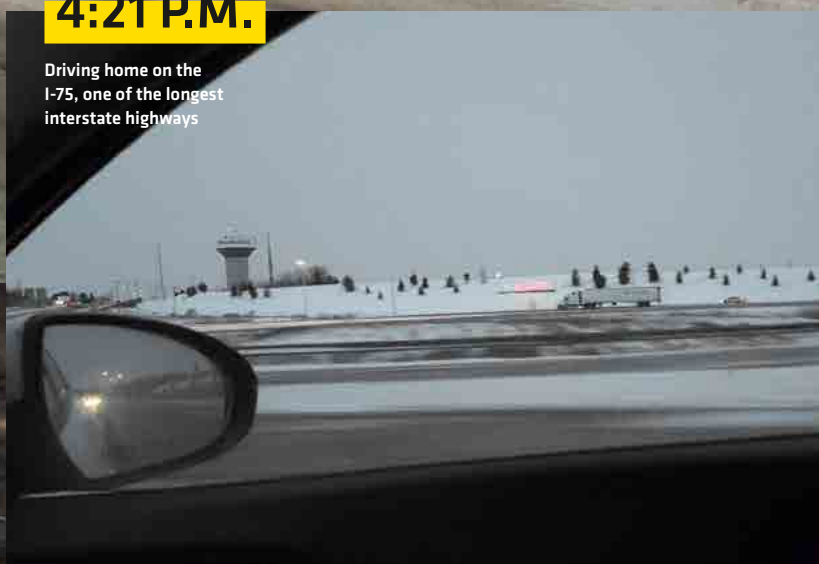






**4:21 P.M.**

Driving home on the  
I-75, one of the longest  
interstate highways





A short while later, Holger sits together with company representatives from the USA and Mexico in a **meeting room**. With them he discusses the idea of relocating a production line from Bad Schussenried to Canada. It is not just about the supply, but also the technical details, the costs and smooth operation. Kretschmann has been in the automobile business for 30 years. Meeting potential customers and giving presentations all over the world are, for him, routine. Nevertheless, he has never stopped learning. “Each of us at SHW sets themselves the goal of exactly understanding the various types and control concepts of our oil pumps, and how to make them. Or to put it another way, customers today expect that we salesmen know every detail of each pump blindfold.” And he adds, “If you can’t find me visiting a customer or sitting in my office, then you will probably find me on one of the production lines.”

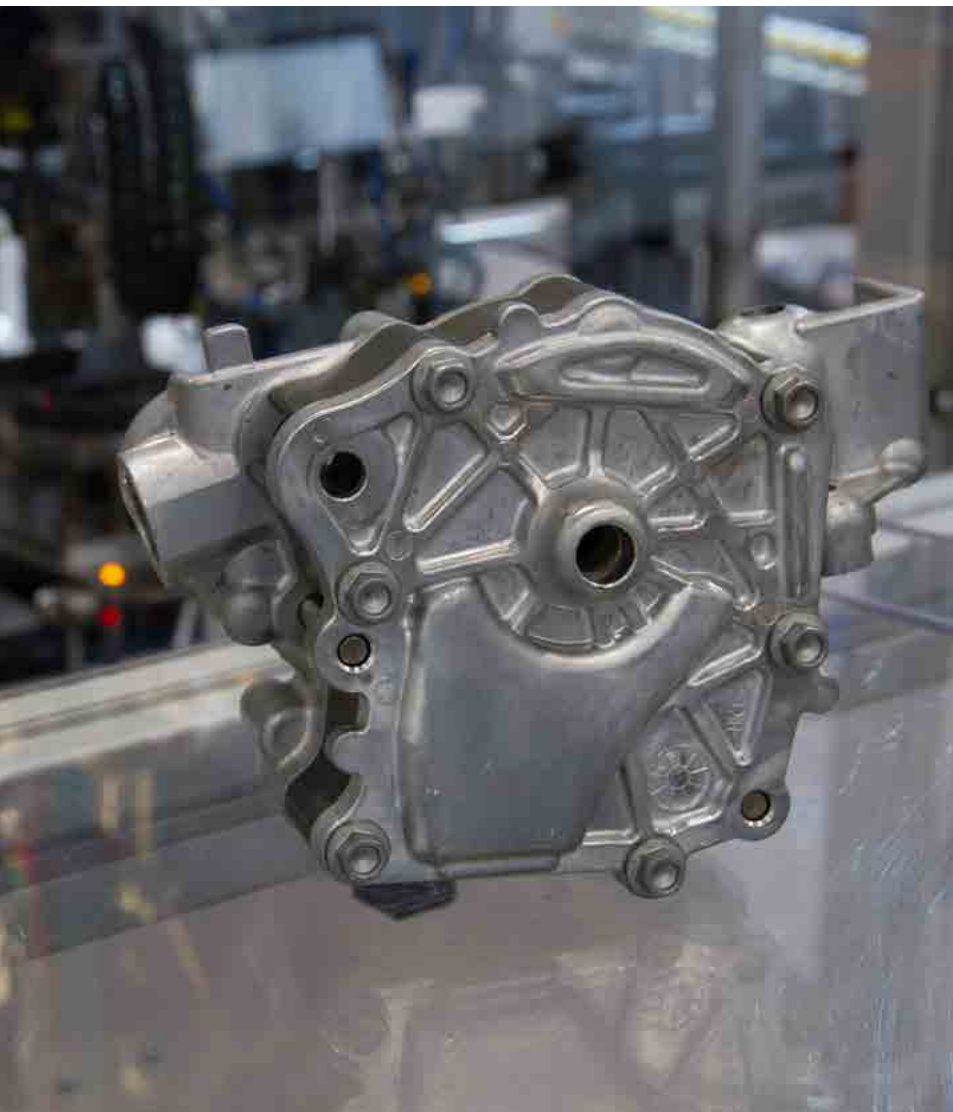
**10:44 A.M.**



Going into detail: the plan to relocate a production line is discussed from all angles at the meeting

### **“TECHNICAL EXCELLENCE, PROXIMITY TO CUSTOMERS AND THINKING GLOBALLY: SHW SCORES WITH CUSTOMERS IN NORTH AMERICA ON ALL POINTS.”**

**Holger Kretschmann**



“Naturally, it is impossible to predict which supplier an OEM will finally choose,” Kretschmann sums up the meeting. But he is convinced: with a team that knows and is networked with every OEM from the inside out and its technically advanced products, SHW is a hot favourite, even in this fiercely competitive environment. This is what he wants to demonstrate at the next meeting in two weeks. At this tech review, the discussion will revolve around every detail of the pump: design improvements by SHW, the production process, quality assurance, cost savings and possible support for the programme from the colleagues at SHW do Brasil.

On his **way back** to Windsor, Holger reveals his love of travelling in his private time as well. For example, in springtime he plans to have a holiday in Florida to get away from the long Canadian winter for one week. He also visits Europe frequently. “Take a look at Germany, you just have to drive a couple of hours and you can get to France, Belgium or Italy. I find it fascinating to find so many different cultures in such a relatively small space. But in the end, Canada always draws me back.”



# GETTING THE JOB DONE IN SÃO PAULO

Lean production and a highly motivated team are the key for economic success in **BRAZIL** as well – and for excellent products whose technology and quality wins customers all over the world.

**Sergio Rodrigues Gomes Jr., Head of Production at the Brazilian subsidiary SHW do Brasil Ltda. near São Paulo is not only responsible for the assembly of oil pumps but also for production control, supplier management and some of the logistics operation. We accompanied Gomes at his work for one day.**

First of all, as on every other day, he makes his way into the production hall to make sure that the machines are operating and sufficient **pump components** are available for today's production volume. Thanks to his 3.5-year-apprenticeship in industrial mechanics at SHW in Bad Schussenried he is well acquainted with all the products and processes. A wide range of tasks, variation, responsibility – that is how Gomes describes his job at SHW do Brasil.



**The location in São Paulo is an integral part of the global production network.**

The facility, which currently produces fixed-displacement oil pumps but will produce variable oil pumps from 2019, enjoys excellent traffic connections: modern motorways, air freight, Brazil's largest harbour.

## WAREHOUSE ✓



Sergio Gomes finishes inspecting incoming goods...

As Head of Production it is of particular importance to master the technical aspects of assembly lines and production processes. After all, proper functioning at all times is the basis of being able to meet the high expectations of the globally operating customers the company serves. This implies local manufacturing with a high degree of local content in order to offer competitive prices in the Brazilian market which is protected by import taxes. "Within the international network of the SHW Group we see ourselves as an important component for global projects. We deliver oil pumps to our customers that have the same **quality** and the same high technical standards as those of any other SHW location."





## DETAILS ✓



... and monitors production processes



Gomes emphasises that at SHW **quality** is not only a buzzword. It is a lived value that at the same time can be quantified exactly: 0 ppm. This means that out of one million pumps not a single one showed a defect. “We are particularly proud that with a delivery reliability of 100 per cent and despite innumerable challenges we have not received any customer complaints since the start of production in 2014”, explains Gomes. “We were able to build on this positive result once again in 2017.” But, apart from that, a lot was going on in the past year: the start of deliveries to a major automobile manufacturer in Germany, the associated expansion of production capacities, the realisation of an order for an American customer and the launch of a new assembly line were just a few of the milestones.

Another ingredient of the Brazilian success formula is the **staff**, which is highly praised by Gomes. “Sure, our team of 11 people is quite small. But this makes us even more motivated and flexible. Our team spirit and the very positive working atmosphere enable us to achieve our ambitious goals regarding delivery reliability and quality. These goals are every team member’s top priority.”

Once arrived in the office, regular exchange with business partners is an important part of Gomes’ daily work. Not without a reason: the **quality goals** would not be achieved without close collaboration with suppliers. This not only involves controlling and auditing them regularly but also, if necessary,

## TEAM SPIRIT ✓



Focus on quality: Gomes and his team

**“SURE, OUR ELEVEN-MAN TEAM IS SMALL. BUT WE MAKE UP FOR THAT WITH OUR MOTIVATION AND GREATER FLEXIBILITY.”**

Sergio Rodrigues Gomes Jr.

actively influencing the quality of the pump components. Whenever possible, Gomes talks with his colleagues to get an overview of the current quality status.

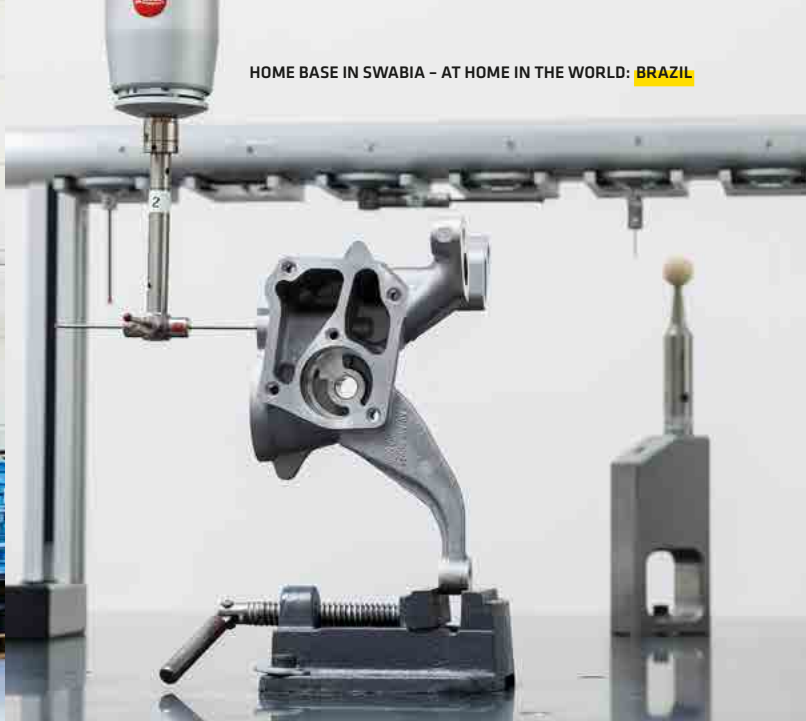
Gomes looks at his watch. It’s time to distribute to-do-lists for the next hours and to brief the shift leader – because the machines at the plant near São Paulo have rarely been standing still ever since 2016. But Gomes’ day has not finished yet: firstly, because he takes the quality goal so seriously that he **can still be contacted by phone** at any time, even after work, and secondly, because he has arranged to meet some friends to play football in the evening. Also in football, teamwork is essential, like in the plant to which he refers to again right after the match. “In the current year we will install a new assembly line for oil pumps and finalise the validation of a new product which will go into production in May 2019. I really look forward to actively playing my role in driving forward these developments!”

## ZERO DEFECTS ✓

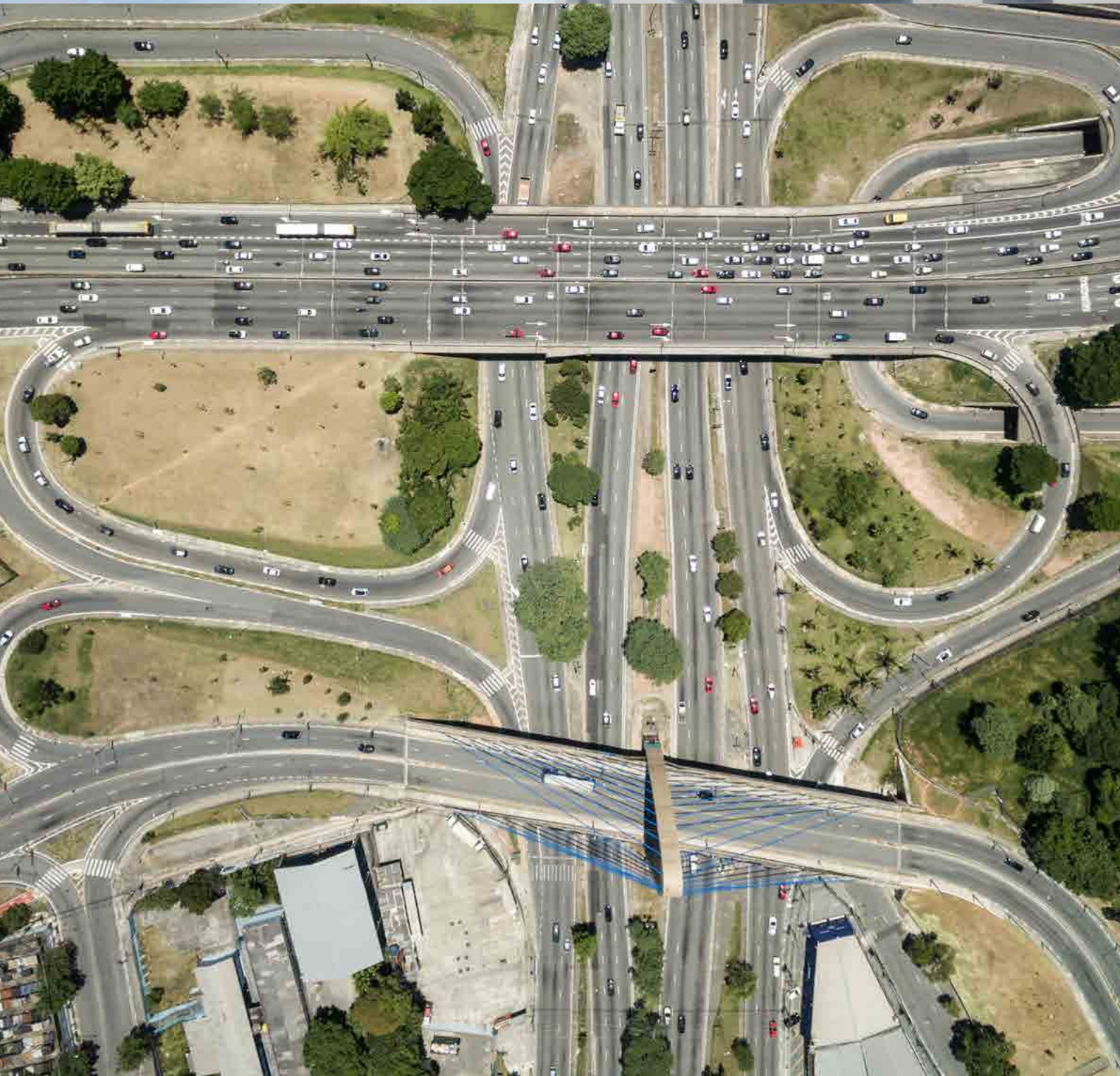


As in the preceding years, there was not a single customer complaint in 2017





HOME BASE IN SWABIA - AT HOME IN THE WORLD: **BRAZIL**






**READY**

For SHW, Timișoara is the “gateway to the east”: The Romanian location will play a vital role in the European production network in future.

The new plant is about to start production. During the year selected pump projects will be relocated from Bad Schussenried and some new projects prepared as well.

## FROM START-UP TO KICK-OFF

With its new plant in **ROMANIA** starting up in 2018 SHW will strengthen its European production network. We took a look behind the scenes of the construction project.

**The commissioning of the first assembly lines and the production of the first oil pumps are still ahead – nevertheless 2017 was a year of special challenges for Anca Ienciu. She works as a recruiter for human resources at Timișoara and is accompanying the establishment and ramp-up of the new pump site.**

One of her primary tasks is to win new qualified employees. However, at the moment she is also entrusted with controlling, purchasing, finance and administrative tasks. “I love this dynamic environment. No day is like the other,” she tells. “The entire project is a start-up in the true sense of the word.”

Anca Ienciu is fully aware that the foundation for the future economic success of the location is being laid now. Even when the Eastern European location was selected it was the details that were important: the size of the existing building, the operating costs, the proximity to customers, the political environment, the infrastructure and macroeconomic aspects. Last but not least, “soft” factors were also considered, such as the local language and the business culture. In the end, the Romanian location won the race.



## “WE ARE NOW IN THE FINAL STAGE OF THE CONVERSION WORK.”

Anca Ienciu

The benefits of the location do not stop there. Anca Ienciu adds, “Timișoara is the third largest city in Romania and offers an appealing quality of life. There is still a sizeable German-speaking minority and the history of the region is closely tied to Germany. This gives us a special connection to the traditional Swabian company SHW and our colleagues in Bad Schussenried, who visit us regularly and give us tangible support in realising the project.

Today Ienciu has a number of job interviews with candidates on her schedule. The small team must be built up over the coming weeks and months to roughly thirty individuals before production begins. After lunch she meets with the construction company and a supplier and discusses the upcoming work: modernisation of the existing building, adaption of the **infrastructure**, through to creating an optimal layout for the offices and, of course, the extension to the existing production hall.

Immediately after the meeting, Ienciu inspects the **new building** to see with her own eyes how things are progressing. Ensuring that everything is running smoothly is particularly important to her. “In addition to reliability and clear communication, I put great value on critically questioning everything and mastering the challenges together as a team. At SHW I have found great colleagues from whom I can learn a lot and who are happy to share their knowledge with me.”



Anca Ienciu, recruiting officer in Timișoara

Ienciu must send off a number of documents today and discuss further contracts with suppliers. On her way back to the office she appears very pleased with the status of the construction: “We are in the final phase of the conversion work. The next milestones involve **completing the work**, rounding off the team and getting the location certified. Then we can start!”

Once the operation is running there will be a number of advantages for SHW. Thanks to this trend-setting investment, the company will increase its production capacity in Europe and place its oil pump manufacturing closer to its customers. Ienciu puts her finger on it, “This fits our **internationalisation strategy** perfectly. And the fact that Timișoara has been chosen as the European “Capital of Culture” for 2021 I see as a good omen for our new location.”

STEADY

GO!



Production is about to start in Romania



## REPORT OF THE SUPERVISORY BOARD



### General

In the reporting year 2017, 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, the 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 business development, the planning and the corporate strategy were discussed between the Supervisory Board and 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 at all times was promptly informed of the latest business developments and any significant transactions.

In those cases where the approval of the Supervisory Board or one of its committees was required by 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 period and six extraordinary meetings held as telephone conferences. Apart from two exceptions, all members of the Supervisory Board attended the ordinary face-to-face meetings of the board. Two resolutions were passed by the entire Supervisory Board by written circulation procedure in the reporting period.

The Supervisory Board was comprehensively informed about all relevant issues related to corporate strategy, planning, business developments, risk position, risk management and compliance within the SHW Group by the Management Board in the form of both written and oral reports at the ordinary and extraordinary meetings which were held on 25 January 2017, 22 February 2017, 17 March 2017, 9 May 2017, 21 July 2017, 7 August 2017, 22 September 2017, 10 November 2017, 23 November 2017 and 21 December 2017. 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 period, 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 the strategic issues concerning the activities of attracting an anchor investor and building up competence in the field of electronics, especially the process to acquire Lust Hybrid-Technik GmbH. Furthermore, the Supervisory Board dealt with the foundation 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.

Key issues at the extraordinary meetings were the information and advice on the cancellation of a contract as system supplier for axle transmission pumps and the resolutions related thereto. The purchase of Lust Hybrid-Technik GmbH was a report topic at an extraordinary meeting, as was the takeover offer of Pierer Industrie AG and the adoption of a joint statement by the Management Board and the Supervisory Board and associated press release. The Supervisory Board also obtained information on the planned transition of SHW AG from the Prime Standard to the General Standard of the Frankfurt Stock Exchange and issued its approval to a revised version of the Declaration of Conformity pursuant to Section 161 AktG with the recommendations of the German Corporate Governance Code on the occasion of the change of the stock market segment. Finally, an extraordinary meeting addressed the approval of the Supervisory Board to the initiation of a legal dispute. At its annual accounts review meeting the Supervisory Board approved the Annual Financial Statements and Consolidated Financial Statements as well as the

Combined (Group) Management Report of SHW AG for the year ended 31 December 2016. Furthermore, the Supervisory Board addressed the proposal for the appropriation of profits and passed proposed resolutions regarding the agenda of the regular Annual General Meeting on 9 May 2017 as well as the Report of the Supervisory Board for fiscal year 2016 and the Corporate Governance Report and Declaration on Corporate Governance for 2016. It also passed resolutions granting discharge to the general managers of subsidiaries and other equity investments. The Supervisory Board approved the renewal of the service contract and further appointment of Mr. Andreas Rydzewski as a member of the Management Board. The Supervisory Board passed resolutions on the annual joint Declaration of Conformity issued by the Management Board and the Supervisory Board pursuant to Section 161 AktG on the recommendations of the German Corporate Governance Code, the equal representation of women in the two highest levels of management below the Management Board and the quotas targeted for the Supervisory Board and Management Board. Likewise, it passed a resolution on entering into a new syndicated loan agreement and issued its approval on engaging external consultants.

Furthermore, the Supervisory Board obtained information on the intended sale of shares held by SHW in the joint venture, SHW Longji in China and approved the sale. The profile of competencies for the Supervisory Board of SHW AG in accordance with the German Corporate Governance Code was discussed and the profile of competencies approved. The budget 2018 and the mid-range planning submitted by the Management Board of the Company were approved by the Supervisory Board. The changes in the Supervisory Board of SHW AG that are planned to take effect as at 2 January 2018 following the resignations of Mr. Christian Brand and Ms. Kirstin Hegner on 23 November 2017, which became effective on 31 December 2017, and the proposal for the court appointment of Mr. Stefan Pierer and Mr. Klaus Rinnerberger to the Board from 23 November 2017, which became effective on 2 January 2018, were approved by the entire Supervisory Board after prior discussion of the issues. In written circulation proceedings, the Supervisory Board approved the pension plans for all three members of the Management Board and the renewal of the two contracts with Dr. Frank Boshoff and Mr. Martin Simon as members of the Management Board. Likewise by written circulation proceedings, new appointments were made to the committees of the Supervisory Board, which thereupon convened their constituting meetings, in January 2018.

## Work of the committees

To ensure that it performs its work efficiently, the Supervisory Board uses two committees – the Presidential Committee and the Audit 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. Instead of the Supervisory Board the Presidential Committee also passes resolutions 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. Six 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 five times in the reporting period. Two resolutions were passed by the entire Audit Committee by written circulation proceedings in the reporting period.

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

## Audit of the Annual Financial Statements and the Consolidated Financial Statements

The Annual Financial Statements of SHW AG prepared in accordance with the German Commercial Code (Handelsgesetzbuch – HGB) and the Combined (Group) Management Report for the fiscal year 2017 were audited by the external auditor of the Company, Ebner Stolz GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, 70174 Stuttgart, who issued an unqualified audit opinion thereon. The Consolidated Financial Statements of SHW AG for the fiscal year 2017 and the Combined (Group) Management Report were compiled in accordance with Section 315a HGB on the basis of the International Financial Reporting Standards (IFRSs), as applicable in the European Union. An unqualified audit opinion was rendered on the Consolidated Financial Statements and the Combined (Group) Management Report.

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

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

The Supervisory Board inspected the above-mentioned documents in detail. All of the financial reporting documents as well as the audit reports issued by the external auditor were provided to the members of the Supervisory Board in good time. The Annual Financial Statements and Consolidated Financial Statements as well as the Combined (Group) Management Report were initially discussed in depth by the Audit Committee and thereafter by the entire Supervisory Board, in each case in the presence of the responsible external auditor. The external auditor reported on the key findings of his 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 €78 thousand in addition to its audit services for the financial statements.



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

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

On 18 October 2017 SHW Beteiligungs GmbH, Wels, Austria – a subsidiary of Pierer Industrie AG, Wels, Austria, held 47.5 per cent of the voting rights of SHW AG and 49.4 per cent on 19 February 2018, thereby giving it a relative voting majority. The Management Board has therefore drawn up a report for the past year on its relations to affiliated companies (dependent company report) in accordance with Section 312 AktG. Ebner Stolz GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, 70174 Stuttgart reviewed the dependent company report of the Management Board and issued an audit report thereon pursuant to Section 313 AktG. The audit did not reveal any grounds for objection. The external auditor issued the following unqualified audit opinion in accordance with Section 313 (3) AktG: “Based on our duly performed audit and assessment, we confirm that (1.) the actual disclosures in the report are accurate, and that (2.) the consideration made by the Company for the transactions listed in the report were not unreasonably high.” The Supervisory Board reviewed the dependent company report of the Management Board and the associated audit report and approved it in accordance with Section 314 AktG. After concluding its review, the Supervisory Board did not have any objections to the dependent company report and the final declaration of the Management Board it contains, or to the auditor's report.

## Conflicts of interest

No conflicts of interest arose on the Supervisory Board in the reporting period 2017.

## Corporate governance

The Management Board and the Supervisory Board issued their annual Declaration of Conformity in accordance with Section 161 AktG in May 2017.

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

Furthermore, the Management Board and the Supervisory Board have issued a revised version of the Declaration of Conformity pursuant to Section 161 AktG in connection with the intended transition of SHW AG from the Prime Standard to the General Standard of the Frankfurt Stock Exchange on 23 November 2017.

The above declarations can be found on the website of the Company at <https://en.shw.de/thecompany/corporate-governance/> where they have been made available for the long-term. With the exception of financial information published during the year, SHW AG complied with the recommendations of the German Corporate Governance Code as of the reporting date of 31 December 2017.

## Composition of the Management Board and Supervisory Board

There were no changes in the composition of the Management Board in the reporting period 2017.

Changes to the composition of the Supervisory Board in the reporting period 2017 were as follows:

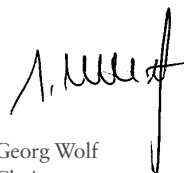
Mr. Christian Brand and Ms. Kirstin Hegner resigned from the Supervisory Board on 23 November 2017 effective 31 December 2017. At the application of SHW AG to the court to appoint additional members to the Supervisory Board, Mr. Stefan Pierer and Mr. Klaus Rinnerberger were appointed members of the Supervisory Board by ruling of the local court of Ulm of 2 January 2018. Mr. Rinnerberger was elected the new Deputy Chairman of the Supervisory Board in January 2018. The Supervisory Board would like to take this opportunity to thank Ms. Kerstin Hegner and Mr. Christian Brand for their invariably strong commitment and valuable contributions to the work of the Supervisory Board.

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

Aalen, March 2018

Yours sincerely,

on behalf of the Supervisory Board



Georg Wolf  
Chairman

## THE SHW SHARE

### Positive annual performance on international stock exchanges

Sustained robust economic data from developed countries and emerging countries alike, the comprehensive tax reform in the US, the prolonging of the asset purchase programme of the ECB until September 2018, and lively M&A activities were all factors driving the stock markets in the year 2017.

Factors pushing down stock prices were the three rate hikes by the Federal Reserve, the sustained appreciation of the euro against the US dollar, the threat of a hard Brexit, and the crisis between the USA and North Korea coming to a head.

Before this background, the most important international market indices all recorded a gain. The Dow Jones Industrial led the way, with growth of 25.1 per cent.

### Benchmark index outperforms the SHW share

Compared to year-end 2016 the stocks in the DAXsector Automobile Performance index (CXPA), the relevant benchmark index for the SHW share, recorded a gain of 12.0 per cent to 1,687 points. The SHW share showed less vigour than the benchmark

index, ending the year 2017 at a share price of €33.80, thus underperforming the DAXsector Automobile Performance index by 5.2 percentage points. The SHW share is currently trading at € 37, 75 (as at 23 March 2018).

Price trend for the SHW share and DAXsector Automobile Performance index (CXPA) in the period from January 2017 to March 2018

### Pierer Industrie AG new anchor shareholder

The shareholder structure changed considerably once again in 2017. Within the course of a voluntary takeover offer, a total of 1,834,057 SHW shares or 28.5 per cent of subscribed capital was tendered to Pierer Industrie AG before the expiry of the extended offer on 25 August 2017. Including further share purchases, SHW Beteiligungs GmbH, a subsidiary of Pierer Industrie AG, held a total of 3,178,053 SHW shares as at 19 February 2018, which accounts for 49.38 per cent of issued capital. According to the latest voting rights notifications, it is followed by Anhui International Holding GmbH (China) with 9.38 per cent, Fidelity Investment Trust (USA) with 3.05 per cent and Dimensional Holdings Inc. (USA) with 3.00 per cent.

PRICE TREND FOR SHW SHARE AND DAXSECTOR AUTOMOBILE PERFORMANCE INDEX (CXPA) IN THE PERIOD FROM JANUARY 2017 TO MARCH 2018



Quelle: Bloomberg



Within the framework of managers' transactions, the following members of the Management Board and Supervisory Board held SHW shares at the end of the fiscal year 2017: Dr. Frank Boshoff – CEO (8,500 shares), Martin Simon – CFO (1,000 shares), Andreas Rydzewski – Member of the Management Board (2,600 shares) and Georg Wolf – Chairman of the Supervisory Board (10,000 shares).

## Annual report once again receives a gold award from LACP

After already being awarded gold in the prior year, SHW was once again awarded gold in the category of "Automobile & Components" by LACP for its 2016 annual report issued under the title, "Shaping Future Mobility". This award is one of the largest international competitions for annual reports and is sponsored by the League of American Communications Professionals. In addition, the annual report was once again a recipient of a silver FOX FINANCE Award – a competition for efficient corporate reporting.

## Changeover to the General Standard – intensive communication with the capital markets will continue unchanged

On 10 November 2017 the Management Board of SHW AG passed a resolution to apply to Deutsche Börse AG for revocation of the admission of its shares to the Prime Standard and to switch to the General Standard of the Regulated Market. Since 22 February 2018 the shares of SHW AG have been traded there. The Company is of the opinion that the costs and benefits of additional non-mandatory financial reporting during the year, on top of the half-year financial report, no longer stand in a reasonable relationship to each other. With the exception of the quarterly statements, SHW AG will fulfil all other follow-up duties of admission to the Prime Standard in future (e.g. languages for the follow-up duties: German and English; analysts' meeting: at least once a year). The Management Board and the Investor Relations team of SHW AG will continue to participate in capital market conferences and roadshow on a regular basis in future and be available for face-to-face meetings on-site. After the German Corporate Conference hosted by KeplerCheuvreux on 15 January 2018 in Frankfurt, the plans are to attend the Germany Conference hosted by Bankhaus Lampe on 18 April 2018 in Baden-Baden, the Commerzbank Sector Conference Week on 29 August 2018 in Frankfurt, the Berenberg and Goldman Sachs German Corporate Conference on 25 September 2018 in Munich and the Future Energy Conference of Berenberg Bank on 2 October 2018 in Zurich.

Apart from that no other significant cuts will be made to capital markets communication. Our goal is to have our share fairly valued on the capital market. This necessitates a continuous and open dialogue with all market participants and providing precise and valuation-relevant information.

The share of SHW AG will continue to be traded over the XETRA trading platform as in the past. In this way we can ensure that the SHW share can be traded at all times in the future as well.

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

### Investor Relations contacts:

Michael Schickling

Telephone: +49 7361 502 – 462

Fax: +49 7361 502 – 851

Email: [michael.schickling@shw.de](mailto:michael.schickling@shw.de)

Sandra Scherer

Telephone: +49 7361 502 – 469

Fax: +49 7361 502 – 852

E-Mail: [sandra.scherer@shw.de](mailto:sandra.scherer@shw.de)





# MANAGEMENT REPORT

Consolidated Group Management Report and SHW AG Management Report

## 29 BACKGROUND OF THE SHW GROUP

- 29 Business model of the group
- 31 Sales markets
- 31 External factors
- 32 Goals and strategies
- 33 Control parameters
- 34 Research and development

## 36 BUSINESS REPORT

- 36 Macroeconomic environment
- 37 Industry environment
- 38 Competitive situation and market position of SHW
- 38 Goal attainment in 2017
- 40 Business developments
- 46 Overall statement on the economic position

## 47 ANNUAL FINANCIAL STATEMENTS OF SHW AG

- 47 Comments on the result of operations
- 47 Comments on net assets and financial position

## 49 RISK REPORT

- 49 Risk management principles
- 49 Organization of Risk Management
- 52 Strategic risks
- 53 Operating risks
- 54 Legal and compliance risks
- 55 Financial risks

- 56 Major risks in fiscal year 2018
- 56 Assessment of the overall risk position

## 57 OPPORTUNITIES

- 57 Principles of managing opportunities
- 57 Group-wide opportunities
- 57 Opportunities in the business segments

## 58 FORECAST

- 58 Outlook for the overall economy and for the industry
- 60 Outlook for the group
- 60 Overall statement on future development

## 61 SUBSEQUENT EVENTS

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

## 62 CORPORATE GOVERNANCE

- 62 Declaration on Corporate Governance in accordance with Sections 289f and 315d of the German Commercial Code (HGB) and Corporate Governance Report in accordance with No. 3.10 of the German Corporate Governance Code
- 62 Remuneration report
- 68 Non-financial statement of the group
- 77 Disclosures required by the law on corporate acquisitions



# COMBINED GROUP MANAGEMENT REPORT AND MANAGEMENT REPORT

## BACKGROUND OF THE SHW GROUP

### Business model of the group

#### A group focused on reducing CO<sub>2</sub>

In its business activities, the SHW Group focuses on the development and manufacturing of products which help to reduce fuel consumption and therefore CO<sub>2</sub> emissions in the automotive industry. Most sales are generated in business with reputed manufacturers of automobiles, commercial vehicles, agricultural machines and construction machines as well as with other automotive suppliers. The group currently has nine facilities in five countries.

### Organisational structure of the group

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

- Pumps and Engine Components
- Brake Discs

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

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

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

PUMPS & ENGINE COMPONENTS			BRAKE DISCS
BAD SCHUSSENRIED / HERMSDORF / TIMISOARA KUNSHAN / SÃO PAULO / TORONTO		AALLEN-WASSERLUFINGEN	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
Electric pumps	Electric pumps		
Electronics and microsystems technology			



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

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

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

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

### Technology leader in the field of lightweight brake discs

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

### Legal structure

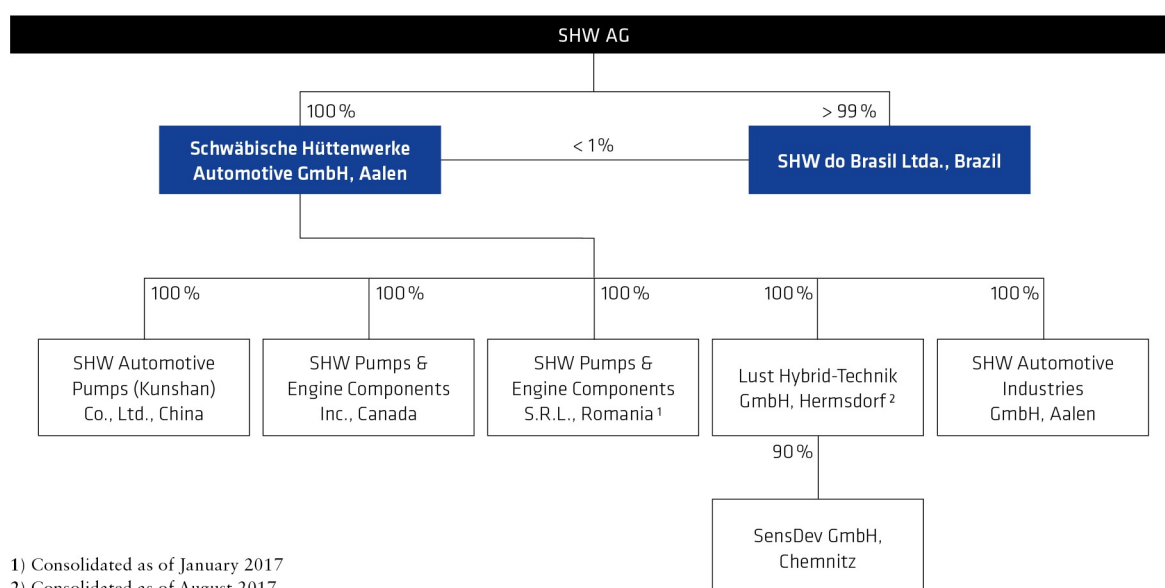
SHW AG is the parent and holding company of the SHW Group and holds all the shares in SHW Automotive GmbH with its registered offices in Aalen and branches in Aalen-Wasseraalengen, Ludwigstal (Tuttlingen) and Wilhelmshütte (Bad Schussenried). Its shareholdings are presented in the following chart. The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

### Acquisitions

On 2 August 2017 SHW Automotive GmbH, an entity of the SHW Group, signed a purchase agreement to take over Lust Hybrid-Technik GmbH based in Hermsdorf (Thuringia). With this acquisition, the company has optimised the vertical integration of its electric pumps sector. As a provider of Electronics Manufacturing Services (EMS), Lust Hybrid-Technik (LHT) covers the entire contract manufacturing chain for electronic assemblies – from the development of processes and circuit board assemblies through to sophisticated test concepts and global shipment. The process know-how of LHT in electronic circuit boards marks a great step forward for SHW in the development and assembly of integrated e-pumps and therefore strengthens its competitive position in electromobility.

More information can be found in the sections titled "Basis for the preparation of the Consolidated Financial Statements" and "Changes in the scope of consolidation" in the Notes to the Consolidated Financial Statements.

### OVERVIEW OF GROUP SUBSIDIARIES



1) Consolidated as of January 2017

2) Consolidated as of August 2017

## Divestments

On 26 September 2017 SHW Automotive GmbH, an entity of the SHW Group, signed an agreement with its Chinese joint venture partner on the sale of its share in the brake disc joint venture to the Chinese joint venture partner. The sale was made in light of the decision to focus more strongly on high-quality composite brake discs in future. The company perceives above-average growth potential here, also with regard to electromobility.

More information can be found in the section on consolidation methods in the Notes to the Consolidated Financial Statements.

## Sales markets

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

## External factors

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

The relevant EU regulation has prescribed average CO<sub>2</sub> emissions of 95 g CO<sub>2</sub>/km for newly registered passenger cars by 2021. On 8 November 2017 the EU Commission passed the second “Mobility Package”. Among other items, this sets the standards for the CO<sub>2</sub> emissions of passenger cars and light commercial vehicles for the period after 2021. Consequently, the aggregate fuel consumption of the fleet of new vehicles should be reduced by another 30 per cent by 2030. A binding interim goal of 15 per cent fuel reduction has been set for 2025.

There are also binding CO<sub>2</sub> targets in the other important automobile markets of China and North America, which necessitate substantial reductions from manufacturers in the coming years.

Measures influencing fuel consumption and CO<sub>2</sub> emissions may be categorised as follows:

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

Thanks to its broad product portfolio of consumption-optimizing engine and transmission components for all kinds of drive concepts and its lightweight composite brake discs, SHW is benefiting greatly from the megatrend towards reducing CO<sub>2</sub> emissions.



## Goals and strategy

The SHW 2020 strategy has set the course for the development of the group until 2020. The associated key targets are:

- **Group sales:** The group's sales should be raised to over €600 million by 2020 due to organic growth. Of this amount, roughly 30 per cent should be due to business outside of Europe.
- **EBITDA margin:** The EBITDA margin should rise to at least 12 per cent by 2020.

In order to reach these goals, the Pumps and Engine Components segment should internationalise its business activities and the Brake Discs business segment should significantly increase its unit sales of lightweight composite brake discs. More information on our targets can be found in the section on the Outlook for the group.

### Corporate strategy

The strategy for the existing portfolio comprises three fields: internationalisation, operational excellence and innovation.

#### Strategic field: Internationalisation

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

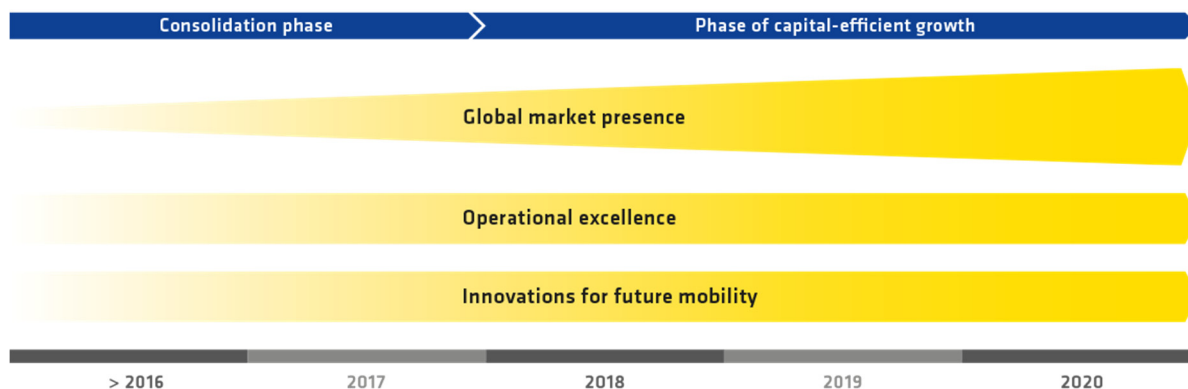
Within the scope of this defined business strategy, SHW will pursue the targeted expansion of its international presence in its Pumps and Engine Components business segment.

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

After starting serial production of variable engine oil pumps for a Chinese-European joint venture in September 2016, the Chinese subsidiary, SHW Automotive Pumps (Kunshan) Co., Ltd., started production in the past fiscal year of primary transmission oil pumps and an electric auxiliary transmission oil pump for a leading Chinese automobile manufacturer. Serial production of four more product lines will commence in the current year. These consist of a variable engine oil pump and a variable engine oil pump with balancer shaft for a Chinese-North American joint venture, the Chinese portion of the contract to supply a variable engine oil pump for a global engine platform and an electric auxiliary transmission oil pump for a European car maker.

In addition to securing the start-of-production, the Chinese subsidiary will focus its energies on winning new contracts.

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



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

Optimising the European production network is progressing on schedule with the establishment of a facility in Timișoara (Romania). At the beginning of 2018 the first relocated volumes will go into production.

In the Pumps and Engine Components business segment, the Company's internationalisation strategy will increasingly be reflected in its sales and earnings figures from 2018 onwards.

### Strategic field: Operational excellence

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

In Powder Metallurgy the focus in fiscal year 2017 was on measures to improve efficiency with automation in the moulded parts division and installing automated testing. For 2018 the plan is to introduce a new manufacturing execution system (MES) and expand green machining for new projects. At the Bad Schussenried location, the measures carried out to improve the productivity of existing assembly lines met their targets. With regard to new installations, technical and quality-assuring start-ups and the issue of technical cleanliness were driven forward. In the current fiscal year the spotlight will be on relocating plant and equipment to the Romanian location in Timișoara and providing the associated support. Another major item on the agenda concerns the expansion of in-house production in the Truck & Off-Highway division. New machining centres will be installed over the course of the year.

Productivity at the iron foundry at the Tuttlingen location was increased in the fiscal year 2017, particularly in the second half of the year. Capacity at the Neuhausen facility was expanded as planned and the construction of an additional hall for machining composite brake discs marks out the course to be taken in 2018.

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

### Strategic field: Innovation

SHW is a success story hallmarked by product innovations that have made a significant contribution to the reduction of vehicle fuel consumption and consequently CO<sub>2</sub> emissions. The Company intends to keep its focus on this core competence in future and extend its market leadership in terms of technology and innovations for all types of powertrains. Details on the innovation strategy and current examples can be found in the section on research and development.

## Control parameters

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

### Financial performance indicators

For the SHW Group, besides its sales trends its adjusted EBITDA (defined as adjusted consolidated earnings before interest, tax and depreciation and amortisation) is its key performance indicator. The Company is increasingly focusing on its adjusted EBITDA margin (adjusted EBITDA in relation to group sales). This measures the quality of the Company's sales trend and indicates the level of efficiency achieved in the management of its operating business. The operating result (EBIT) shown in the consolidated income statement is used as the initial value for the calculation of the adjusted EBITDA figure. There were no special effects in fiscal years 2016 and 2017.

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

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

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

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

### Non-financial performance indicators

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



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

Other key success factors are contained in the non-financial statement of the group in the section on corporate governance.

## Research and development

### Electrically driven transmission oil pumps continue to gain ground

Over the past few years, automobile manufacturers have introduced a large number of new CO<sub>2</sub>-optimised engine and transmission generations to the market with the support of their automotive suppliers. In optimising the conventional combustion engine, a series of measures have already been realised in order to optimise both the combustion process and 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 pump for brake boosters, power steering, air conditioning compressors, etc.).

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

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

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

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

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

Overall, the trend of electrically driven pumps will enable a further reduction in CO<sub>2</sub> emissions, since this demand-control system can switch from "zero" to peak performance regardless of the engine's speed and condition.

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

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

Development activities are accompanied by the establishment and optimisation of modern product-specific and fully automatic test benches and test facilities. For instance, a further efficient cooling chamber with a related pump drive unit for functional and endurance testing recently went into operation. Testing laboratories and testing 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.

In fiscal year 2017 numerous projects developed in the previous year were successfully put into production. For the first time, components for electric drive systems were among the new products. Once again, a pleasing number of new high-volume projects were won and developed accordingly. In particular, surface densification methods were successfully advanced and the methods for manufacturing high-precision components for reducing leakage in hydraulic systems also bore fruit.

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

### Demand for lightweight brake discs continues to rise

The Brake Discs business segment has been researching lightweight construction for years. As early as 1994 SHW produced the first composite brake disc, for the BMW M5. The idea is to

separate the actual brake friction ring from the “pot”, and to produce this pot using aluminium. By using aluminium, a weight reduction of up to 8 kg per vehicle can be achieved. This means a reduction in the unsprung and rotating masses which positively influences the vehicle’s driving dynamics while also reducing fuel consumption and CO<sub>2</sub> emissions and increasing the range of electric vehicles.

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

The past fiscal year was dominated by a number of application projects mainly related to composite brake discs but also for 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 330 km/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.

Progress was also made in various basic projects, e.g. extending the life span of the stainless steel pins that connect the aluminium pot with the brake disc friction ring. Further weight reductions, improved corrosion resistance and the reduction of brake dust are particular areas of focus for future developments.

### Intellectual property safeguarded on a long-term basis

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



## BUSINESS REPORT

### Macroeconomic environment

#### Global economy records stronger growth

The cyclical factors driving an economic boom strengthened in 2017. In addition, thanks to the continuing expansionary policies of many central banks, the upturn – in developed countries and emerging countries alike – became both more pronounced and based on a wider footing. Based on the available data (Bankhaus Lampe, February 2018) the global economy grew by 3.7 per cent (previous year 3.2 per cent). Factors preventing even faster growth rates were, as in the past, (geo-) political tension, the high levels of debt in both the public and the private sector, a lack of structural reforms to release new growth forces and continuing tension in the European banking sector. The worries at the beginning of the year of a trend towards protectionism were did not materialise by the end of 2017.

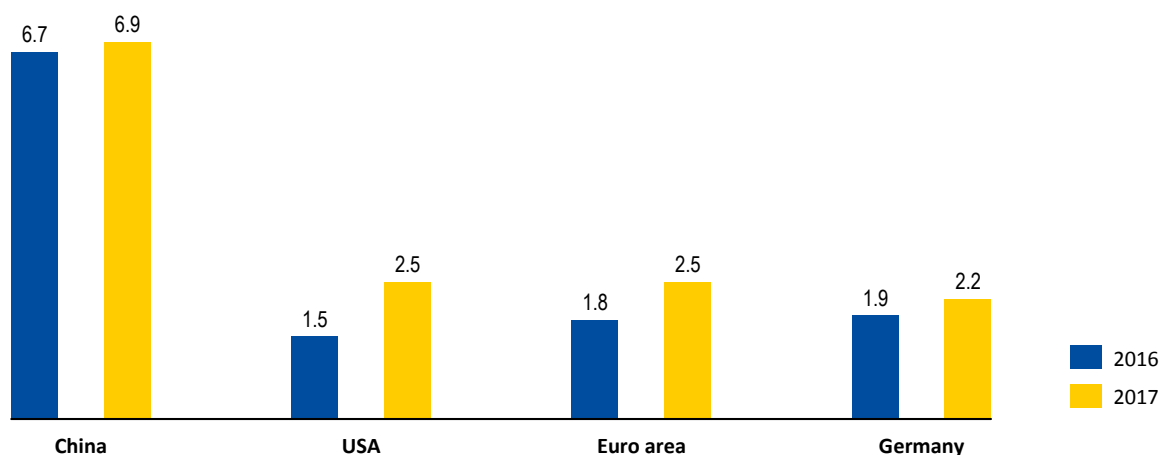
The US economy picked up noticeably, starting in the spring of 2017. Stronger investment activity in plant and equipment and commercial building contributed to this development, which more than offset the slump experienced in the previous year. By contrast, private consumption, which is one of the main pillars of the economy, recently lost momentum. Gross domestic product grew by 2.5 per cent in 2017 and thus noticeably stronger than in the previous year when it only grew by 1.5 per cent.

The upturn in the economy of the euro area also gained strength, driven by the ultra-expansive monetary policy of the European Central Bank (ECB). The GDP growth rate is forecast to amount to 2.5 per cent (previous year 1.8 per cent). This would be the highest growth rate since the financial crisis broke in 2008. The upturn has a broad base among member states, with private and government expenditure as well as investing activity and exports all contributing to the growth. However, structural problems continue to apply.

The German economy enjoyed rapid growth in 2017. The GDP growth rate was significantly above potential output in all four quarters. As an annual average, total economic production rose by 2.2 per cent on the previous year (1.9 per cent). The situation on the labour market has continued to brighten and the ECB, with its extremely loose monetary policy, has ensured that the favourable terms and conditions for financing remain in place. This resulted in high consumption and investment activity, especially in the first half of the year. Exports supported this trend. Full order books, some capacity bottlenecks and a scarcity of qualified professionals are signs that the economy is now at the height of a boom phase.

According to the official gross domestic product figures, China once again registered rapid economic growth of 6.9 per cent in 2017, compared to 6.7 per cent in the previous year. In 2017 the Chinese government managed to get the macroeconomic imbalance between overcapacity in industrial production and high credit risks under control and at the same time secure high growth rates.

#### GDP GROWTH BY REGION IN %



Source: Datastream; Forecast for 2017- Bankhaus Lampe Economic Research

## Industry environment

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

### Across-the-board increase in global automobile production

According to data from the research institute IHS, production of light vehicles (vehicles < 6 tonnes) increased worldwide by 2.3 per cent in 2017, from 93.1 million to 95.3 million units. The trend varied between the key regions.

China recorded stable growth of 2.0 per cent in unit production to 27.9 million units. The increase in Europe can be chiefly attributed to Russia (19.1 per cent to 1.5 million units), Turkey (14.9 per cent to 1.6 million units) and France (8.0 per cent to 2.2 million units). Germany (-1.5 per cent to 5.8 million units), United Kingdom (-2.9 per cent to 1.75 million units), Hungary and also Spain (-1.7 per cent to 2.8 million units) all recorded falling production numbers.

### Slight increase in the market share of gasoline engines

In 2017, production of drive units for light vehicles (< 6 tonnes) increased worldwide by 2.3 per cent to 95.3 million units. Production of gasoline engines continued to grow, rising by 2.8 per cent to 73.5 million units. The production of diesel engines, at 18.7 million units, failed to match the level of the previous year by 0.8 per cent. Electric motors recorded a growth rate of 56.3 per cent to 0.8 million units and continued to play a minor role.

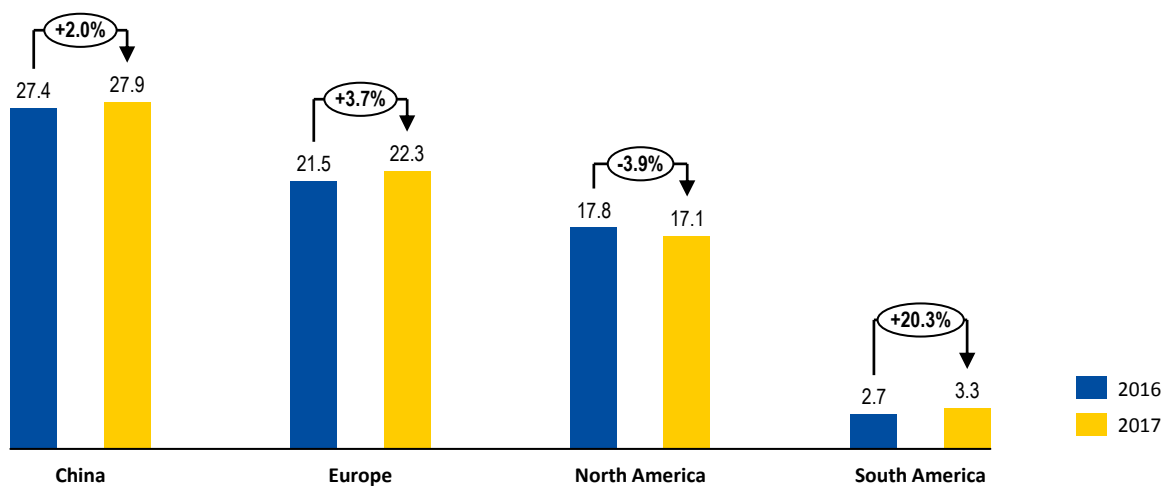
### Strong growth in automatic transmissions

In 2017, transmission production increased worldwide by 2.3 per cent to 95.3 million units. Production of automatic transmissions rose by 5.8 per cent, from 53.2 million units in the previous year to 56.3 million units.

China was the main source of growth here, with 19.5 per cent growth in automatic transmissions to 11.3 million units.

Production of automatic transmissions in Europe also continued to increase, rising by 8.2 per cent to 8.9 million units. On the other hand, the number of manual transmissions in Europe decreased by 2.1 per cent to 13.7 million units. In North America, production of transmissions slipped to 14.5 million units, down 3.8 per cent on the figure of the previous year of 15.1 million units.

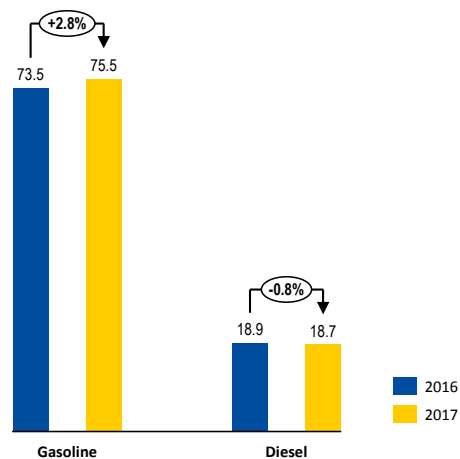
## LIGHT VEHICLE PRODUCTION BY REGION (IN M UNITS)



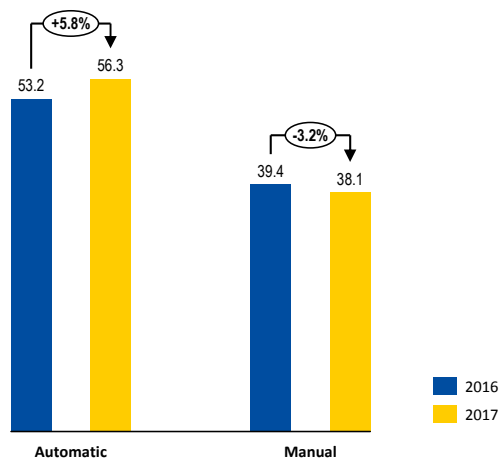
Source: IHS – January 2018



ENGINE PRODUCTION WORLDWIDE (IN M UNITS)



TRANSMISSION PRODUCTION WORLDWIDE (IN M UNITS)



Source: IHS – January 2018

## Competitive situation and market position of SHW

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

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

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

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

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

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

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

In the field of Powder Metallurgy, GKN (United Kingdom), Miba (Austria), PMG (Germany) and Schunk Sintermetalltechnik (Germany) are the main competitors.

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

## Goal attainment in 2017

Fiscal year 2017 ran as planned. The targets for group sales, EBITDA margin and EBITDA were attained. The group sales of €400.6 million reported by SHW AG laid at the lower end of the corridor announced for fiscal year 2017 of between €400 million and €420 million.

The group's EBITDA margin of 10.3 per cent lay in the target corridor of between 10 per cent and 11 per cent. While the EBITDA margin in the Pumps and Engine Components business segment continued to improve in the fiscal year 2017, rising from 11.8 per cent to 12.2 per cent, the Brake Discs business segment did not manage to reach the targeted margin of 10 per cent on account of higher prices for scrap metal and other raw materials and the associated contractual delay in adjusting the material surcharges. Furthermore, in the administrative sector non-recurring costs associated with the listing of SHW AG, customer projects

and also acquisition costs burdened the operating result, particularly in the second and third quarters.

The group's EBITDA of €41.3 million was also within the corresponding corridor.

Investments in property, plant and equipment and intangible assets of €34.6 million were slightly above the target corridor of €29 million to €33 million. Depreciation and amortisation of property, plant and equipment and intangible assets of €23.8 million were slightly below the targeted range of €24 million to €26 million.

As an annual average, the net working capital ratio of 14.6 per cent (previous year 13.8 per cent) missed the target of 11 to 12 per cent.

At €305.9 million, sales of the Pumps and Engine Components business segment missed the lower end of the targeted corridor of €310 million to €330 million. The main factor underlying this development was lower unit sales of products for diesel engines.

With sales of €94.7 million the Brake Discs business segment exceeded the sales target of around €90 million. This is primarily due to unit sales outstripping expectations.



## Business development

### Results of operations

#### Group sales almost match the prior year

As expected, group sales of €400.6 million in the fiscal year 2017 were slightly lower than the previous year's figure of €405.8 million. This was attributable to the Pumps and Engine Components business segment. By contrast, sales of the Brake Discs business segment rose.

#### Further improvement in the cost of sales ratio

In the fiscal year 2017, the cost of sales decreased by 2.4 per cent from €359.9 million to €351.1 million as a consequence of declining production and logistics costs. The cost of sales ratio decreased accordingly from 88.7 per cent to 87.6 per cent. This improvement resulted primarily from the positive volume and product mix effects as well as productivity gains.

#### Selling and administrative expenses influenced by internationalisation and listing

Selling expenses increased in fiscal year 2017 by €3.3 million compared to the previous year to €11.8 million. The ratio of selling expenses to sales rose from 2.1 per cent to 2.9 per cent. General administrative expenses increased by €1.8 million to €14.9 million. The ratio of administrative expenses to sales therefore rose from 3.2 per cent to 3.7 per cent. Both of these factors are related to the internationalisation strategy of the SHW Group and the establishment and expansion of international locations. Furthermore, in the administrative sector non-recurring costs associated with the listing of SHW AG and customer projects burdened the operating result.

#### Research and development costs significantly increased

Research and development costs of €11.1 million in fiscal year 2017 were significantly above the previous year's level of €7.9 million. Some of this increase can be attributed to LHT. In addition, development costs of €1.4 million (previous year €0.9 million) were capitalised as fixed assets. The ratio of R&D expenses (including capitalised development costs) to sales increased to 3.1 per cent (previous year 2.2 per cent). Amortisation of capitalised development costs amounted to €2.3 million in fiscal year 2017 (previous year €2.4 million). Further development services were billed within the scope of 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 brake dust.

### Other operating income and expenses

At € +5.8 million, the net balance of other operating income and expenses is higher than the previous year's level of € +2.5 million. On the one hand this is due to negotiating successes and the reduction of risk in the fiscal year 2017 that enabled certain provisions to be released and non-recurring income realised. On the other hand, incidental acquisition costs led to higher other operating expenses.

#### KEY PERFORMANCE INDICATORS: SHW GROUP

K EUR	2017	2016	Change %
Sales	400,584	405,770	-1.3%
EBITDA	41,271	43,553	-5.2%
as % of sales	10.3%	10.7%	-
EBIT	17,501	18,938	-7.6%
as % of sales	4.4%	4.7%	-
Net profit	10,159	12,805	-20.7%
Equity	124,904	121,349	2.9%
Equity ratio	48.8%	53.2%	-
Net Working capital	44,996	49,543	-9.2%
as % of sales	11.2%	12.2%	-
Investments	34,550	24,684	40.0%
as % of sales	8.6%	6.1%	-

## EBITDA margin of 10.3 per cent

Consolidated EBITDA came to €41.3 million in fiscal year 2017 compared to €43.6 million in the previous year. At 10.3 per cent, the EBITDA margin was below the previous year's figure of 10.7 per cent. The margin trends differed in the two business segments. We refer to the comments in this respect in the following section Business segments.

At €23.8 million, depreciation and amortisation was €0.8 million or 3.4 per cent lower than in the same period of the previous year.

Consolidated EBIT decreased from €18.9 million to €17.5 million. The corresponding EBIT margin decreased from 4.7 per cent to 4.4 per cent.

## Financial result unchanged

The net financial result comprised expenses of €1.2 million and was thus virtually unchanged on the previous year. Lower interest expenses for pension obligations were countered by higher interest expenses for the group's debt finance on account of higher borrowings.

## Increase in the tax rate

Income taxes amounted to €5.0 million in 2017 (previous year €5.1 million). The SHW Group's tax rate amounted to 32.8 per cent for fiscal year 2017, compared to 28.7 per cent in the previous year. On the basis of lower earnings before tax this is chiefly due to a non-tax-deductible deconsolidation loss and the incomplete recognition of deferred tax assets on tax loss carryforwards at foreign subsidiaries.

## Consolidated result for the year down on account of deconsolidation loss

Net profit declined by €2.6 million to €10.2 million, due to the effects on earnings described above. This decrease in fiscal year 2017 also includes the loss of €1.2 million from the Chinese brake disc joint venture recorded under investment income. Prior to the sale of the investment, the joint venture generated a profit of €0.4 million measured using the equity method. However, the deconsolidation loss, which was caused by foreign currency translation effects, came to €1.6 million. Earnings per share decreased from €1.99 to €1.58. 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 2017.

## Business segments

### Pumps and Engine Components

#### *Declining sales in line with expectations*

The Pumps and Engine Components business segment achieved sales of €305.9 million in fiscal year 2017 (previous year €317.5 million). Sales in the Passenger Car division declined from €262.9 million to €237.7 million. This expected decline in sales mainly reflects the lower volume supplied by SHW for the second generation of an electrically driven transmission oil pump and lower product sales for diesel engines. The high-margin Truck & Off-Highway and Powder Metallurgy divisions both increased their sales significantly. The Truck & Off-Highway division recorded an increase in sales of 17.8 per cent to €32.6 million (previous year €27.7 million). The Powder Metallurgy division improved by 13.4 per cent to €30.6 million (previous year €26.9 million). Lust Hybrid-Technik GmbH (LHT), which has been consolidated since August 2017, contributed €5.1 million to the sales of the business segment in the five months it has belonged to the group.

#### KEY PERFORMANCE INDICATORS: PUMPS AND ENGINE COMPONENTS

K EUR	2017	2016	Change %
Sales	305,883	317,521	-3.7%
EBITDA	37,375	37,454	-0.2%
as % of sales	12.2%	11.8%	-
EBIT	18,206	17,528	3.9%
as % of sales	6.0%	5.5%	-
Investments	23,285	17,624	32.1%
as % of sales	7.6%	5.6%	-

#### *EBITDA almost matches the previous year's level, EBITDA margin increased to 12.2 per cent*

In spite of the decrease in sales, the segment's earnings before interest, tax, depreciation and amortisation (EBITDA) of €37.4 million nearly matches that of the previous year (€37.5 million). The EBITDA margin improved accordingly from 11.8 per cent to 12.2 per cent.

The most decisive factors behind the higher margin were positive product mix effects, productivity gains and non-recurring effects.

Overall, the earnings trend for the group's foreign subsidiaries in Brazil, China and Canada was in line with expectations. The Timișoara location in Romania is currently being prepared to commence series production. Expenses for the forward-looking establishment and expansion of foreign plants are included in the earnings of the operating segment.

Depreciation and amortisation in the Pumps and Engine Components business segment of €19.2 million is €0.8 million below that of the previous year.



Earnings before interest and tax (EBIT) of the Pumps and Engine Components business segment increased accordingly by €0.7 million or 4.0 per cent compared to the previous year to €18.2 million (previous year €17.5 million). The EBIT margin amounts to 6.0 per cent (previous year 5.5 per cent).

#### Brake Discs

##### *Sales increased to €94.7 million*

In fiscal year 2017, sales in the Brake Discs business segment increased by 7.3 per cent compared with the previous year to €94.7 million (previous year €88.2 million).

The sales of the Brake Discs segment increased by 7.9 per cent. The product line of higher-value composite brake discs set a new record with unit sales of almost 600,000 (up 9.6 per cent on the previous year).

#### KEY PERFORMANCE INDICATORS: BRAKE DISCS

K EUR	2017	2016	Change %
Sales	94,701	88,249	7.3%
EBITDA	7,289	7,899	-7.7%
as % of sales	7.7%	9.0%	-
EBIT	3,151	3,511	-10.3%
as % of sales	3.3%	4.0%	-
Investments	10,140	6,508	55.8%
as % of sales	10.7%	7.4%	-

##### *EBITDA and EBITDA margin below target*

The segment's earnings before interest, tax, depreciation and amortisation (EBITDA adjusted) decreased in fiscal year 2017 by €0.6 million to €7.3 million. The EBITDA margin amounts to 7.7 per cent (previous year 9.0 per cent) and thereby falls short of the target of 10 per cent. Volume and product mix effects, coupled with improved productivity had a positive impact on the operating result. However, this contrasted with higher purchase costs for scrap metal and other raw materials and the associated contractual delay in adjusting material surcharges.

Depreciation and amortisation in the Brake Discs business segment of €4.1 million is €0.3 million below that of the previous year (€4.4 million).

Earnings before interest and tax (EBIT) decreased accordingly from €3.5 million to €3.2 million. The EBIT margin, measured against sales, decreased to 3.3 per cent, compared to 4.0 per cent in the previous year.

#### Net assets

##### NET ASSET POSITION

K EUR	2017	2016	Change absolute	Change %
<b>Non-current assets</b>	<b>139,204</b>	<b>136,625</b>	<b>2,579</b>	<b>1.9%</b>
of which other intangible assets	7,509	9,259	-1,750	-18.9%
of which property, plant and equipment	114,167	96,854	17,313	17.9%
Joint ventures accounted for using the equity method	0	16,412	-16,412	-100.0%
of which other (financial) assets	3,201	1,774	1,427	80.4%
<b>Current assets</b>	<b>116,893</b>	<b>91,306</b>	<b>25,587</b>	<b>28.0%</b>
of which inventories	45,524	46,378	-854	-1.8%
of which trade receivables	45,825	37,967	7,858	20.7%
of which liquid funds	3,868	3,616	252	7.0%
<b>Total assets</b>	<b>256,097</b>	<b>227,931</b>	<b>28,166</b>	<b>12.4%</b>

##### *Total assets increased by 12.4 per cent*

At the end of the fiscal year 2017 total assets were 12.4 per cent up on the previous year, a rise of €28.2 million. Assets rose by approximately €9.9 million on account of the first-time consolidation of LHT.

For example, the increase in goodwill (€0.4 million) and the customer base (€0.9 million) is fully attributable to the first-time consolidation of LHT. As the amortisation on the remaining intangible assets exceeds the value of the additions in the year, the residual carrying amount decreased by €1.8 million in comparison to the previous year.

Of the increase in property, plant and equipment as of the reporting date, an amount of €5.0 million is attributable to LHT. Otherwise, the increase is due to the investments made at the foreign locations. A total of €7.3 million was invested in China, Brazil, Canada and Romania.

The investment in the joint venture accounted for using the equity method was sold in the fourth quarter of 2017. The outstanding purchase price of €16.2 million is presented under current financial assets as at 31 December 2017, which explains most of the increase in current assets. The corresponding payment was received by SHW at the beginning of 2018.

With regard to the reduction in inventories of €0.9 million (which therefore decreased at a faster rate than sales) it should be considered that inventories of €2.2 million were added by LHT.

The increase in trade receivables as at the reporting date is largely a result of the significant increase in the December sales of the SHW Group in 2017 compared to the same period of the previous year (up €3.8 million to €29.3 million). In addition, an amount of €0.8 million is due to LHT.

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

## Financial position

### Financial strategy

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

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

- Securing a stable long-term capital structure – an equity ratio of at least 30 to 40 per cent
- Ratio of net financial debt to EBITDA (also in case of non-organic growth): less than 2.5
- Securing a sound cash base: On 4 August 2017 SHW AG entered into a new syndicated loan agreement securing credit lines totalling €80.0 million. The syndicate is led by Landesbank Baden-Württemberg and UniCredit Bank AG as the joint mandated lead arrangers. The creditor banks are Baden-Württembergische Bank, UniCredit Luxembourg S.A., Commerzbank Aktiengesellschaft, DZ BANK AG and Kreissparkasse Ostalb. The syndicated loan agreement has an agreed term of five years and an option for renewal. The syndicated financing arrangement is not secured. The interest rate is variable and is based on EURIBOR plus an interest margin between 0.7 per cent and 1.4 per cent per annum, depending on the agreed covenants. The covenants relate to (a) net gearing (ratio of net debt to EBITDA) and (b) the equity ratio. Both covenants were complied with as at 31 December 2017. As at 31 December 2017, the credit promised under the existing syndicated loan agreement was drawn on by an amount of €20.0 million in the form of two short-term loans and bank guarantees totalling €2.2 million.

In addition, the Company has the opportunity to issue new shares or to buy back its own shares. More details can be found in the section Corporate governance, Disclosures required by the law on corporate acquisitions.

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

SHW met all of the key points of its financial strategy in fiscal year 2017.

### FINANCIAL POSITION

K EUR	2017	2016	Change absolute	Change %
<b>Equity</b>	<b>124,904</b>	<b>121,349</b>	<b>3,555</b>	<b>2.9%</b>
<b>Non-current liabilities and accruals</b>	<b>40,348</b>	<b>36,546</b>	<b>3,802</b>	<b>10.4%</b>
of which other financial liabilities	2,633	1,208	1,425	118.0%
of which liabilities to banks	1,593	107	1,486	1,388.8%
<b>Current liabilities and accruals</b>	<b>90,845</b>	<b>70,036</b>	<b>20,809</b>	<b>29.7%</b>
of which liabilities to banks	20,445	1,876	18,569	989.8%
of which trade payables	46,353	34,802	11,551	33.2%
of which other pensions	10,831	10,524	307	2.9%
<b>Total assets</b>	<b>256,097</b>	<b>227,931</b>	<b>28,166</b>	<b>12.4%</b>

### Equity ratio at 48.8 per cent

As at 31 December 2017, the Group's equity has increased compared with the previous year by the Group's comprehensive income after tax amounting to €10.0 million. On the other hand, the profit distribution of €6.4 million made in 2017 for fiscal year 2016 had the opposite effect. Due to the sharp rise in the balance sheet total, the equity ratio decreased from 53.2 per cent to 48.8 per cent.



Non-current liabilities and provisions increased, largely on account of the non-current liabilities of LHT towards banks, leases (other financial liabilities) and deferred government grants (other non-current liabilities).

Current liabilities and provisions increased, particularly liabilities to banks on account of the use of two short-term loans of €10.0 million each. The increase in trade payables mainly results from the significant increase in business activity and investing activity in December 2017 in comparison to December of the previous year. In addition to these two positive factors, the decrease in financial liabilities had the opposite effect on the change in current liabilities and provisions. In particular, the cash outflow of the second capital instalment of €6.8 million in February 2017 to the joint venture, which has been sold in the meantime, needs to be mentioned.

#### Net working capital ratio within the target corridor

The net working capital ratio, measured against sales of the last twelve months, decreased from 12.2 per cent in the previous year to 11.2 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	2017	2016	Change absolute	Change %
Inventories	45,524	46,378	-854	-1.8%
Trade receivables	45,825	37,967	7,858	20.7%
Trade payables	-46,353	-34,802	-11,551	33.2%
<b>Net Working capital</b>	<b>44,996</b>	<b>49,543</b>	<b>-4,547</b>	<b>-9.2%</b>
as % of sales	11.2%	12.2%	-	-

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

At €31.4 million, the cash flow from operating activities in the fiscal year 2017 was significantly up on the level of the previous year of €20.8 million. This is largely due to effective working capital management.

The cash flow from investing activities in property, plant, and equipment and intangible assets of €32.2 million was approximately €7.4 million above the figure of the previous year, mainly on account of the foreign locations in which a total of €7.3 million was invested in 2017.

Free cash flow from operations was slightly negative, but improved considerably in comparison to the previous year.

Total free cash flow of €-9.9 million (previous year €-4.0 million) is dominated by two large payments. An amount of €2.3 million was paid for the new subsidiary, LHT, in fiscal year 2017 (first price instalment). In February 2017 the second capital tranche of €6.8 million was contributed to the joint venture (which has since been sold). The cash inflow from the sale of the investment in the joint venture of €16.2 million, presented under receivables on the reporting date, was received at the beginning of 2018.

#### DERIVATION OF THE CHANGE IN NET LIQUIDITY

K EUR	2017	2016
Cash flow from operating activities	31,433	20,759
Cash flow from investing activities (intangible assets and property, plant and equipment)	-32,190	-24,789
<b>Operating free cash flow</b>	<b>-757</b>	<b>-4,030</b>
Cash flow from investing activities (subsidiaries, financial assets)	-9,118	0
<b>Total free cash flow</b>	<b>-9,875</b>	<b>-4,030</b>
Other items (particular dividend payments)	-9,928	-6,665
<b>Change in net liquidity</b>	<b>-19,803</b>	<b>-10,695</b>

#### Net liquidity amounts to €-18.2 million

Net liquidity of the SHW Group totalled €-18.2 million as at 31 December 2017. On the previous year's reporting date, net liquidity amounted to €+1.6 million.

The decrease in net liquidity is a result of the negative total free cash flow of €9.9 million and other cash outflows. For example, dividend payments of €6.4 million were made and liabilities to banks of €2.5 million carried by LHT were assumed.

As at 31 December 2017, the SHW Group had liquid funds of €3.9 million (previous year €3.6 million). Of the liabilities to banks of €22.0 million, an amount of €20.0 million relates to two short-term loans taken out under the terms of the new syndicated bank loan (reference is made to the explanations in the section on Financial position, Financial strategy), €1.8 million to four bullet loans and €0.2 million to overdrafts on existing current account facilities.

## Substantial increase in investments in property, plant and equipment

Additions to property, plant and equipment and intangible assets amounted to €34.6 million in fiscal year 2017 (previous year €24.7 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 from finance leases.

The Pumps and Engine Components business segment recorded additions of €23.3 million (previous year €17.6 million), including investments for research and development amounting to €1.4 million (previous year €0.9 million). These investments focused on new assembly lines, processing centres and a continuous sintering furnace. The Brake Discs business segment invested a total of €10.1 million (previous year €6.5 million) mostly on a new machining hall, new machining lines for brake discs and the completion of the automated aluminium casting line.

There are sufficient financing sources available from the new syndicated bank loan in addition to the cash flow from operating activities projected for fiscal year 2018 to finance the investments already commissioned (purchase obligations for non-current assets) and the investments planned for fiscal year 2018.

## ROCE influenced by group's expansion

### ROCE

K EUR	2017	2016
Goodwill	7,441	7,055
Customer base	923	0
Other intangible assets	7,509	9,259
Property, plant and equipment	114,167	96,854
Deferred tax assets	5,963	5,271
Joint ventures accounted for using the equity method	0	16,412
Other (financial) assets (non-current)	3,201	1,774
Inventories	45,524	46,378
Trade receivables	45,825	37,967
Other (financial) assets	21,676	3,345
<b>Capital employed asset item</b>	<b>252,229</b>	<b>224,315</b>
Deferred tax liabilities	-2,247	-2,448
Other pensions (non-current)	-5,386	-4,747
Other financial liabilities (non-current and non-interest bearing)	-330	-319
Other liabilities (non-current)	-584	0
Trade payables	-46,353	-34,802
Other financial liabilities (current and non-interest bearing)	-4,602	-14,043
Income tax liabilities	-74	-1,619
Other pensions (current)	-10,831	-10,524
Other liabilities (current)	-8,211	-7,054
<b>Capital employed liability item</b>	<b>-78,618</b>	<b>-75,556</b>
Capital Employed	173,611	148,759
EBIT	17,501	18,938
Profit of joint ventures accounted for using the equity method	-1,170	252
EBIT including profit of joint ventures accounted for using the equity method	16,331	19,190
<b>ROCE</b>	<b>9.4%</b>	<b>12.9%</b>



The return on capital employed (ROCE) decreased from 12.9 per cent to 9.4 per cent in the past fiscal year.

The decrease in ROCE is largely attributable to the investment-related increase in property, plant and equipment. In fiscal year 2017 there was also a non-recurring deconsolidation loss in connection with the sale of a joint-venture-investment.

## Overall statement on the economic position

Given the circumstances, the Management Board of SHW AG considers the group's business performance in 2017 to be satisfactory overall. As previously announced, the group's sales of €400.6 million (previous year €405.8 million) and the EBITDA margin of 10.3 per cent (previous year 10.7 per cent) lie in the lower part of the range expected for the fiscal year. After taking account of a slight decline in depreciation and amortisation, EBIT of €17.5 million was generated in the year (previous year €18.9 million). With the financial result unchanged, a deconsolidation loss associated with the sale of the share held in the Chinese brake disc joint venture, which was caused by foreign currency translation effects, led to a net profit for the year of €10.2 million (after income tax), compared to €12.8 million in the previous year.

Thanks to targeted working capital management, it was possible to improve the net working capital ratio, measured against the group's sales of the last twelve months, from 12.2 per cent recorded in the previous year to 11.2 per cent, which lies within the mid-term targeted corridor of 11 per cent to 12 per cent.

With an equity ratio of 48.8 per cent and net liquidity of € - 18.2 million, SHW's financial profile remains above average for its industry. At the beginning of 2018 a payment of over € 16 million was received from the sale of the share held in the Chinese brake disc joint venture.

With its innovative product portfolio and its current orders, the Management Board of SHW AG considers the group to be well positioned to achieve stronger growth than the underlying vehicle market from 2018 onwards. Moreover, the group has various equity and debt instruments at its disposal to build on its market position in selected fields of business and regions, also via acquisitions and partnerships.

## ANNUAL FINANCIAL STATEMENTS OF SHW AG

The Combined Group Management Report and Management Report for fiscal year 2017 have been combined in accordance with Section 315 (5) of the German Commercial Code (HGB) in conjunction with Section 298 (2) HGB. The annual financial statements and the Combined Group Management Report and Management Report are simultaneously published in the Federal Gazette (Bundesanzeiger).

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

### Comments on the result of operations

#### INCOME STATEMENT

K EUR	2017	2016
<b>1. Sales</b>	<b>1,000</b>	<b>1,000</b>
2. Cost of sales	-1,000	-1,000
<b>3. Gross profit</b>	<b>0</b>	<b>0</b>
4. General administrative expenses	-3,378	-2,769
5. Other operating income	729	491
6. Other operating expenses	-827	-110
7. Income from investments	18,611	19,818
8. Income from tax levies paid over by controlled companies	2,570	2,370
9. Income from loans of financial assets	39	26
10. Other interest and similar income	663	410
11. Interest and similar expenses	-442	-166
12. Income taxes	-5,774	-5,813
<b>13. Earnings after tax</b>	<b>12,191</b>	<b>14,257</b>
14. Other taxes	-26	-21
<b>15. Net profit for the year</b>	<b>12,165</b>	<b>14,236</b>
16. Profit carried forward	12	113
<b>17. Net retained profit</b>	<b>12,177</b>	<b>14,349</b>

Earnings after income tax decreased from €14.3 million in the previous year to €12.2 million. This is largely attributable to the following factors:

- The increase in general administrative expenses can be attributed to non-recurring costs associated with the listing of SHW AG and higher pension expenses.
- Net balance of other operating income and other operating expenses: in the previous year much higher income was recorded from the reversal of provisions.
- The decrease in investment income is on account of the lower profits transferred by SHW Automotive GmbH.

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

### Comments on net assets and financial position

#### STATEMENT OF FINANCIAL POSITION (SUMMARISED)

K EUR	31.12.2017	31.12.2016
Non-current assets	144,339	143,389
Current assets, including deferred expenses	30,711	27,366
<b>Total assets</b>	<b>175,050</b>	<b>170,755</b>
Equity	173,220	167,492
Accruals and liabilities	1,830	3,263
<b>Total capital</b>	<b>175,050</b>	<b>170,755</b>

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

Current assets mainly comprise receivables from profit transfers of €18.6 million (previous year €19.8 million) as well as an interest-bearing loan extended to SHW Automotive GmbH of €11.0 million (previous year €6.9 million). VAT credits increased by €0.3 million to €0.5 million.

SHW AG's equity increased by €5.7 million compared with the reporting date of the previous year. This increase resulted from the net profit for fiscal year 2017 of €12.2 million less a dividend payment to the shareholders of €6.4 million. The equity ratio thereby increased from 98.1 per cent in the previous year to 99.0 per cent.

The main reason for the decrease in provisions and liabilities is a sharp fall in income tax liabilities.

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



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

Due to the factors presented above, the net profit for 2017 was below expectations.

For 2018 we are forecasting a much higher net profit in comparison to 2017 on account of the fact that extraordinary administrative burdens incurred in 2017 no longer apply and an improvement in the earnings of SHW Automotive GmbH is budgeted. Due to the interdependences of SHW AG with the group companies, we refer to our comments on the SHW Group in the "Outlook" section.

# RISK REPORT

## Risk management principles

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

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

## Organization of Risk Management

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

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

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

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

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

General risk management process

SHW's risk management process comprises four steps:

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

### Risk identification and inventory

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

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

### Risk assessment

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

### Risk management

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

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

## Risk monitoring and reporting

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

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

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

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

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

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

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

internal guidelines. Group-wide compliance with statutory and internal rules and regulations is a prerequisite for this.

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

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

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

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

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

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



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

#### PROBABILITY

#### 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	<= € 1.0 million
Low	
Limited effects on business development, results of operations, net assets and financial position	<= € 0.25 million
Marginal	
Minor effects on business development, results of operations, net assets and financial position	< € 0.05 million

Very low  
< 10 %

Low  
>= 10 % to  
< 30 %

Medium  
>= 30 % to  
< 60 %

High  
>= 60 % to  
< 80 %

Very high  
>= 80 %


## Strategic risks

### Macroeconomic and industry risks

The business development of the SHW Group as a supplier for the automobile industry is directly and substantially dependent upon the production of new vehicles as well as engines and transmissions. For the year 2018, the IHS research institute currently predicts moderate volume growth of light vehicles, engines and transmissions produced worldwide (see “Outlook for the Overall Economy and for the Industry”).

The Pumps and Engine Components business segment and the Brake Discs business segment are heavily dependent on the production of vehicles, engines and transmissions by their customers in Europe and their exports to North America and China. An economic downturn in these sales markets could have a negative impact on consumers’ purchasing behaviour and dim the growth outlook of these business segments as a result. Moreover, various automobile manufacturers intend to expand their own engine and transmission production activities in countries such as China, Brazil and the USA / Mexico. In addition, it remains to be seen to what extent the protectionist aspirations declared through the political decision-making processes – such as Brexit and US economic policies – will actually be implemented and dampen exports. In all three cases, there is a risk that the installed production and manufacturing capacities of the German locations of the business segments cannot be fully utilised.

To reduce this risk, the SHW Group is working on establishing and expanding its pumps and engine components business in Brazil, North America and China (see the section on the Background to the group, Strategic field: Internationalisation).

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

As things currently stand, a sharp decline in the production figures of new vehicles, engines and transmissions in the three key automobile markets – China, North America and Europe – is not considered likely in 2018.

### Market structure risks

SHW’s customers are exposed to increasingly demanding regulatory CO<sub>2</sub> limits for their vehicle fleets. The trend is towards increasingly powerful and simultaneously more fuel-efficient and less-polluting engines as well as alternative drive solutions, such as hybrid and electrical vehicles.

In light of the current discussion surrounding breaches of permitted limits and the proposal to ban diesel-powered vehicles on account of NO<sub>x</sub> emissions and install mandatory quotas for alternative drive technologies, there could be structural changes on the market for internal combustion engines in Europe, North America, and China.

SHW’s future success thus depends above all on the Company’s ability to develop new and improved CO<sub>2</sub>-relevant products for all drive technologies and to bring these to market in good time.

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

To limit the risks arising from a possible structural change, SHW will also focus on the development and production of primary and auxiliary transmission oil pumps. SHW has developed primary transmission oil pumps in the form of two-stage rotary vane pumps that afford significant benefits in terms of weight, effectiveness and size. The success of this strategy can be seen in the order to produce primary and auxiliary transmission oil pumps for a leading Chinese automobile manufacturer, with production starting in 2017. Additionally, by establishing and expanding its plants in North America and China – both markets are expected to still have a very high share of gasoline engines in 2020 – the product portfolio will be more balanced.

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

### Risks of consolidation in the industry and competition

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

## Operating risks

### Market penetration risks

SHW intends to pursue 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 for follow-up projects or only being awarded such projects to an inadequate extent. On the other hand, start-up costs may deviate from the budgeted figures, both in terms of timing and volume. Other risks could arise from the local requirements or potential intercultural problems.

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

### Customer risks

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

In the past fiscal year, the SHW Group generated sales with two customers which exceeded 10 per cent of group sales. The share of sales realised with SHW's largest customer increased from 41.4 per cent to 41.9 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 (China, North and South America) and fields of application and 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, 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 the premature, unscheduled end of a customer project – which results in deviations from the Company's sales planning might entail an increase in the personnel expense ratio, owing to lower utilisation of capacity, and thus negatively affect the Company's profitability, depending on the duration and scope of these reduced call-off volumes.

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, 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 AG and negatively affect its ability to reach its earnings goals.

### Supplier risks

The SHW Group is dependent upon timely delivery of raw materials and of the components necessary for production from its



suppliers. Late deliveries may have a significant impact on the business operations of the SHW Group.

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

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

### IT risks

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

The SHW Group has implemented a large number of measures in order to reduce these IT risks as far as possible. Key corporate data are mirrored at the Company's data centre. In addition, we protect ourselves against the risk of data loss using back-up systems. In addition, 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 are assessed by means of standardised processes, e.g. comprehensive due diligence, and a careful analysis of opportunities and risks and assessed with regard to their risks and returns. After passing all the stages of the approval process, the Management Board and the Supervisory Board of SHW decide on whether to execute the acquisition.

However, the objectives pursued by the acquisition, 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 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 SHW Group's foundry at its Tuttingen-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 prior year. At present, no lawsuits with customers are pending.

A dispute with a supplier of SHW relating to cancellation costs asserted by the supplier is currently pending before the appeals court. According to the legal counsel of SHW, the risks are adequately covered by provisions in the balance sheet.

In August 2017 SHW was notified that a competitor had filed action for breach of patent. The competitor intends to sue SHW for an alleged breach of patent, ordering SHW to cease and desist and pay damages, among other measures. Based on a legal appraisal of the matter, SHW is of the opinion that a successful defence against the claims is more likely than not, as SHW considers the patent to be unenforceable in relation to the alleged infringement. The measures required to defend the Company against the suit have been initiated. The course and outcome of the patent infringement action are not foreseeable at present.

The key legal risks presented above relate entirely to the Pumps and Engine Components business segment.

### Compliance risks

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

### Tax risks

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

## Financial risks

### Counterparty credit risk

Continuing growth in key vehicle markets has resulted in the earnings of the global customers of the SHW Group remaining healthy in the calendar year 2017. The risk of bad debts has not increased for these customers. Where necessary, the terms of payment and the credit limits are adjusted and regularly monitored. On the supplier side, there has been no significant change in the economic situation. Due to our multiple-supplier strategy, we believe the risk of losing a key supplier remains low.

### Financing risks

With an equity ratio of 48.8 per cent, net liquidity as at 31 December 2017 of € -18.2 million and sufficient free credit lines, the financial base of the SHW Group is extremely robust. It should be considered that a cash payment of over €16 million was received at the beginning of 2018 from the sale of the participation in the joint venture.

The new syndicated financing agreement concluded in fiscal year 2017 for an amount of €80.0 million is presented in the section Financial position under Financial strategy. The applicable financial covenants were complied with in fiscal year 2017.

As SHW can fall back on additional debt and equity instruments (see the sections on Financial position, Financial strategy, Corporate governance and Disclosures required by the law on corporate acquisitions and the Notes to the Consolidated financial statements) 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 factor and goods markets. This also applies to the new location in Romania. Even with the start of deliveries to customers in Brazil and China (Pumps and Engine Components business segment), no additional currency translation risks have arisen for the SHW Group since sales and costs are generated in the local currency. Translation risks will primarily arise from the development of the exchange rates of the Brazilian real and the Chinese renminbi 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 2017, interest rates in the euro area remained at a very low level. The European Central Bank has announced that it will leave its low interest rate policy intact. We therefore do not envisage any significant interest rate rises in the near future.

### Impairment risks

Some of the assets carried by the SHW Group are intangibles, including goodwill. As at 31 December 2017, 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 2017 was conducted based on the planning for the period from 2018 to 2022, and assumptions regarding future developments.

While the SHW Group's goodwill was classified as non-impaired as at 31 December 2017, even after considering the scenario analyses, the need for impairment at a future date cannot be ruled out in principle.

## Major risks in fiscal year 2018

With regard to the risk categories described above, we perceive significant risks in the current year with regard to the following: macroeconomic and industry risks, cost risks, and legal risks.

### Assessment of the overall risk position

In our view the SHW Group's overall risk situation is manageable at the present time. At present, there are 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. As at 31 December 2017, no significant lawsuits were pending against the SHW Group. Adequate risk provisions have been made for current proceedings.

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

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



## OPPORTUNITIES

### Principles of managing opportunities

We understand opportunities to mean possible future developments or events that may result in a positive deviation from a forecast or target for the SHW Group. Our opportunities management system is based upon the goals and strategies of the two business segments, Pumps and Engine Components and Brake Discs. The operational management of these business segments has direct responsibility for early and regular identification and analysis of opportunities. Opportunities management is an integral part of the SHW Group's planning and management systems. The market and competition, relevant cost components and key success factors are intensively examined in this regard. Specific goals for the business segments are then derived and set.

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

The key opportunities for SHW are presented below.

### Group-wide opportunities

#### Significant efforts still required in order to achieve the 2021 emission target

The vehicle manufacturers must undertake further considerable efforts in order to achieve the emission target of 95 g/km set by the European Commission for the year 2021.

The automobile industry has various means of achieving this target. The focus is on optimising the conventional combustion engine (direct injection, cooled exhaust gas recirculation, downsizing and turbocharging, variable valve train, cylinder deactivation, variable compression, combustion processes), transmission optimisation (automated manual transmissions, dual clutch transmissions, automatic powershift transmissions or stepped automatic transmissions) and reducing vehicle weight. It is also investing considerable resources in the development of hybrid and fully electric vehicles.

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<sub>2</sub> 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<sub>2</sub> 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, following its two years of consolidation in 2016 and 2017, to achieve stronger growth than the market for engines, transmissions and light vehicles.

Besides organic growth, 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.

### 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 and has delivered prototypes to a major European automobile manufacturer. In this regard, the Company has shipped prototypes to a European car maker.

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

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

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

Due to its innovative product portfolio, its market position and its financial strength, the Company is confident of its ability to successfully handle the resulting opportunities as well as the challenges associated with the above-mentioned risks.

## FORECAST

### Outlook for the overall economy and for the industry

#### Global economy: strong GDP growth, low inflationary pressure

Based on the assessment of the economists of Bankhaus Lampe, the upturn in the global economy is set to continue into 2018 and the situation will remain relaxed with regards to inflation. Global GDP should grow by 3.7 per cent in 2018. This robust growth will not only be driven by the developed countries, with the euro area expected to display strong economic activity, but also by emerging countries - Asia in particular - which should contribute to higher GDP growth on account of an upturn in their economies. China will continue to steer towards high growth. Russia and Brazil will most probably come out of recession. Although the high GDP growth rates seen in earlier years are unlikely to be matched, the economies of both countries are progressing well. The economic framework for 2018 (including an upturn in world trade, favourable interest rates) is favourable and monetary stimulus is expected to remain in place for the most part. Apart from Japan, where there are still no signs at all of a change in course by the Bank of Japan, it is anticipated that other industrial nations will cautiously shift towards less (ultra-)expansive monetary policies.

In the euro area the strong economic upturn will continue in 2018 on account of the continuing (ultra-)expansive monetary policy, the neutral fiscal policies and the improvement in the global economy. GDP growth is forecast to come to 2.3 per cent. The upswing should remain on a relatively broad footing – with regard to both the individual states of the EU as well as the individual components of GDP. Wage rises and continued improvement on the labour market will continue to be a significant driver of growth in private consumption. On account of the upturn in the global economy, the need to make good on a lack of investment in recent years and attractive terms and conditions for finance, the perspectives

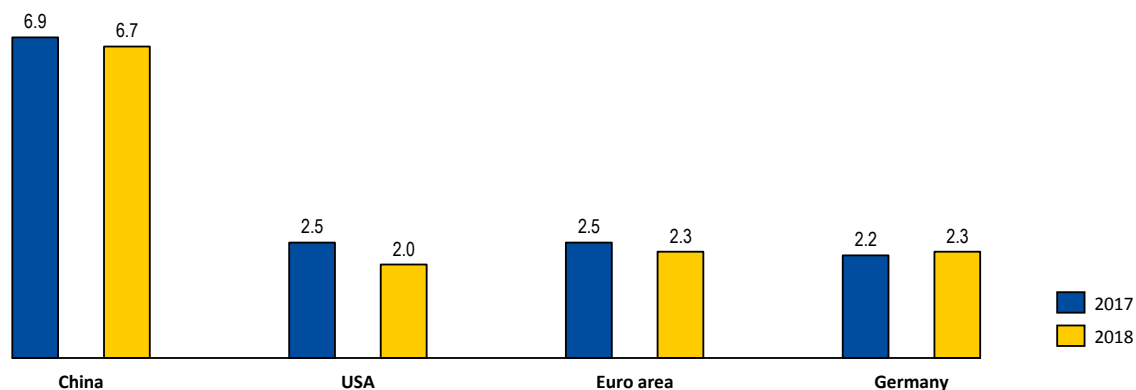
are also bright with regard to capital investments. Although exports should rise due to the favourable global economy, their contribution to GDP growth will probably be dampened by continuing rapid growth in imports as domestic demand is likely to remain strong.

The boom-phase of the German economy is anticipated to continue in 2018. However, due to bottlenecks that are starting to appear in some places, the economy is not likely to keep up such speed. GDP growth of 2.3 per cent is forecast (previous year 2.2 per cent). At the same time, economic performance will continue to grow faster than production potential. Positive stimulus can be found primarily in private consumption and investment activity.

In the USA, the forecast for GDP growth has been set at 2.0 per cent (previous year 2.5 per cent). Growth of half a percentage point is assumed from the tax reform which will come into force at the beginning of 2018 and also that the Federal Reserve will be cautious when scaling back its expansionist monetary policies to address the force of inflation, which remains moderate. Due to the tax reform, households with a high income but generally lower consumption than average will be given tax relief, as well as companies. While private consumption in 2018 is not expected to make any greater contribution to growth than in 2017, the stronger investment activity by companies and more expansive fiscal policies will support growth. In the long term, the growth-curbing effects of more restrictive immigration and trade policies and growing government debt are likely to outweigh the positive fiscal stimulus.

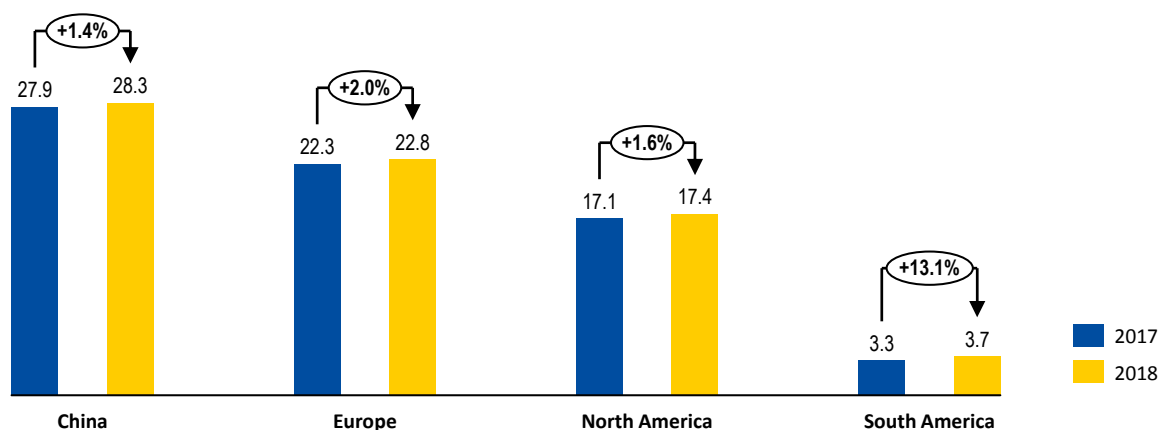
China's government is expected to continue to pursue its policy of a controlled cooling of the economy. The economists at Bankhaus Lampe predict growth of 6.7 per cent in 2018, compared to 6.9 per cent in 2017. Large-scale overcapacity and high debt levels, particularly of companies, continue to represent a latent risk for the economic outlook, which the government will struggle to keep under control. If economic activity threatens to dip too much below the government's long-term growth target of 6.5 per cent, new government support measures – particularly in the area of infrastructure – are probable.

#### GDP GROWTH BY REGION IN %



Source: Forecast for 2017/18 - Bankhaus Lampe Economic Research

## LIGHT VEHICLE PRODUCTION BY REGION (IN M UNITS)



Source: IHS – January 2018

### Very moderate rise in vehicle production

The IHS market research institute expects global light vehicle production (vehicles < 6 tonnes) to increase slightly by 1.9 per cent in 2018, from 95.3 million vehicles to 97.1 million vehicles.

In Europe strong production growth is forecasted in Spain (+ 4.4 per cent to 3.0 million units) and the Slovak Republic (+10.3 per cent to 1.0 million units). In Russia vehicle production in the current year should rise by 5.2 per cent to 1.5 million units.

A slight decrease of 1.2 per cent to 5.8 million vehicles is predicted for the German market. Likewise, production volume in Turkey will ease (-7.1 per cent to 1.5 million vehicles).

With regard to China and North America, IHS assumes there will be a slight increase in vehicle production. In South America, by contrast, rapid growth of 13.1 per cent to 3.7 million vehicles is expected. Most of this growth should be generated in Brazil.

### Gasoline engines still a growth driver

Based on the expected production figures for light vehicles, global engine production is expected to enjoy slight growth of 1.9 per cent to 97.1 million units. As in the previous year, growth can mostly be credited to gasoline engines (+2.1 per cent to 75.5 million units). A slight decrease in the volume of diesel engines to 18.6 million units is anticipated (-0.8 per cent on the previous year).

In China, engine production will increase by approx. 1.8 per cent to 28.2 million units. The largest volume growth will be in gasoline engines, which are expected to see growth of 1.4 per cent to 26.1 million units. Production of electric engines should increase by 32.2 per cent to just under 0.6 million units (previous year 0.4 million units).

With growth of 56.6 per cent to 114 thousand units, the production of electric engines in Europe will also enjoy strong growth. However, in the overall context this type of powertrain will continue to play a subordinate role.

In sum, gasoline engines account for 79.4 per cent of the total market, followed by diesel engines, which account for 19.1 per cent. The remainder is accounted for by electric engines.

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 continuing to gain ground worldwide

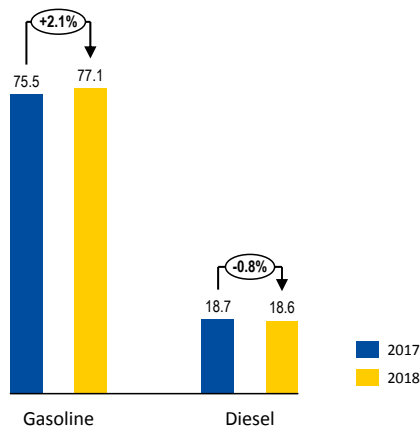
As in the previous year, growth in the production volume of transmissions can be attributed to automatic transmissions. Global production should increase by 4.1 per cent to 58.6 million units in 2018. Transmission production in China will play a decisive role in this development. IHS is forecasting transmission production growth of 9.1 per cent in the country to 12.3 million units. In Europe production of automatic transmissions is expected to grow by 6.7 per cent to 9.5 million units.

Based on estimates by the IHS research institute, production of manual transmissions will decline by 2.4 per cent worldwide. This will particularly affect China (down 6.1 per cent to 11.5 million units) and Europe (down 2.6 per cent to 13.3 million units).

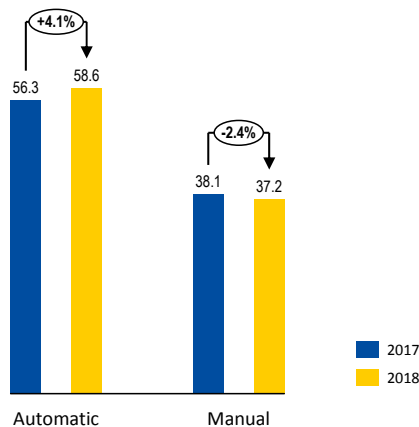
Thanks to its product portfolio in the primary and auxiliary transmission oil pumps segment, SHW is optimistic that it will be able to benefit from this positive growth trend for automatic transmissions.



ENGINE PRODUCTION WORLDWIDE (IN M UNITS)



TRANSMISSION PRODUCTION WORLDWIDE (IN M UNITS)



Source: IHS – January 2018

## Outlook for the group

### Sales expected to range between €450 million and €470 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 €450 million to €470 million in the fiscal year 2018.

Of this total, the Pumps and Engine Components business segment is forecast to generate sales of between roughly €345 million and €360 million and the Brake Discs business segment sales of between €105 million and €110 million, with the share of higher-value composite brake discs continuing to increase in 2018.

### EBITDA margin expected to range between 11 per cent to 12 per cent

SHW continues to forecast an EBITDA margin in a range of between 11 per cent and 12 per cent (previous year 10.3 per cent) for the fiscal year 2018. This forecast is based on the sales and earnings contributions of the non-European locations of the Pumps and Engine Components business segment and a higher sales and earnings contribution of the Brake Discs business segment. EBITDA should range between €49.5 million and €56.4 million.

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

The optimisation of the Company's working capital remains a further focus area of the Management Board in fiscal year 2018. It aims – against the backdrop of the expansion of the global production network – to achieve a sustainable net working capital ratio – i.e. the ratio of net working capital to sales – on a monthly basis of 11 per cent to 12 per cent.

### Significant investment programme launched for internationalisation

In order to support its strategic goals, the Company is planning investments in a range estimated between €35 million and €37 million for fiscal year 2018 in connection with its development of new markets in China and North America as well as the establishment of the new production site in Romania.

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

Depreciation will amount to approx. €25 million to €27 million.

### Dividend policy: sustainable payout ratio of 30 to 40 per cent

The SHW Group is pursuing a sustainable, performance-oriented dividend policy. While complying with statutory restrictions and considering the financing requirements of the SHW Group, the Company plans to continue to distribute between 30 per cent and 40 per cent of its reported group net profit for the year to the Company's shareholders as a dividend. In light of this, the Management Board has decided to propose to the Supervisory Board that it propose a dividend of €0.50 per share at the Annual General Meeting which will be held in Heidenheim on 8 May 2018.

## Overall statement on future development

In the absence of a significant change in the framework conditions for the current fiscal year, the Management Board of SHW AG envisages sales of €450 million to €470 million together with an EBITDA margin of 11 per cent to 12 per cent. In fiscal year 2018, the Management Board will also put particular focus on expanding the global production network.

## SUBSEQUENT EVENTS

The report on significant events after the balance sheet date must be included in the Notes to the Consolidated Financial Statements in accordance with Section 314 (1) No. 25 HGB. Accordingly, please refer to Note (29) in the Notes to the Consolidated Financial Statements.

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

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

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

## CORPORATE GOVERNANCE

### Declaration on Corporate Governance in accordance with Sections 289f and 315d of the German Commercial Code (HGB) and Corporate Governance Report in accordance with No. 3.10 of the German Corporate Governance Code

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

### Remuneration report

#### Remuneration report

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

#### Management Board

##### Remuneration system

In accordance with the requirements of the German Stock Corporation Act (AktG) and the recommendations of the German Corporate Governance Code, the remuneration of the members of the Management Board consists of fixed (non-performance-related) and variable (performance-related) components. The variable remuneration consists of an annual bonus, that makes up 40 per cent and a rolling sustainability bonus that makes up 60 per cent, half of which is determined on a two-year assessment basis and the other half on a three-year assessment basis. The remuneration components are aligned so that they are appropriate individually and collectively while considering the duties of the

individual Management Board member, his or her personal performance and the economic situation, the performance and the future prospects of SHW AG.

##### Non-performance-related remuneration components

The members of the Management Board receive a fixed annual remuneration which is paid out in twelve equal monthly instalments. In addition, the members of the Management Board receive fringe benefits in the form of a company car, insurance contributions or the conclusion of insurance policies for the Management Board members, including the payment of the insurance premiums. In each case, the Company's expenses for these fringe benefits may not exceed €200 thousand per annum.

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

##### Variable remuneration components

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

The first element of the variable Management Board remuneration is the annual bonus relating to the respective fiscal year, accounting for 40 per cent of the target bonus. This is determined on the basis of the achievement of targets which refer to specific performance indicators of the Company and its subsidiaries and affiliated companies (jointly the SHW Group). 70 per cent of this is dependent on the development of the SHW Group's EBITDA and 30 per cent on the development of the SHW Group's average monthly working capital ratio. Key benchmarks for measurement of the level of target achievement are the EBITDA and the average monthly working capital ratio targets for the SHW Group defined in the annual budget approved by the Supervisory Board for the relevant fiscal year. The annual bonus payable for a fiscal year is determined on the basis of the audited and adopted Consolidated Financial Statements of SHW AG and paid out subsequently in the following year. In determining the level of target achievement, the Supervisory Board may appropriately consider any extraordinary developments. Moreover, the calculated amount will be reduced if the financial ratios (covenants) specified in the relevant credit and debt-financing agreements of the SHW Group are not complied with in the relevant fiscal year. If the target level is exceeded, the annual bonus may exceed the applicable pro rata target bonus. However, the annual bonus may not exceed twice the pro rata target bonus.

The second variable remuneration element is the "sustainability bonus", which accounts for 60 per cent of the target bonus. For its part, half of the sustainability bonus is calculated on a two-year assessment basis and the other half on a three-year assessment basis. Its amount reflects the Company's share price development in relation to the benchmark index DAXsector Automobile Performance in the current fiscal year and a following year (two-year assessment basis) respectively in the current fiscal year



and two following years (three-year assessment basis). The relevant share price is determined as a 90-day average price at the end of the respective year. Full target achievement occurs if the stock exchange price development matches the performance of the benchmark index in the relevant period. The sustainability bonus will be increased or reduced in relation to the pro rata target bonus to the same extent as the share price of the SHW share outperforms or underperforms the benchmark index in the relevant period. However, it may not exceed 150 per cent (for the Chief Executive Officer, 200 per cent) of the pro rata target bonus. The calculated sustainability bonus will be paid out two months after expiry of the relevant assessment period.

#### Post-retirement benefits

The pension arrangement with the current members of the Management Board that was introduced in the reporting year to meet the corresponding commitments, and therefore also with retroactive effect in some cases, contains the following provisions:

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

The basis for calculating the pension benefits are regulated in the individual contractual clauses on length of service, the annual premium and the applicable annuity table.

The amount of the individual benefit is calculated on an annual contribution of 18.50 per cent of the fixed remuneration paid for the services of the respective member of the Management Board in the respective calendar year and an age-related annuity factor (annual pension component). The parameters underlying the age-related annuity factor are reviewed regularly every three years

and adjusted as needed. The (annual) pension is the sum of all fixed pension components over the length of service used to determine the pension until a triggering event for the pension occurs. The vested benefit entitlements (annual pension) amount to €12 thousand for Dr. Frank Boshoff, €3 thousand for Mr. Andreas Rydzewski and €4 thousand for Mr. Martin Simon.

After a triggering event, the pensions are raised by 1.25% per annum. If a board member leaves the Company prior to a triggering event, the vested benefit accrued until the date of departure remains with the director concerned. To cover its pension obligations, the Company can take out insurances.

The net present value of the pension obligations amount to €236 thousand for Dr. Frank Boshoff (pension expense in 2017: €89 thousand), €59 thousand for Mr. Andreas Rydzewski (pension expense in 2017: €55 thousand) and €88 thousand for Martin Simon (pension expense in 2017: €63 thousand).

There is a vested pension commitment towards the former Chairman of the Management Board, Dr. Krause, based on his contract for management services from the year 2000. It essentially comprises the same provisions.

The employment relationship with the former Chief Executive Officer, Dr. Krause, was terminated with effect from 30 April 2013 and thus before he reached the age of 65; his pension entitlement was reduced accordingly. This entitlement has become vested in accordance with statutory provisions. As of the reporting date, the pension obligation to Dr. Krause described above gave rise to liabilities of approx. €87 thousand, measured in accordance with IAS 19.

#### Management Board remuneration in 2017 in accordance with the German Corporate Governance Code

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

## BENEFITS GRANTED TO THE MANAGEMENT BOARD FOR THE FISCAL YEAR

K EUR	Dr Frank Boshoff Chief Executive Officer (CEO) Joined: 1 July 2015				Andreas Rydzewski Member of the Management Board Joined: 1 October 2008				Martin Simon Chief Financial Officer (CFO) Joined: 1 September 2016			
	2016	2017	2017 (Min.)	2017 (Max.)	2016	2017	2017 (Min.)	2017 (Max.)	2016	2017	2017 (Min.)	2017 (Max.)
<b>Benefits granted</b>												
Fixed compensation	330	323 <sup>1)</sup>	323	323	250	250	250	250	77 <sup>2)</sup>	230	230	230
Fringe benefits	20	20	20	20	16	16	16	16	8	16	16	16
<b>Total</b>	<b>350</b>	<b>343</b>	<b>343</b>	<b>343</b>	<b>266</b>	<b>266</b>	<b>266</b>	<b>266</b>	<b>85</b>	<b>246</b>	<b>246</b>	<b>246</b>
One-year variable compensation												
Annual bonus 2016	108 <sup>3)</sup>	-	-	-	60 <sup>3)</sup>	-	-	-	20 <sup>2)</sup>	-	-	-
Annual bonus 2017	-	108 <sup>3)</sup>	0	216	-	60 <sup>3)</sup>	0	120	-	48 <sup>3)</sup>	0	96
Multiple-year variable compensation												
Sustainability bonus 2016 (2-year period)	81 <sup>**)</sup>	-	-	-	45 <sup>5)</sup>	-	-	-	20 <sup>2)</sup>	-	-	-
Sustainability bonus 2016 (3-year period)	81 <sup>**)</sup>	-	-	-	45 <sup>5)</sup>	-	-	-	-	-	-	-
Sustainability bonus 2017 (2-year period)	-	81 <sup>**)</sup>	0	162	-	45 <sup>**)</sup>	0	68	-	36 <sup>**)</sup>	0	54
Sustainability bonus 2017 (3-year period)	-	81 <sup>**)</sup>	0	162	-	45 <sup>**)</sup>	0	68	-	36 <sup>**)</sup>	0	54
<b>Total</b>	<b>620</b>	<b>613</b>	<b>343</b>	<b>883</b>	<b>416</b>	<b>416</b>	<b>266</b>	<b>522</b>	<b>125</b>	<b>366</b>	<b>246</b>	<b>450</b>
Pension expense	-	226 <sup>6)</sup>	226	226	-	55 <sup>7)</sup>	55	55	-	85 <sup>8)</sup>	85	85
<b>Total compensation</b>	<b>620</b>	<b>839</b>	<b>569</b>	<b>1,109</b>	<b>416</b>	<b>471</b>	<b>321</b>	<b>577</b>	<b>125</b>	<b>451</b>	<b>331</b>	<b>535</b>

<sup>1)</sup> These figures correspond to the target value (i.e. 100 per cent target achievement) for the annual bonus.

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

<sup>1)</sup> With reference to the supplementary industrial agreement agreed on for the Bad Schussenried facility, Dr. Frank Boshoff has voluntarily waived his 2.272 per cent fixed remuneration since January 2017.

<sup>2)</sup> Pro rata temporis; member of the Management Board since 1 September 2016.

<sup>3)</sup> The target annual bonus amounted to €55 thousand for the period up to 31 December 2015, and to €60 thousand from 1 January 2016.

<sup>4)</sup> For the fiscal year 2016, Mr. Martin Simon was promised a non-performance-related bonus totalling €40 thousand; half of this amount (€20 thousand, shown under "Annual bonus 2016") was paid out after the close of 2016. The other half (€20 thousand, shown under "Sustainability bonus 2016 (2 or 3-year period)") was paid out after the close of 2017.

<sup>5)</sup> The target sustainability bonus amounted to €82.5 thousand for the period up to 31 December 2015 and to €90 thousand from 1 January 2016.

<sup>6)</sup> The pension agreement was concluded in 2017. The pension expense for 2017 amounts to €89 thousand for Dr. Frank Boshoff (see the section "Remuneration report – Management Board – Pension commitments").

<sup>7)</sup> The pension agreement was concluded in 2017. The pension expense for 2017 amounts to €55 thousand for Mr. Andreas Rydzewski (see the section "Remuneration report – Management Board – Pension commitments").

<sup>8)</sup> The pension agreement was concluded in 2017. The pension expense for 2017 amounts to €63 thousand for Mr. Martin Simon (see the section "Remuneration report – Management Board – Pension commitments").

The following table shows the payments made to the individual members of the Management Board and to former board members for fiscal year 2017 and in the previous calendar year:

**PAYMENTS TO THE MANAGEMENT BOARD AND FORMER MEMBERS OF THE MANAGEMENT BOARD FOR THE FISCAL YEAR**

K EUR	Dr Frank Boshoff Chief Executive Officer (CEO) Joined: 1 July 2015		Andreas Rydzewski Member of the Management Board Joined: 1 October 2008		Martin Simon Chief Financial Officer (CFO) Joined: 1 September 2016		Sascha Rosengart Chief Financial Officer (CFO) Joined: 6 May 2013 Stepped down: 29 February 2016	
	2017	2016	2017	2016	2017	2016	2017	2016
Payment								
Fixed compensation	323 <sup>1)</sup>	330	250	250	230	77 <sup>2)</sup>	0	618 <sup>3)</sup>
Fringe benefits	20	20	16	16	16	8	0	2
<b>Total</b>	<b>343</b>	<b>350</b>	<b>266</b>	<b>266</b>	<b>246</b>	<b>85</b>	<b>0</b>	<b>620</b>
One-year variable compensation*)								
Annual bonus 2016	-	71	-	39 <sup>4)</sup>	-	20 <sup>2)5)</sup>	-	0 <sup>3)</sup>
Annual bonus 2017	68	-	38	-	30	-	-	-
Multiple-year variable compensation**)								
Sustainability bonus 2014 (3-year period)	-	-	-	22	-	-	-	22
Sustainability bonus 2015 (2-year period)	-	67.5 <sup>6)7)</sup>	-	38 <sup>8)</sup>	-	-	-	30 <sup>9)</sup>
Sustainability bonus 2015 (3-year period)	-	-	33 <sup>8)</sup>	-	-	-	26 <sup>9)</sup>	-
Sustainability bonus 2016 (2-year period)	106	-	59 <sup>8)</sup>	-	20 <sup>2)5)</sup>	-	0 <sup>3)</sup>	-
<b>Total</b>	<b>517</b>	<b>488.5</b>	<b>396</b>	<b>365</b>	<b>296</b>	<b>105</b>	<b>26</b>	<b>672</b>
Pension expense	226 <sup>10)</sup>	-	55 <sup>11)</sup>	-	85 <sup>12)</sup>	-	-	-
<b>Total compensation</b>	<b>743</b>	<b>488.5</b>	<b>451</b>	<b>365</b>	<b>381</b>	<b>105</b>	<b>26</b>	<b>672</b>

<sup>1)</sup> These figures include the annual bonus paid out in the respective reporting year. The bonuses for the respective reporting year are paid out in the following year; i.e. the annual bonus for 2016 is paid out in 2017, while the annual bonus for 2017 is paid out in 2018.

<sup>\*\*) These figures include the amount paid out for the sustainability bonus, whose assessment period ended in the respective reporting year. The relevant amounts are paid out in the following year, i.e. the payments for the sustainability bonus 2014 on the basis of a 3-year assessment period or for the sustainability bonus 2015 on the basis of a 2-year assessment period were made in 2017. The payments for the sustainability bonus 2015 with a 3-year assessment period and for the sustainability bonus 2016 with a 2-year assessment period were made in 2018. For the arrangements for Mr. Sascha Rosengart, Mr. Martin Simon and Dr. Frank Boshoff, please see footnotes 3, 5 and 7.</sup>

<sup>1)</sup> With reference to the supplementary industrial agreement agreed on for the Bad Schussenried facility, Dr. Frank Boshoff has voluntarily waived his 2,272 per cent fixed remuneration since January 2017.

<sup>2)</sup> Pro rata temporis; member of the Management Board since 1 September 2016.

<sup>3)</sup> Mr. Sascha Rosengart was granted a compensation payment of € 580 thousand (presented under "fixed remuneration"). The compensation payment covers the sustainability bonus for fiscal year 2016, calculated over a two or three-year assessment period, as well as an annual bonus and any entitlements for vacation not taken. Half of the compensation payment (€ 290 thousand) became due for payment in February 2016, the other half (€ 290 thousand) was paid out in February 2017.

<sup>4)</sup> The target annual bonus amounted to € 55 thousand for the period up to 31 December 2015 and to € 60 thousand from 1 January 2016.

<sup>5)</sup> For fiscal year 2016, Mr. Martin Simon was promised a non-performance-related bonus totalling € 40 thousand; half of this amount (€ 20 thousand, shown under "Annual bonus 2016") was paid out after the close of 2016. The other half (€ 20 thousand, shown under "Sustainability bonus 2016 (2 or 3-year period)") was paid out after the close of 2017.

<sup>6)</sup> Pro rata temporis; member of the Management Board since 1 July 2015.

<sup>7)</sup> For fiscal year 2015, Dr. Frank Boshoff was promised a non-performance-related bonus totalling € 135 thousand; half of this amount (€ 67.5 thousand) was paid out after the close of 2015. The other half (€ 67.5 thousand, shown in "Sustainability bonus 2015 (2 or 3-year period)") was paid out after the close of 2016.

<sup>8)</sup> The sustainability bonus amounted to € 60 thousand for the period up to 31 December 2014, and to € 82.5 thousand for 2015, and to € 90 thousand from 1 January 2016

<sup>9)</sup> The sustainability bonus amounted to € 60 thousand for the period up to 31 December 2014 and to € 66 thousand for 2015.

<sup>10)</sup> The pension agreement was concluded in 2017. The pension expense for 2017 amounts to € 89 thousand for Dr. Frank Boshoff (see the section "Remuneration report – Management Board – Pension commitments").

<sup>11)</sup> The pension agreement was concluded in 2017. The pension expense for 2017 amounts to € 55 thousand for Mr. Andreas Rydzewski (see the section "Remuneration report – Management Board – Pension commitments").

<sup>12)</sup> The pension agreement was concluded in 2017. The pension expense for 2017 amounts to € 63 thousand for Mr. Martin Simon (see the section "Remuneration report – Management Board – Pension commitments").



## Total remuneration of the Management Board

Total remuneration of the Management Board for fiscal year 2017 and the preceding fiscal year (Sec. 314 (1) No. 6 HGB) is presented below:

### TOTAL REMUNERATION OF THE MANAGEMENT BOARD FOR THE FISCAL YEAR

K EUR	Dr Frank Boshoff Chief Executive Of- ficer (CEO) Joined: 1 July 2015		Andreas Rydzewski Member of the Management Board Joined: 1 Octo- ber 2008		Martin Simon Chief Financial Of- ficer (CFO) Joined: 1 Septem- ber 2016		Sascha Rosengart Chief Financial Of- ficer (CFO) Joined: 6 May 2013 Stepped down: 29 February 2016		Total	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
<b>Non-performance-related remuneration components</b>										
Fixed compensation	330	323	250	250	77	230	38	0	695	803
Fringe benefits	20	20	16	16	8	16	2	0	46	52
<b>Total</b>	<b>350</b>	<b>343</b>	<b>266</b>	<b>266</b>	<b>85</b>	<b>246</b>	<b>40</b>	<b>0</b>	<b>741</b>	<b>855</b>
<b>Performance-based compensation</b>										
Annual bonus	71	68	39	38	20	30	0	0	130	136
Sustainability bonus	162	162	90	90	20	72	0	0	272	324
<b>Total</b>	<b>233</b>	<b>230</b>	<b>129</b>	<b>128</b>	<b>40</b>	<b>102</b>	<b>0</b>	<b>0</b>	<b>402</b>	<b>460</b>
<b>Annual compensation</b>	<b>583</b>	<b>573</b>	<b>395</b>	<b>394</b>	<b>125</b>	<b>348</b>	<b>40</b>	<b>0</b>	<b>1,143</b>	<b>1,315</b>

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

## Benefits upon termination of employment contracts

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

## Supervisory Board

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

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

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

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

#### TOTAL REMUNERATION OF THE SUPERVISORY BOARD FOR THE FISCAL YEAR

K EUR	Fixed annual compensation		Attendance fees Presidential and Audit Committee		Total <sup>1)</sup>	
	2017	2016	2017	2016	2017	2016
Georg Wolf Chairman of the Supervisory Board Chairman of the Presidential Committee	100	100	0	0	100	100
Christian Brand Deputy Chairman of the Supervisory Board Chairman of the Audit Committee	50	50	0	0	50	50
Kirstin Hegner	30	30	1	1	31	31
Prof. Dr Jörg Ernst Franke	30	30	0	0	30	30
Edgar Kühn	30	30	0	0	30	30
Frank-Michael Meißner (until 10 May 2016)	--	11	--	0	--	11
Eugen Maucher (from 10 May 2016)	30	19	0	0	30	19
<b>Total</b>	<b>270</b>	<b>270</b>	<b>1</b>	<b>1</b>	<b>271</b>	<b>271</b>

<sup>1)</sup> Without any amounts reimbursed as out-of-pocket expenses or as VAT on compensation or out-of-pocket expenses.

In the reporting year, none of the members of the Supervisory Board received remuneration or benefits for services personally rendered – in particular, consulting or mediation services – from SHW AG or one of its subsidiaries. SHW AG did not provide the members of the Supervisory Board with any loans or advance payments in the reporting year.

In the reporting year, all of the members of the Supervisory Board of SHW AG in office as at 31 December 2017, with the exception of Mr. Eugen Maucher, also belonged to the Supervisory Board of Schwäbische Hüttenwerke Automotive GmbH, a subsidiary of SHW AG.

For periods in which members of the Supervisory Board of SHW AG are also members of the Supervisory Board of Schwäbische Hüttenwerke Automotive GmbH, the latter company only pays them an attendance fee for their attendance of Supervisory Board meetings of Schwäbische Hüttenwerke Automotive GmbH instead of the Supervisory Board remuneration otherwise payable. This attendance fee amounts to €0.5 thousand for ordinary members of the Supervisory Board; the Chairman of the Supervisory Board receives twice this amount and his deputy one-and-a-half times this amount. As at 31 December 2017, the Chairman and the Deputy Chairman of the Supervisory Board of Schwäbische Hüttenwerke Automotive GmbH were also the Chairman and Deputy Chairman of the Supervisory Board of SHW AG.

## Non-financial statement of the group

### Introduction

With this non-financial statement of the group, SHW AG fulfils the requirements of Section 315c HGB in conjunction with Section 289c et seq. HGB. This law requires large capital-market-oriented stock corporations as defined by Section 267 HGB with more than 500 employees to disclose non-financial and diversity-related information. At a minimum, this includes matters related to the environment, employees, social concerns, human rights and efforts to combat corruption and bribery.

The non-financial statement relates to the reporting period from 1 January to 31 December 2017 and the SHW Group's scope of consolidation defined in the Notes to the Consolidated Financial Statements.

In order to identify the relevant non-financial aspects and matters, SHW AG initially carried out a hotspot analysis that was specific to the company. In addition, relevant industry studies and standards were also analysed. This resulted in a "long-list" of non-financial issues. Finally, at a workshop including the respective line managers and the Management Board of SHW AG, a short-list of the significant issues was drawn up. These issues meet the materiality criteria of Section 289c HGB.

### Aspects and matters identified

A non-financial statement framework was not used to draw up the non-financial statement of the group as the material information could be suitably presented without the use of such a framework.

Reference is made to the section "Background of the Group" for more on the business model of SHW AG.

The identification and assessment of non-financial risks is integrated in the risk management system (RMS) of SHW AG. No material non-financial risks as defined by Section 289c HGB were identified in the reporting period. Reference is made to the "Risk report" for more on the risks identified by SHW AG.

### Environmental matters

Global climate change and the growing scarcity of resources represent a major challenge, particularly for the customers of the SHW Group in the automobile industry. To master these challenges, our customers rely on measures that reduce fuel consumption by increasing the efficiency of combustion engines, reducing vehicle weight and developing alternative drive concepts. We intend to help our customers reach their goals to reduce to fuel consumption and, as a result, CO<sub>2</sub> emissions. To this end, we refine existing products and develop entirely new innovative solutions.

The SHW Group is the world's leading manufacturer of composite brake discs. The two-piece construction with a pot of aluminium is not only long-lived but also reduces the weight of each brake disc by up to two kilogrammes. A weight reduction of ten kilogrammes results in a reduction of CO<sub>2</sub> emissions of roughly one gramme CO<sub>2</sub> per kilometre driven. With 1.5 million composite brake discs on the road, as is planned for 2020, and assuming an annual mileage of 14,000 kilometres per vehicle, the CO<sub>2</sub> savings in comparison to grey-cast brake discs amount to a total of roughly 4,150 tons.

### Management approach and due diligence

The SHW Group is fully committed to environmentally friendly mobility. In the process we intend to address the needs of our customers, the lawmakers, society and our employees alike. In this regard, our development department is of particular importance, for it is in direct contact with our customers and considers their wishes in the development of new products and the refinement of existing ones. This enables us to react immediately to new requirements and the trends and changes in the automobile industry, such as the advance of electromobility and other environmental aspects.

	Environmental matters	Human capital	Social concerns	Human rights	Anti-corruption
Matter	Climate protection/ energy management/ Other emissions and environmental protection	Qualified and motivated personnel	Regional commitment	Human rights at SHW and in the supply chain	Combating corruption and bribery
		Industrial health and safety	Data privacy		



The due diligence process for environmental matters at SHW AG generally focuses on internal production, as the main drivers of environmental matters, such as energy consumption, can be steered directly. We see it as our duty to ensure that any burden on the environment originating from our business activity is avoided wherever possible. Due to the fact that the SHW Group is a manufacturing company, it is not possible to fully rule out an impact on the environment and biodiversity. The specific effects depend on the respective business. For example, there are emissions of particulates and gases as well as noise from our iron foundry in Tuttlingen-Ludwigstal and the aluminium foundry in Neuhausen ob Eck. Moreover, hazardous substances and chemicals are used. Specific procedures have been defined to address the resulting burdens on the environment. These include the careful selection and substitution of raw materials, the correct sorting of waste and implementation of needs-oriented environmental protection measures.

Production-related environmental protection extends to the responsible handling of waste, chemicals, waste water, and hazardous substances as well as the avoidance of particulate and gas emissions in the Brake Disc business segment. SHW AG applies extensive environmental monitoring to steer the strategic and operating aspects of its environmental performance. At local level, all environmental indicators are measured that are relevant for a manufacturing operation, such as energy consumption, water consumption, waste water volumes and production-related emissions, such as volatile organic compounds (VOC), dust and particulates. In the event that the statutory or internal limits are breached, corresponding due diligence processes are initiated to restore compliance with the permitted thresholds.

Each German location has its own management manual that records how the specific environmental and energy-related issues are to be treated. The management approaches and reporting channels for environmental protection are more or less identical. The locations apply ABC analysis to identify the relevance of environmental matters, any need for action, set objectives and derive measures. This form of analysis allocates the matters to three different priorities. Relevant developments are reported by the management representative to the respective Plant Managers and the Management Board. Moreover, at least once a year or on an ad hoc basis checks are made whether the actions taken to reach the locations' environmental and energy goals are effective.

Energy performance has been assigned a higher-level strategic relevance at SHW AG. In light of the fact that production within the SHW Group is energy-intensive, it is important for both environmental as well as financial reasons to minimise the consumption of energy in production where commercially feasible. The objectives and measures with regard to the environment and energy are defined, measured and assessed for each location. The indicators are calculated in different ways, depending on the location.

Furthermore, the SHW Group has established its own "Supplier Code of Conduct" for its direct suppliers. This explicitly demands the following with regard to environmental protection:

- Complying with the law and international standards on environmental protection
- Minimising burdens on the environment and steadily improving environmental protection
- Establishing and applying an appropriate environmental management system
- Fostering compliance with the Code of Conduct among their own suppliers

#### Cross-corporate systems – site-specific implementation

Generally, the production conditions at the various locations of the SHW Group vary considerably to some extent, due to different depths in the production chain. The ISO 14001 environmental management system and the IS 50001 energy management system are applied at the German production locations in Aalen-Wasseraltingen, Bad Schussenried, Hermsdorf and Tuttlingen-Ludwigstal and Neuhausen ob Eck. Likewise, the Brazilian location near São Paulo is also ISO 14001 certified. ISO 50001 is not relevant on account of the low energy consumption of the plant.

Due to the fact that the locations in Romania, China and Canada are still in the start-up phase – the Canadian location near Toronto is focused primarily on applications engineering – they are not yet significant for the reporting on environmental and energy consumption in the reporting period from 1 January to 31 December 2017. Once the individual facilities have been put into operation, they will be included in the reporting of the coming periods.

There are environmental officers and energy officers at each location who are responsible for the local implementation of due diligence processes. This involves drawing up lists of the specific legal requirements and day-to-day obligations for the Bad Schussenried, Aalen-Wasseraltingen and Tuttlingen/Neuhausen ob Eck locations. These are similar to a large extent, with differences in the infrastructure and plant and machinery. The register of applicable laws and current obligations is reviewed by the respective officers on site and kept up-to-date by them. Implementation is defined in internal processes, whereby the relevant laws and regulations and the register of applicable laws are tracked constantly.

The locations proceed similarly when observing industrial norms. For example, they use the same system for identifying any needed action and drawing up the associated measures. All German and foreign locations pursue the same high quality standards.

### Goals, results and performance indicators

In addition to aligning our product portfolio towards CO<sub>2</sub>-optimised vehicle components, we also take care to ensure production methods conserve resources. The key objective is to improve the energy efficiency of our production locations, i.e. their output per unit of energy. This objective is also fixed in the corporate policy of SHW Automotive GmbH. In addition, compliance with all environmental laws applying to the location is a permanent objective. There were no cases of non-compliance by SHW Automotive GmbH with the statutory environmental laws and regulations in the reporting year.

### Pumps and Engine Components business segment

At the Aalen-Wasserralfingen plant, the year 2015 marks the starting point for measuring the development of energy key performance indicators. The strategic objective is to reduce total energy consumption by 7.5 per cent for each €1 million in sales, from 484 MWh to 448 MWh by fiscal year 2020. In 2016 energy consumption came to 444 MWh. In fiscal year 2017 it came to 447 MWh.

At the Bad Schussenried location, the strategic indicator for energy output is defined as the energy consumption per unit. The objective here is to realise a 1.0 per cent improvement in energy efficiency using fiscal year 2015 as the benchmark. Power consumption in the fiscal year 2016 came to 569.05 kWh/1,000 units. In fiscal year 2017 the target was reached with a value of 596.02 kWh/1,000 units.

### Brake Discs business segment

The Brake Discs business segment has likewise set itself the goal of improving energy efficiency, based on an index year. We defined fiscal year 2014 as the relevant benchmark and defined energy consumption as kWh per thousand euro value-added.

Our objective is to reduce energy consumption by 4 per cent based on 2014, when energy consumption came to 2,331 kWh / thousand euro value-added. We met the objective in 2016, with energy consumption coming to 2,058 kWh / thousand euro value-added. In fiscal year 2017 the target was reached with a value of 2,062 kWh / thousand euro value-added.

In future it is planned to measure additional environmental parameters and to report accordingly.

### Examples of some of the actions taken

The use of low-emission raw materials for the cores and moulds in the casting operation is reviewed regularly and additional actions taken as needed. A new coating facility with thermal after-burning is scheduled to be put into operation in 2018. This new facility will enable a reduction in gas emissions, volatile organic compounds (VOC) in particular.

Likewise, smaller environmental measures will be carried out at our production locations.

The lighting in the office and production buildings is being successively switched to energy-efficient LEDs. Technical measures are being implemented to improve the efficiency and the supply of compressed air for hydraulic equipment and compressed air guns used to clean parts and equipment.

To a great extent we use reusable containers for transporting parts and raw materials internally at each location. For example, the raw brake discs are transported from the Tuttlingen location to Neuhausen ob Eck, solely by means of reusable containers. In this way we save substantial amounts of packaging material and the associated costs. Chemicals and powdered goods for use in the iron foundry are generally delivered by the suppliers in recyclable "Intermediate Bulk Containers" and reused or recycled. Our own products are packed in accordance with customer specifications. Here too, multiple use packaging is frequently used.

### Human capital

Our employees make a substantial contribution to the commercial success of the SHW Group. A major prerequisite for sustainable commercial success is a healthy workforce that identifies with its employer. For this reason, the issues of qualified and motivated personnel and industrial health and safety are vital for our business activities, our results, and the position of the Company. Every year we invest approximately €300,000 in training our staff. Many measures are conducted on-the-job. These investments pay off all the more the longer our employees serve the Company. The majority of the workforce of the SHW Group is employed in Germany. For this reason, the non-financial reporting relates to management systems and measures related to the German locations.

### Qualified and motivated personnel

Positioning itself as an employer-of-choice is relevant for the SHW Group. There is a battle for the best talent throughout the entire automobile and supplier industry. The issue is to win qualified and committed junior talents by offering them a comprehensive and attractive package.

We therefore face the challenge of creating the best possible environment for our employees and offering them sustainable training models for the future. Only in this way can we ensure a high level of employee satisfaction and bind our employees to the firm for the long-term.

The automobile industry is currently undergoing a structural revolution that is very likely to impact the workforce. Some job profiles will not be needed in future. Other occupations will arise with other profiles. The move towards electromobility and production automation as well as digitalisation and the optimisation of administrative processes are all factors driving this trend.

### Management approach and due diligence

The due diligence approach of SHW AG involves pursuing forward-looking human capital management that is in line with requirements. This is reflected in a range of different measures that have the goal of furthering employee qualifications and motivation. Within the SHW Group, the management of human capital lies with the Head of Human Resources. He reports to the Management Board and is responsible for implementing due diligence processes relating to the availability of qualified and motivated employees. There are competent HR teams at each of the locations of the SHW Group to address any employee concerns. These comprise a personal counsellor, an HR clerk and a payroll clerk who provide comprehensive HR support to the employees on-site. The HR teams are supported by an officer for company pensions.

In guidelines, such as our “corporate social responsibility principles”, we make a commitment towards observing core employee rights – such as the right to form trade unions, respect for equal opportunity, through to the principle of equal pay for equal work.

In keeping with the principle of life-long learning, we enable our employees to develop over the entire course of their career, both professionally as well as personally and to obtain qualifications. Once a year managers sit with employees to talk about qualification issues and make an agreement on suitable training measures. Vocational training is governed by the collective agreement on qualifications. This also allows employees to leave the Company for up to five years to pursue their education under their own resources and we guarantee them the opportunity to rejoin the firm. In addition, employee training can be supported and fostered by accrued time credits and funding from the Company.

For over fifteen years we have run a company suggestion scheme. This provides the employees with incentives to work towards the development of the Company. Each suggestion for improving products and processes is evaluated. Those suggestions which get implemented are awarded. Recognition is also given to those ideas that are not realised.

### Goals, results and performance indicators

We have set two goals for personnel development: we always want to employ the right people for the right job and, beyond that, identify future managers and specialists and train them accordingly. To this end we continued to expand the central management of the group's personnel development in 2017 and created an office that has been assigned explicit responsibility for this issue. The employee concerned took up his office at the beginning of 2018.

The goal is to keep employee churn within the SHW Group at a steadily low level. In spite of the regional unemployment rate of below 3 per cent and the competition from major players at the various locations of SHW, we have managed to win employees and bind them to our company. Employee churn among the permanent workforce is forecast at 7.8 per cent for 2017 using the Schlüter formula customary in the industry (previous year 9.7 per cent).

Furthermore, we intend to consolidate our succession planning for specialists and managers and expand our group-wide talent

management. This includes the equal participation of women. Binding targets have been set for the Supervisory Board, the Management Board and the top two management levels below the Management Board of SHW AG.

A quota of 16.6 per cent female representation was set for the Supervisory Board and 33.3 per cent for the Management Board. The Supervisory Board of SHW AG was made up of one woman and five men in the reporting period. As a result, the targeted quota of 16.6 per cent was attained in 2017. At present, there are still no women present on the Management Board of SHW AG. Consequently, female representation on the Management Board currently stands at 0 per cent. Likewise, as at 31 December 2017, no women were represented at the two highest management levels below the Management Board. The Management Board initially set a goal of 0 per cent on the basis of German stock corporation law.

However, the Management Board is agreed that SHW AG will promote women in management positions to the best of its ability. SHW AG believes in the positive effect of mixed management teams and promotes women and men in their career paths equally.

### Examples of some of the actions taken

During the recruiting process we orient ourselves ever more towards the changing communication patterns of potential candidates. Among other channels, we make use of online job exchanges to actively address applicants. Due to the fact that candidates are making more frequent use of mobile devices like smart phones to find jobs we have designed our new website to be responsive and have optimised it for mobile use.

In 2017 agreements with terms of six years were made to secure the future existence of the locations in Tuttlingen and Neuhausen ob Eck as well as Bad Schussenried. These agreements serve to secure and enhance competitiveness and were jointly agreed with SÜDWESTMETALL, Baden-Wuerttemberg Employers' Association of the Metal and Electrical Industry and IG Metall. Among other items on the agenda of its strategy for the future, SHW AG will make additional investments to expand the Bad Schussenried location as a competence centre for electric transmission oil pumps.

By means of complaint boxes, our employees can leave us notes, comments and ideas relating to personnel issues. These are then regularly evaluated by the works council and plant management. Where needed, countermeasures are taken accordingly.



## Industrial health and safety

Our employees are exposed to a risk of industrial accidents, particularly those in production. By means of industrial health and safety concepts, SHW AG addresses the standard it has set itself of making working conditions and the work environment as safe and healthy for its employees as possible.

### Management approach and due diligence

Industrial safety at SHW AG includes all measures to prevent industrial accidents, work-related sickness and occupational diseases. We have standardised key industrial health and safety processes in order to establish and advance our integrated processes and systems. These are based on our industrial health and safety principles, our industrial safety strategy as well as the results of audits and reviews. The organisational units are supported by the industrial safety officer to address higher-level issues, such as machine safety or handling hazardous substances

Effective reporting contributes towards ensuring that the goals set are monitored and attained. Our managers are responsible for compliance with all internal guidelines, e.g. workplace rules and the transfer of statutory duties relating to industrial health and safety. The responsibilities and duties are governed for each location, taking account of the local conditions. Internal experts for industrial health and safety support the managers concerned.

Due to the differing framework conditions, production processes and requirements, all of which can vary widely, industrial safety is coordinated at plant level at SHW AG. In some cases we pursue different management approaches and measures. However, the general principle applies: compliance with national industrial safety law is absolutely vital.

To ensure due diligence, recognised frameworks are applied at the German locations in Aalen-Wasseralfingen, Bad Schussenried, Hermsdorf, Tuttlingen-Ludwigstal and Neuhausen. These include the specific automobile industry standard, IATF 16949, the quality management standard, ISO 9001 and the environmental standard, ISO 14001. Each of these set requirements on the implementation of industrial health and safety measures. The locations in Aalen-Wasseralfingen and Bad Schussenried use an integrated management system that incorporates all three standards. The international locations of the SHW Group in North and South America as well as China orient themselves towards the systems and measures of the German plants with regard to industrial safety.

Each of the German plants has its own industrial health and safety officer. They are responsible for recording all industrial health and safety data, including any industrial accidents that occur during operation or passage and coordinate the implementation of preventive measures. These experts report regularly to the respective plant manager, who in turn reports to the respective board member at management meetings. The management manuals for each location record how industrial health and safety is to be treated at the location.

We place particular value on protecting the health of our employees. In production many jobs involve one-sided movements and

in the administration most jobs are performed in front of a computer display. It is important to consider ergonomic designs and equipment in both of these work environments. Newly created work stations in production and in the offices are designed in keeping with the technical rules for work stations (ASR) in relationship to the particular circumstances.

The works and emergency healthcare includes all measures taken to prevent work-related illnesses or occupational diseases, to promote good health at work and the diagnosis and treatment of accidents and acute illnesses. Responsibility for this lies with our works' doctors. We offer all employees comprehensive works-related medical care. In addition, there are campaigns and optional packages to foster good health and provide welfare advice. Any suspected cases of occupational diseases are recorded during health checks by the works' doctor and external doctors and reported to the applicable workers' compensation fund. The departments and the industrial health and safety officer are responsible for implementing preventive health measures. A risk assessment systematically records potential hazards. This is followed by doctors' inspections in keeping with the Regulation on the Provision of Industrial Health Care (Verordnung zur arbeitsmedizinischen Vorsorge – ArbMedVV).

Furthermore, the SHW Group has established its own "Supplier Code of Conduct" for its direct suppliers. This explicitly demands the following with regard to industrial health and safety:

- Accepting responsibility for the health and safety of employees
- Limiting risks and ensuring the best-possible precautionary rules and regulations to avoid accidents and occupational diseases
- Offering training and ensuring that all employees are knowledgeable of the issue of industrial safety
- Establishing and applying an appropriate industrial safety management system
- Fostering compliance with the Code of Conduct among their own suppliers

### Goals, results and performance indicators

We have set ourselves the goal of having zero workplace or passageway accidents. Our management approaches and systems and our continuous measures are geared towards this goal. Protecting employees and fostering good health on the job are part of the human resources management in the SHW Group.

The number of workplace and passageway accidents is measured in the SHW Group for each location. In 2017 there were 18.00 industrial accidents per million working hours at the Aalen-Wasseralfingen plant. In 2016 it was 12.46. At Bad Schussenried the accident rate was 18.46 (previous year 20.76). The Tuttlingen-Ludwigstal location (including Neuhausen ob Eck) had an accident rate of 50.94 (previous year 43.07). The comparatively high accident rate at the Tuttlingen-Ludwigstal location is due to the fact that casting processes are performed here with the associated risk from heat and dust emissions. A company-wide accident rate

is not currently measured on account of the specific production conditions at each location.

In addition, the SHW Group continually tracks compliance with national industrial safety laws. There were no events in the reporting year relating to non-compliance with national industrial safety laws at the locations of the SHW Group.

#### Examples of some of the actions taken

We regularly conduct work-related and activity-related risk assessments and raise employee awareness by means of industrial health and safety campaigns, special trainings and instructions. Our regular measures include medical checks by the works' doctors and providing top-quality personalised safety clothing and equipment. In addition, employees are trained in first-aid as a preventive measure.

Possible work-related stress factors are examined by means of the psychological stress assessment. Each location has a team of analysts composed of experts in industrial health, works councils and the works' doctors.

#### Structural data relating to the workforce

##### *Headcount on the rise*

Over the past year the number of employees in the SHW Group rose from 1,287 to 1,347 employees as an annual average.

The average headcount at the locations of the Pumps and Engine Components business segment came to 904. An annual average of 401 staff were employed at the two locations of the Brake Discs business segment.

Wages and salaries at the German locations, with the exception of Bad Schussenried, increased by 2.0 per cent from 1 April 2017 on account of collectively bargained industrial agreements. At Bad Schussenried the wage and salary increase took effect on 1 December 2017 due to a supplemental agreement.

As at 31 December 2017, the SHW Group had 43 apprentices spread across all of its plants. New hirings were focused on apprenticeships for industrial mechanics.

In 2017, seven employees celebrated their 40th anniversary, six employees their 25th and thirty-five employees their 10th anniversary of service with the Company.

#### Social concerns

SHW AG strives not only to avoid exercising any negative influences on its wider environment but to actually make a contribution to society. In this regard our regional commitment to our locations and data protection are of key significance.

#### Regional commitment

As good citizens we are actively engaged in the local society and are perceived as partners of the community, particularly for the

universities and clubs based in the towns where we maintain production facilities.

#### Management approach and due diligence

Regional commitment is steered by the respective member of the Management Board at plant level in each case. At the beginning of the year employees or externals can propose projects for donations. The Management Board then decides on the allocation of the budget. In fiscal year 2017 the Management laid down the first framework for donations and set up a budget of €10,000 per location.

#### Goals, results and performance indicators

It is our goal to foster constant exchange with our employees, universities and the regional interest groups. We realised this in the 2017 reporting year by means of various meetings and works' tours for students of the Technical University of Aachen and the Technical School of Aalen.

The objective of an annual donations programme per facility was realised in the first year of being established by a factor of 38.9 per cent in 2017.

#### Examples of some of the actions taken

The focus of our social engagement is on projects that are in some way connected to our employees or our business activity or on educational projects in the wider environment of our locations. Not only the projects and initiatives that we sponsor profit from this engagement, but we do too. For example, our donations to clubs and associations in which our employees or their children are members raises motivation levels and fosters loyalty to the firm.

Education-related projects, such as the cooperation with technical universities in our surroundings are one avenue for making junior talent aware of the SHW Group. In the course of these shared projects, we transfer our practical knowledge to the students and, in return, are open to new economic and engineering findings.

At the level of its respective locations, SHW AG is engaged regionally. A point of focus of our social engagement lies on cooperation with local universities near our plants and particularly in the field of automotive engineering. We support the universities both financially as well as with contributions in kind and act as a sparring partner for students. In this regard, we support the Formula Student Team of the University of Ravensburg-Weingarten and the E-Motion racing team of the University of Aalen. In addition, as a partner, we offer tours of our production for students in related subjects (e.g. students of material technology and mechanical engineering at the University of Aalen). Moreover, we are engaged in the "KarMen Plus" career mentoring programme for women of the Aalen University.

#### Data privacy

The increasing threats worldwide to the security of corporate data also constitute risks for the SHW Group. A failure of our information systems or damage to them, could result in confidential corporate data being released and also lead to a disruption of

our value chain. All of this can result in a financial loss. For this reason, the SHW Group has set itself the goal of protecting its own IT systems from outages, damage and unauthorised access.

#### Management approach and due diligence

According to the Works Constitution Act (Betriebsverfassungsgesetz – BVerfG), the Management Board is responsible for the issue of data security. The Data Security Officer has a supporting function and is responsible for implementation, advising and training the employees. This officer initiates due diligence processes as needed in cooperation with the works council and the Management Board. Any indication of an infringement of the Code of Conduct can be reported to the Chief Compliance Officer or SHW Ombudsman within the framework of our compliance management system. In addition, we have installed an IT security guideline and an IT contingency manual that is reviewed regularly and updated as needed. The core elements of this include such things as network security, a guideline on mobile devices, access controls and authorisations, a code of conduct and lists of the telephone numbers of the officers to contact in an emergency. The ISO/IEC 27001 standard on information security management serves as an orientation for steering these issues. Our IT Security Officer is responsible for the technical and organisational measures, such as the risk assessment of incoming emails. Data protection and data security are components of the SHW Code of Conduct.

The SHW Group captures, stores and uses personal data where necessary for its purposes. Each employee has a duty to keep all business secrets and other confidential information of the SHW Group, personal data of the workforce and other confidential information of third parties, which the SHW Group has access to, protected from abuse and unauthorised use either internally or externally.

When joining the Company, each employee is handed out a declaration on data security and a general non-disclosure agreement to sign. We raise the awareness of employees who handle personal data by means of web-based training.

#### Goals, results and performance indicators

The SHW Group has set itself the permanent goal of protecting its own IT infrastructure from outages, damage and unauthorised access. No such events were registered in the reporting period.

The goal is to provide all employees with online access to training documents (data protection guideline) in the intranet in 2018. In future the employees in the production department will be able to access this and other corporate specific information via the intranet at stationary screens situated in the production area.

In 2016 and 2017 nine training seminars were carried out at four locations attended by 114 employees (62 in Bad Schussenried, 25 in Powder Metallurgy, 12 in Tuttlingen and 15 at headquarters). These cover 42 per cent of all salaried staff. The staff was selected on the basis of risk category, such as time administrators, employees of the HR department and staff in management posi-

tions. In addition, we will put more effort into raising the awareness of our employees with regard to data protection and information security.

There are other regular training sessions for employees at all locations and the standardisation of processes (e.g. harmonising the HR and the IT departments) planned. In addition, our entire workforce is kept informed by a mailed data protection presentation on this topic.

#### Examples of some of the actions taken

The SHW Group has undertaken a number of measures to reduce its IT risks to the greatest extent possible. Important corporate data is mirrored in the Company's own computer centre. In addition, we protect ourselves against the risk of data loss using back-up systems. We also make use of contingency plans that ensure the functionality of production and logistics over the interim, even without any IT connections. 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. In addition we exploit our firewall systems against attacks to our IT security systems.

The new EU General Data Protection Regulation (EU - GDPR) comes into force on 25 May 2018. In the event of non-compliance, fines of up to €20 million or 4 per cent of group sales are possible. The supervisory authorities have already imposed fines in the industry due to the inadequacy of contracts governing the processing of data. We are currently working on undertaking the required measures, such as making adjustments to our code of procedures, data-processing contracts and employee training in order to ensure data protection compliant with the EU General Data Protection Regulation from 25 May 2018. In order to meet the EU General Data Protection Regulation internally, a data protection concept was drawn up during the reporting year. Until it is implemented in May 2018 a guideline will be made available to our employees in the intranet. Another point of the concept is a revision of the existing code of procedures to meet EU law as well as our data-processing contracts and the data protection declaration on the SHW website.

#### Human rights at SHW and in the supply chain

For all companies, observing human rights is essential to obtaining an operating license. Various regulations and international frameworks demand that companies ensure the protection of human rights in their value chains. This includes the "2030 Agenda for Sustainable Development", the "UN Guiding Principles on Business and Human Rights", the German "National Action Plan for the Economy and Human Rights" and the "EU Regulation laying down supply chain due diligence obligations for Union importers of certain minerals and metals originating from conflict-affected and high-risk areas". In addition, it is foreseeable that customers will also increasingly demand transparency with regard to the supply chain and that human rights requirements will become relevant in contracts, such as a confirmation of compliance with a supplier code of conduct. The SHW Group



therefore accepts the responsibility to be an early adopter to ensure the protection of human rights and to preclude any negative consequences from either a legal or a commercial perspective.

#### Management approach and due diligence

From an organisational point of view, responsibility for implementing the issue of human rights in the supply chain lies with the purchases department of the SHW Group. This department reports directly to the CEO.

The SHW AG Code of Conduct constitutes the framework for compliance with human rights for all of our employees and suppliers. We expect it of our suppliers that they share the core values of the SHW Group. The Code of Conduct explicitly requires that our suppliers respect the human rights of their employees, the laws prohibiting child labour and accept responsibility for the health and safety of their employees. Moreover, suppliers are called upon to implement and observe these core values in their own supply chains. The Code of Conduct is oriented towards international and generally accepted treaties on human rights and the applicable laws and regulations.

Furthermore, the SHW Group has established its own “Supplier Code of Conduct” for its direct suppliers. This sets an explicit requirement for suppliers to observe the basic rights of its employees as follows:

- Promoting equal opportunity and equal treatment of employees, regardless of their skin colour, race, nationality, social background, disabilities, sexual orientation, political or religious convictions, gender or age
- Respecting personal dignity, privacy, and the personal rights of each and every individual
- Not employing anybody against their will or forcing them to work
- Not tolerating any unacceptable treatment of workers, such as physical duress, sexual or personal abuse or discrimination
- Not tolerating behaviour (such as gestures, language or physical contact) of a sexual, coercive, threatening, abusive or exploitive nature
- Ensuring appropriate compensation for the work performed and ensuring that the local minimum wage requirements are met
- Observing the maximum permitted working hours in the respective country
- Where legally permissible, acknowledging the right of employees to form unions
- Not treating members of employee associations or unions preferentially or disadvantageously

In addition, a minimum age is set for the employees of suppliers.

Compliance by upstream suppliers with the contents of the Supplier Code of Conduct is suitably encouraged. In future the Supplier Code of Conduct will be an integral component of the SHW terms of purchase and therefore a binding element of the contract. The principles of non-discrimination are also observed when selecting our own suppliers and in our dealings with suppliers.

#### Goals, results and performance indicators

The following principle applies to our direct suppliers and also within the SHW Group: no violations of human rights. In the reporting period no cases of violations of human rights were reported, neither at our direct suppliers nor within the SHW Group.

#### Examples of some of the actions taken

It is planned to expand the due diligence process with regard to need to observe human rights, such as the introduction of a self-assessment process for potential suppliers.

#### Combating corruption and bribery

As an international player with a number of business partners, it is of particular importance to protect ourselves from corruption and bribery within a diverse range of legal and cultural frameworks. In this way we can avoid financial losses, loss of reputation and keep the trust of our stakeholders. We do not tolerate any form of corruption or bribery.

#### Management approach and due diligence

Compliance covers all measures to ensure that conduct within the Company is in agreement with the law. The compliance management system of the SHW Group creates the organisational foundation for ensuring that our internal rules and regulations are known throughout the group and that our business practices conform to the law at all times. It lays down the framework of how we interact with our wider environment. The higher level responsibility for compliance management lies with the Chief Compliance Officer, who reports directly to the CFO. In our dynamic competitive environment, the continuous development of our compliance management system is of great importance. We constantly optimise our existing processes, particularly with regard to the regular evaluation of the existing guidelines or as a reaction to new risks (e.g. the phenomenon of the “fake president fraud”). When new regulatory requirements necessitate it, we implement new codes of conduct to address such matters as insider law.

Our group-wide code of conduct contains principles and rules for conduct within our organisation and also in dealings with our external partners and the public domain. It sets clear requirements on offering and extending benefits and gratuities, as well as receiving them. Not only the applicable laws but also international treaties on combating corruption, such as the “Global Compact” of the United Nations serve as an orientation. The code sets the framework within which we as a company and as employees may make decisions. Each employee must know the principles and rules and observe them worldwide. Management has the task of anchoring these in the organisation and being role models for others. Our Management Board, supported by the legal department

and the Chief Compliance Officer make sure that the SHW Code of Conduct is implemented throughout the group (e.g. as part of harmonising the codes of procedure of all group entities).

The Code of Conduct is communicated to all employees of the SHW Group by email and is accessible in the intranet. New recruits are given the code on their first day for them to acknowledge during their onboarding by the HR department.

Compliance with the laws and observing the SHW Code of Conduct is of special significance in all group entities. Compliance is effected by the entities concerned in agreement with the respective local procedures and legal requirements, supported by the proactive involvement of the legal department and constant observation of the group-wide approval matrix. Circumstances that indicate a violation of the Code of Conduct can be reported to the Chief Compliance Officer, the SHW Ombudsman, the corresponding managers or one of the employee representatives by email or telephone. It is also possible to lodge a confidential and anonymous complaint. All reports are duly processed. Where necessary, the corresponding action is then taken. All documents are archived confidentially as required by the law. No reprisals of any kind are tolerated against individuals who lodge complaints.

In addition, our Supplier Code of Conduct obliges our suppliers to pursue a policy of zero tolerance for corruption or bribery and not to accept it in any form. This extends to any kind of illegal pecuniary benefit or similar gratuity extended to officials in an effort to influence their decisions.

The SHW Code of Conduct is supplemented by the group-wide Fraud Guideline, which fleshes out the details of the code in this regard. Fraud is the conscious violation of laws or accounting principles that leads directly or indirectly to misrepresentation in the financial statements. Prior to the external audit of the financial statements, the Management Board is obliged to take suitable measures on the basis of an intensive risk assessment to avoid any irregularities in the external financial reporting. The first and latest version of the Fraud Guideline came into force in 2011. The guideline serves to explain the matter to management and employees and raise their awareness of the issues. The guideline serves the Management Board as a basic concept on which the various members can install control mechanisms in a risk-oriented and targeted manner in their own sphere of responsibility.

Furthermore, our Gratuities Guideline came into force in 2017. It lays out the rules and regulations for accepting or granting material or immaterial gratuities in dealings with business partners of the SHW Group and public officials. It serves as a practical tool for decision-making when it comes to avoiding corruption. Furthermore, a code of conduct has been drawn up of how employees should respond to investigations by the German Cartel Office, other German authorities and the EU commission.

#### Goals, results and performance indicators

All employees of the SHW Group are expressly prohibited from participating in any form of corruption or bribery. Moreover, we expect our suppliers to refrain from any attempted act of corruption or bribery. To the best of our knowledge we once again reached our goal of no incidents of corruption or bribery in the organisation in 2017. We see this as confirmation that our management system and the processes we have implemented effectively steer these issues.

#### Examples of some of the actions taken

To ensure that our principles are applied in practice we communicate them to employees in a range of training formats. In 2015 and 2016 we trained the staff in the (IT) purchases and sales departments of all German locations. In addition, external legal experts advised our Management Board and the Supervisory Board in 2016 on insider law. Our internal training is being constantly refined and adjusted to the tasks performed by the staff. For example, the case studies used in training are tailored to the corresponding business segments in order to address risks as specifically as possible and make them understandable.

During the reporting year the Chief Compliance Officer trained approximately 230 employees in connection with the introduction of the Gratuities Guideline and the Code of Conduct during Searches by Officials. Training was conducted at our locations in Bad Schussenried, Tuttlingen, Neuhausen ob Eck and Aalen.

## Disclosures required by the law on corporate acquisitions

### Disclosures required by the law on corporate acquisitions and related comments

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

### Composition of subscribed capital

The Company's subscribed capital amounted to €6,436,209.00 as at 31 December 2017, divided into 6,436,209 no-par value bearer shares each with a pro-rata share in issued capital of €1.00 per share. The shares are fully paid in. There is only one class of shares. All of the shares entail the same rights and obligations. Each share confers one voting right at the Annual General Meeting.

### Limitations relating to voting rights or the transfer of shares

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

### Equity interests exceeding 10 per cent of the voting rights

To the best of the company's knowledge, SHW Beteiligungs GmbH, Wels, Austria, a subsidiary of Pierer Industrie AG, Wels, Austria, held capital in SHW AG on 18 October 2017 that granted it 47.5 per cent of the voting rights and on 19 February 2018 a holding in SHW AG that granted it 49.4 per cent of the voting rights. Otherwise, no shareholder held an equity interest which exceeded 10 per cent of the voting rights.

### Shares with special rights conferring powers of control

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

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

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

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

According to the Company's Articles of Association, the Management Board of SHW AG consists of one or more members (Article 6 (1) of the Company's Articles of Association). The Supervisory Board determines the number of Management Board

members and appoints and dismisses them. They are appointed for a maximum period of five years. They may be reappointed or their term of office may be extended for a maximum period of five years (see Section 84 (1) sentences 1 to 4 AktG).

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

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

### Powers of the Management Board to issue or repurchase shares

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



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

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

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

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

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

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

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

Aalen, 9 March 2018

Dr.-Ing. Frank Boshoff    Martin Simon    Andreas Rydzewski

Chief Executive  
Officer

Chief Financial  
Officer

Member of the  
Management Board





# **CONSOLIDATED FINANCIAL STATEMENTS**

**80 CONSOLIDATED INCOME STATEMENT**

**81 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

**82 CONSOLIDATED BALANCE SHEET**

**84 CONSOLIDATED STATEMENT OF CASH FLOWS**

**86 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**



## CONSOLIDATED INCOME STATEMENT

for the fiscal year from 1 January to 31 December 2017

K EUR	Note	2017	2016
<b>Sales</b>	<b>(20)</b>	<b>400,584</b>	<b>405,770</b>
Cost of sales	(9)	-351,063	-359,862
<b>Gross profit</b>		<b>49,521</b>	<b>45,908</b>
Selling expenses	(1), (9)	-11,779	-8,438
General administrative expenses	(2), (9)	-14,945	-13,181
Research and development costs	(3), (9)	-11,135	-7,900
Other operating income	(4)	8,274	4,815
Other operating expenses	(5)	-2,435	-2,266
<b>Earnings before interest and tax</b>		<b>17,501</b>	<b>18,938</b>
Financial income	(6)	49	26
Financial expenses	(6)	-1,260	-1,263
Profit or loss of joint ventures accounted for using the equity method	(7)	-1,170	252
<b>Earnings before tax</b>		<b>15,120</b>	<b>17,953</b>
Deferred taxes	(8)	707	773
Current income tax	(8)	-5,668	-5,921
<b>Earnings after tax</b>		<b>10,159</b>	<b>12,805</b>
<b>Net profit</b>		<b>10,159</b>	<b>12,805</b>
Earnings per share (€)*		1.58	1.99

\* Calculated in relation to an average of 6,436,209 shares (previous year 6,436,209 shares), see Note (16) "Equity".



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the fiscal year from 1 January to 31 December 2017

K EUR	2017	2016
<b>Net profit</b>	<b>10,159</b>	<b>12,805</b>
<b>Items that will not be reclassified to profit or loss in future periods</b>		
Actuarial gains / losses from pension provisions and similar obligations before tax	107	-2,194
Tax effect	-30	619
<b>Items that may be reclassified to profit or loss in future periods</b>		
Currency translation differences	-1,787	824
Tax effect	0	0
Realised (previous year: unrealised) gains / losses from currency translation for joint ventures accounted for using the equity method	1,542	-509
Tax effect	0	0
<b>Other comprehensive income after tax</b>	<b>-168</b>	<b>-1,260</b>
<b>Total comprehensive income after tax</b>	<b>9,991</b>	<b>11,545</b>
Net profit for the year attributable to		
shareholders of SHW AG	10,159	12,805
holders of non-controlling interests	0	0
Total comprehensive income after tax attributable to		
shareholders of SHW AG	9,991	11,545
holders of non-controlling interests	0	0

# CONSOLIDATED BALANCE SHEET

as at 31 December 2017

<b>ASSETS</b>			
K EUR	Note	31.12.2017	31.12.2016
Goodwill	(10)	7,441	7,055
Customer base	(10)	923	0
Other intangible assets	(10)	7,509	9,259
Property, plant and equipment	(10)	114,167	96,854
Deferred tax assets	(8)	5,963	5,271
Joint ventures accounted for using the equity method	(7)	0	16,412
Other financial assets	(11)	287	298
Other assets	(11)	2,914	1,476
<b>Non-current assets</b>		<b>139,204</b>	<b>136,625</b>
Inventories	(12)	45,524	46,378
Trade receivables	(13)	45,825	37,967
Other financial assets	(14)	16,311	135
Other assets	(14)	5,365	3,210
Cash and cash equivalents	(15)	3,868	3,616
<b>Current assets</b>		<b>116,893</b>	<b>91,306</b>
<b>Total assets</b>		<b>256,097</b>	<b>227,931</b>

## EQUITY AND LIABILITIES

K EUR	Note	31.12.2017	31.12.2016
Subscribed capital	(16)	6,436	6,436
Capital reserves	(16)	38,510	38,510
Revenue reserves	(16)	86,150	82,427
Other reserves	(16)	-6,192	-6,024
<b>Equity</b>		<b>124,904</b>	<b>121,349</b>
Pension provisions and similar obligations	(17)	27,905	28,036
Deferred tax liabilities	(8)	2,247	2,448
Other provisions	(18)	5,386	4,747
Other financial liabilities	(19)	2,633	1,208
Liabilities to banks	(19)	1,593	107
Other liabilities	(19)	584	0
<b>Non-current liabilities and provisions</b>		<b>40,348</b>	<b>36,546</b>
Liabilities to banks	(19)	20,445	1,876
Trade payables	(19)	46,353	34,802
Other financial liabilities	(19)	4,931	14,161
Income tax liabilities	(19)	74	1,619
Other provisions	(18)	10,831	10,524
Other liabilities	(19)	8,211	7,054
<b>Current liabilities, provisions and accruals</b>		<b>90,845</b>	<b>70,036</b>
<b>Total equity and liabilities</b>		<b>256,097</b>	<b>227,931</b>



## CONSOLIDATED STATEMENT OF CASH FLOWS

for the fiscal year from 1 January to 31 December 2017

K EUR	Note	2017	2016
<b>1. Cash flow from operating activities</b>			
Net profit		10,159	12,805
Depreciation / amortisation (+) of fixed assets	(10)	23,770	24,615
Income tax expenses through profit or loss (+)	(8)	5,668	5,921
Income taxes paid (-)		-7,213	-6,393
Financing costs through profit or loss (+)	(6)	1,260	1,263
Interest paid (-)		-1,253	-374
Financial investment income through profit or loss (-)	(6)	-49	-26
Interest received (+)		49	26
Increase (+) / decrease (-) in provisions	(18)	-78	-1,943
Change in deferred taxes		-774	-773
Other non-cash expenses (+) / income (-)		-120	512
Gain (-) / loss (+) from the disposal of assets		156	48
Profit or loss of joint ventures accounted for using the equity method	(7)	1,170	-252
Increase (-) / decrease (+) in inventories, trade receivables and other assets	(12), (13), (14)	-6,925	-6,668
Increase (+) / decrease (-) in trade payables and other liabilities	(19)	5,613	-8,002
<b>Cash flow from operating activities</b>		<b>31,433</b>	<b>20,759</b>

K EUR	Note	2017	2016
<b>2. Cash flow from investing activities</b>			
Cash received (+) from the disposal of property, plant and equipment		0	229
Cash paid (-) for investments in property, plant and equipment		-29,908	-23,640
Cash paid (-) for investments in intangible assets		-2,282	-1,378
Cash paid (-) for the acquisition of subsidiaries		-2,299	0
Cash paid (-) for investments in financial assets		-6,819	0
<b>Cash flow from investing activities</b>		<b>-41,308</b>	<b>-24,789</b>
<b>3. Cash flow from financing activities</b>			
Cash received (+) from the assumption of financial liabilities	(19)	19,290	687
Cash paid (-) for the redemption of financial liabilities	(19)	-2,250	-1,190
Dividends paid (-) to shareholders	(16)	-6,436	-6,436
Cash paid (-) for finance leases		-247	-135
<b>Cash flow from financing activities</b>		<b>10,357</b>	<b>-7,074</b>
<b>4. Cash and cash equivalents at the end of the period</b>			
Cash-effective changes in cash and cash equivalents (sum of positions 1-3)		482	-11,104
Exchange rate-related changes in cash and cash equivalents		-230	-119
Changes in cash and cash equivalents due to changes in the consolidation basis		0	25
Cash and cash equivalents at the beginning of the period	(15)	3,616	14,814
<b>Cash and cash equivalents at the end of the period</b>	<b>(15)</b>	<b>3,868</b>	<b>3,616</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the fiscal year from 1 January to 31 December 2017

K EUR	Subscribed capital (Note 16)	Capital reserves (Note 16)	Revenue reserves (Note 16)	Other reserves (Note 16)	Total equity
<b>1 January 2016</b>	<b>6,436</b>	<b>38,510</b>	<b>76,058</b>	<b>-4,764</b>	<b>116,240</b>
Changes from actuarial gains and losses	0	0	0	-1,575	-1,575
Unrealised gains / losses from currency translation for joint ventures accounted for using the equity method	0	0	0	-509	-509
Foreign currency translation differences	0	0	0	824	824
<b>Other comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-1,260</b>	<b>-1,260</b>
Net profit for 2016	0	0	12,805	0	12,805
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>12,805</b>	<b>-1,260</b>	<b>11,545</b>
Dividends paid	0	0	-6,436	0	-6,436
<b>31 December 2016</b>	<b>6,436</b>	<b>38,510</b>	<b>82,427</b>	<b>-6,024</b>	<b>121,349</b>

<sup>\*)</sup> € 1 per share

K EUR	Subscribed capital (Note 16)	Capital reserves (Note 16)	Revenue reserves (Note 16)	Other reserves (Note 16)	Total equity
<b>1 January 2017</b>	<b>6,436</b>	<b>38,510</b>	<b>82,427</b>	<b>-6,024</b>	<b>121,349</b>
Changes from actuarial gains and losses	0	0	0	77	77
Realised gains / losses from currency translation for joint ventures accounted for using the equity method	0	0	0	1,542	1,542
Foreign currency translation differences	0	0	0	-1,787	-1,787
<b>Other comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-168</b>	<b>-168</b>
Net profit for 2017	0	0	10,159	0	10,159
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>10,159</b>	<b>-168</b>	<b>9,991</b>
Dividends paid	0	0	-6,436	0	-6,436
<b>31 December 2017</b>	<b>6,436</b>	<b>38,510</b>	<b>86,150</b>	<b>-6,192</b>	<b>124,904</b>

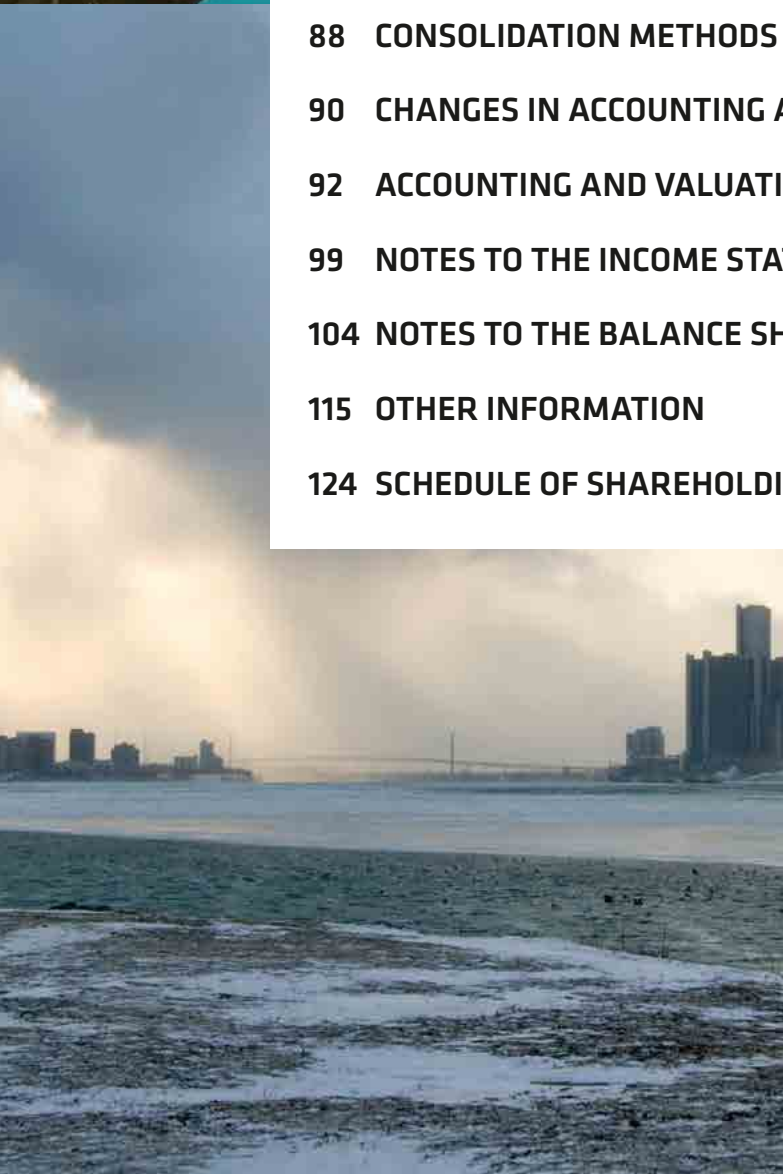
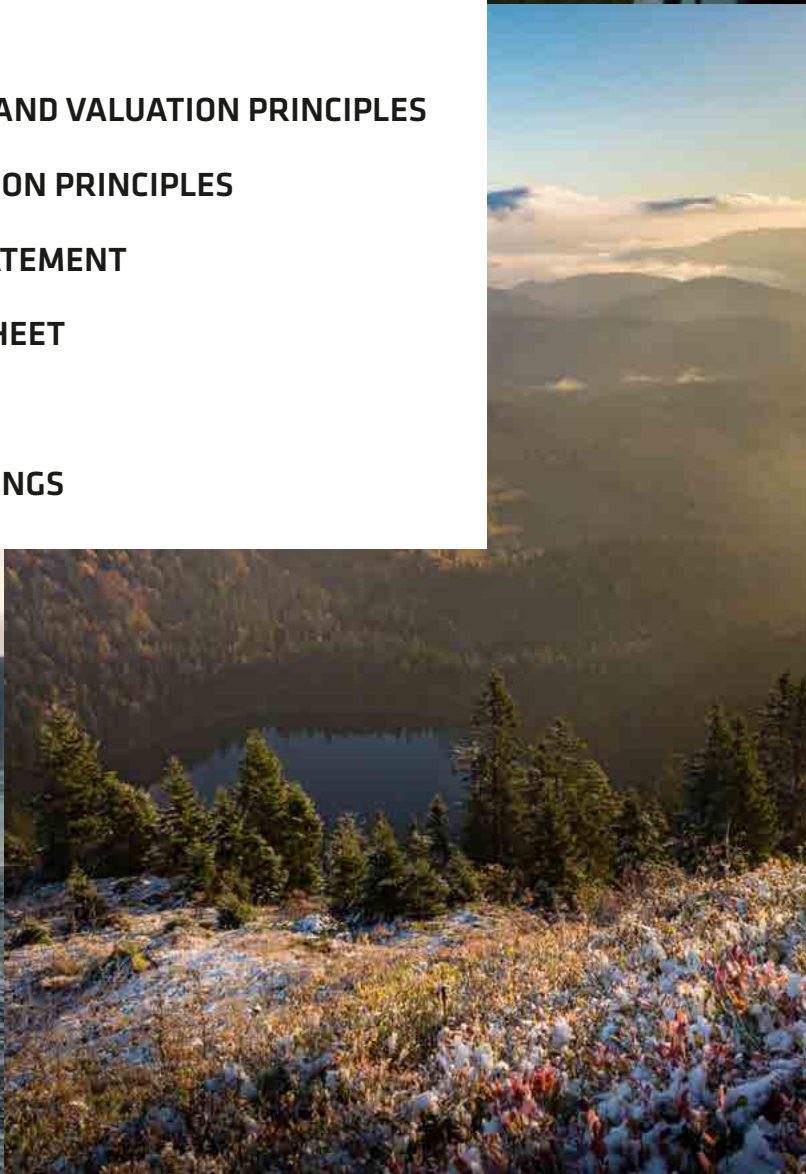
<sup>\*)</sup> € 1 per share





# NOTES

to the Consolidated Financial Statements

- 88 BASIS FOR THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS**
  - 88 CONSOLIDATION METHODS**
  - 90 CHANGES IN ACCOUNTING AND VALUATION PRINCIPLES**
  - 92 ACCOUNTING AND VALUATION PRINCIPLES**
  - 99 NOTES TO THE INCOME STATEMENT**
  - 104 NOTES TO THE BALANCE SHEET**
  - 115 OTHER INFORMATION**
  - 124 SCHEDULE OF SHAREHOLDINGS**
- 
- 

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Basis for the preparation of the Consolidated Financial Statements

SHW AG's consolidated financial statements as at 31 December 2017 were approved by the Management Board on 9 March 2018 for submission to the Supervisory Board. SHW Aktiengesellschaft with registered offices at Wilhelmstrasse 67, Aalen, Germany, was created in 2011 by a change of legal form and recorded in the commercial register on 8 June 2011 (under the commercial register no. HRB 726621 held by the Ulm district court). The SHW Group's principal activity is the production and sale of hydraulic pumps, powder metallurgy parts and brake discs. 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 2017 as to be applied in the EU. All interpretations of the International Financial Reporting Interpretations Committee (IFRIC) relevant for fiscal year 2017, 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. This excludes derivative financial instruments and available-for-sale financial instruments accounted for at fair value. 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 19 December 2017, the shareholders of Lust Hybrid-Technik GmbH, Hermsdorf ("LHT") and, by resolution of 11 January 2018, the shareholders of SHW Automotive GmbH 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 resolution was passed on to the Federal Gazette (Bundesanzeiger) on 18 January 2018 for publication.

## Consolidation methods

### Scope of consolidation and consolidation principles

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

A full list of the shareholdings of the SHW Group is 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 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 included in the Annual Financial Statements of consolidated companies are eliminated.

### Changes in the scope of consolidation

In fiscal year 2017 SHW Pumps & Engine Components S.r.l., Ghironda/Timişoara, Romania was consolidated for the first time, commencing on the date of its establishment and Lust Hybrid-Technik GmbH, Hermsdorf, consolidated from the date of its acquisition.

All of the shares LHT were acquired on 2 August 2017. LHT's portfolio of goods and services comprises the development, industrialisation, production and qualification of complex, miniaturised electronics and micro-systems technology. As a provider of Electronics Manufacturing Services (EMS), LHT covers the entire contract manufacturing chain for electronic assemblies – from the development of processes and circuit board assemblies through to complex test concepts and global shipment. With this acquisition, SHW has optimised the vertical integration of its electric pumps sector.

As consideration for the acquisition, a fixed (cash) price of €3,300 thousand was agreed, of which €2,300 thousand was due for immediate payment. The remainder of €1,000 thousand, which is not yet payable, will be rendered in two instalments due by 31 March 2020 provided that no deductions are needed on account of contractual warranties issued by the sellers. At present, it is not assumed that deductions will be needed. Correspondingly, the outstanding interest-bearing purchase instalment has been presented under non-current other financial liabilities of the Group.

The fair values of the assets acquired and liabilities assumed on the date of acquisition break down as follows:

K EUR	02.08.2017
Goodwill	386
Customer base	963
Other intangible assets	16
Property, plant and equipment	5,158
Deferred tax assets	431
<b>Non-current assets</b>	<b>6,954</b>
Inventories	1,882
Trade receivables	1,062
Other assets	692
Cash and cash equivalents	1
<b>Current assets</b>	<b>3,637</b>
<b>Total assets</b>	<b>10,591</b>
Deferred tax liabilities	282
Other provisions	80
Other financial liabilities	335
Liabilities to banks	1,798
Other liabilities	623
<b>Non-current liabilities and provisions</b>	<b>3,118</b>
Liabilities to banks	717
Trade payables	1,074
Other financial liabilities	893
Other provisions	412
Other liabilities	1,077
<b>Current liabilities, provisions and accruals</b>	<b>4,173</b>
<b>Total liabilities, provisions and accruals</b>	<b>7,291</b>

Goodwill is primarily a result of the skills and professional competence of the workforce of LHT and the expected synergies in the field of electrification from the integration of the new subsidiary in the Pumps and Engine Components business segment of the SHW Group. It is not expected that any of the goodwill recognised can be deducted for tax purposes.

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 amortised over an economic life of ten years.

Trade receivables carried by LHT on the date of acquisition include the gross amounts of €1,062 thousand originating from contracts of which €0 thousand is considered non-collectible as at the date of acquisition.

The sales attributable to LHT since it became affiliated to the Group amount to €5,094 thousand. The profit generated by LHT since it became affiliated to the Group of €132 thousand is contained in the net profit reported for the fiscal year 2017. In the segment reporting, LHT is allocated to the Pumps and Engine Components business segment.

Had the business combination occurred as at 1 January 2017, LHT would have contributed €11,573 thousand to group sales and €149 thousand to the net income of the group for the year ("pro forma" disclosures). When calculating these amounts, management assumed that the fair value adjustments performed on the date of acquisition would also have applied had the acquisition occurred on 1 January 2017.

The transaction-related costs amount to €665 thousand. These have been recorded as expenses in the fiscal year and reported under other operating expenses in the consolidated income statement.

### Joint ventures

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

On 23 January 2015, SHW Automotive GmbH, a subsidiary of SHW AG, and Shandong Longji Machinery Co., Ltd. signed an agreement to form a joint venture for brake discs for the Asian market. This Sino-foreign equity joint venture operated under the name SHW Longji Brake Discs (LongKou) Co., Ltd., and was domiciled in LongKou in eastern China (Shandong province). This company commenced its operating activities on 1 April 2015.



The company had share capital of RMB 215.5 million (renminbi) with SHW Automotive GmbH holding an interest of 51 per cent, as the majority shareholder, and Shandong Longji Machinery Co., Ltd. holding 49 per cent. In the first quarter of fiscal year 2015, SHW Automotive GmbH contributed share capital of €8.9 million. The second capital contribution of €6.8 million was paid in February 2017 in keeping with the contract.

As SHW will focus more strongly on the growing field of high-quality composite brake discs in future, the 51 per cent holding in the joint venture, SHW Longji Brake Discs (LongKou) Co., Ltd. was consequently sold to the Chinese joint venture partner in the fourth quarter of 2017. Reference is made to Note (7) "Joint ventures accounted for using the equity method", also in terms of the presentation of the discontinuation of the equity method and the effects arising from its deconsolidation.

## Changes in accounting and valuation principles

### 1. New and amended standards and interpretations applicable in the year 2017

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and interpretations, which have been adopted into European law by the EU and must be applied to reporting periods beginning on 1 January 2017:

Standard/ Interpretation		Status	To be applied from
AIP 2014 - 2016	Annual improvements project by the IASB (2014-2016)	revised	01.01.2017
Amendments to IAS 7	Cash flow statement	revised	01.01.2017
Amendments to IAS 12	Income taxes	revised	01.01.2017

The application of these amendments did not have any significant effect on the Consolidated Financial Statements of SHW AG.

### 2. Standards, interpretations and amendments to published standards not yet mandatory in 2017 and not adopted early by the SHW Group

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

Standard/ Interpretation		Status	To be applied from
AIP 2014 - 2016	Annual improvements project by the IASB (2014-2016)	revised	01.01.2018
Amendments to IAS 40	Transfers of investment property	revised	01.01.2018
Amendments to IFRS 2	Classification and measurement of share-based payment transactions	revised	01.01.2018
Amendments to IFRS 4	Adoption of IFRS 9	revised	01.01.2018
IFRIC 22	Foreign currency transactions and advance consideration	revised	01.01.2018
IFRS 9	Financial instruments	new	01.01.2018
IFRS 15	Revenue from contracts with customers	new	01.01.2018
Amendments to IFRS 15	Clarifications to IFRS 15 Revenue from contracts with customers	new	01.01.2018
AIP 2015 - 2017	Annual improvements project by the IASB (2015-2017)	revised	01.01.2019
Amendments to IAS 28	Long-term interests in associates and joint ventures	revised	01.01.2019
Amendments to IFRS 9	Prepayment features with negative compensation	revised	01.01.2019
IFRIC 23	Uncertainty over income tax treatments	revised	01.01.2019
IFRS 16	Leases	new	01.01.2019
IFRS 17	Insurance contracts	new	01.01.2021



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

At the present time, SHW AG intends to apply IFRS 9 on 1 January 2018 for the first time. The effects of first-time application will depend on the financial instruments which the Group holds at the changeover date, the economic conditions and the choice of reporting methods, as well as discretionary decisions to be made in future. A provisional assessment of the possible effects of application of IFRS 9 on the Consolidated Financial Statements of SHW AG – on the basis of its items as at 31 December 2017 – has not resulted in any significant effects on account of the new classification requirements or the impairment model.

- IFRS 15 “Revenue from Contracts with Customers”: The new standard replaces IAS 18 “Revenue” and IAS 11 “Construction Contracts” and the related interpretations. The new standard establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise. IFRS 15 prescribes a single, five-step revenue realisation model. In principle, this must be applied to all contracts with customers. In the balance sheet, IFRS 15 has introduced new items for contract assets and liabilities. These may arise through existing performance surpluses or performance obligations at the contract level. In addition, expanded disclosure requirements apply. In April 2016 the IASB released clarifications regarding IFRS 15, which primarily addressed the identification of distinct goods or services promised to a customer. IFRS 15 is mandatory for fiscal years beginning on or after 1 January 2018. Early adoption is permitted.

SHW AG will apply IFRS 15 for the first time for the fiscal year beginning on 1 January 2018. It will be applied retrospectively with a cumulative effect upon first-time application. SHW AG has completed its assessment of the impact of applying IFRS 15 on its Consolidated Financial Statements, based on a dual-phase analysis. In the first phase, a detailed analysis was made of customer contracts and the impact of IFRS 15. In the second phase of the analysis, the business model was examined, both generally and on the basis of some sample contracts, with regard to the new rules on revenue recognition. The review of the potential impact on separately identifiable promises of goods and services to customers with regard to development contracts, tool construction, prototype construction and serial production revealed that the impact will be immaterial in terms of accounting treatment. Under certain conditions there may be delays due to variable consideration components and changes in the separate presentation of contractual assets and contractual liabilities in the balance sheet. In sum, no material impact is expected from applying IFRS 15 to the financial performance, financial position and cash flows of the SHW Group. The analysis of customer contracts did not reveal any cumulative effect that would result

in a need to adjust revenue reserves as at 1 January 2018. The extended disclosures required in the notes by IFRS 15 will be considered in fiscal year 2018.

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

SHW AG plans to retrospectively apply IFRS 16 in a modified form as at the date of first-time application on 1 January 2019. IFRS 16 will increase the balance sheet total and the debt burden. Since depreciation and amortisation and interest expenses will also increase, this will have a positive effect on EBITDA. Since the balance-sheet treatment of leases matches the Company’s own investments from the date of first-time application of the new IFRS 16, the scope of the resulting changes will also depend on the extent to which leasing represents an attractive alternative financing option in future, particularly in view of the current period of low interest rates.

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

## Accounting and valuation principles

### 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:

	€ 1	Closing rate 31.12		Average rate	
		2017	2016	2017	2016
Brazil	BRL	3.9729	3.4248	3.6041	3.8374
Canada	CAD	1.5039	1.4141	1.4644	1.4656
China	RMB	7.8044	7.3059	7.6264	7.3489
Romania	RON	4.6585	4.5390	4.5687	4.4904

### 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.

### 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.

### 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 selling costs and value in use. An appropriate valuation model is used to determine the fair value less selling costs. 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.

## Financial assets and liabilities

Financial assets within the meaning of IAS 39 are categorised either as financial assets measured at fair value through profit or loss, as loans and receivables, as held-to-maturity financial investments or as available-for-sale financial assets. Financial liabilities are categorised as either liabilities amortised at acquisition cost pursuant to the effective interest rate method or as financial liabilities at their fair value through profit or loss.

Upon initial recognition of financial assets and liabilities, they are measured at fair value. Financial assets for which fair value has not been measured through profit or loss will also include transaction costs directly attributable to the acquisition of the financial asset. The SHW Group determines the classification of its financial assets upon initial recognition and, if permitted and appropriate, re-evaluates this allocation at the end of each fiscal year.

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 measured at fair value through profit or loss

The category of financial assets measured at fair value through profit or loss includes financial assets held for trading and, where applicable, financial assets classified in this category upon their initial recognition. Financial assets are classified as held for trading if they are acquired for the purpose of being sold in the near future. Derivatives, including separately recognised embedded derivatives, are also classified as held for trading unless they are designated as hedging instruments and are effective as such. Gains and losses from financial assets in this category are recognised in profit or loss with the exception of derivatives that are classified as hedging instruments and are effective as such.

### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on a market. After their initial recognition, loans and receivables are carried at amortised cost using the effective interest rate method less any impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired or amortised.

### Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are classified as available-for-sale and are not allocated to the categories above. After their initial measurement, they are subsequently carried at fair value. Unrealised gains and losses are recognised directly in equity. When this type of financial asset is derecognised or impaired, any cumulative gains or losses previously recognised directly in equity are transferred to profit or loss. If financial investments in equity instruments do not have a quoted market price on an active market and their fair value cannot be assessed reliably, then they are measured at acquisition cost less accumulated impairments.

### Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and a fixed term where the SHW Group has the intention and ability to hold them to maturity. After initial recognition, held-to-maturity investments are carried at amortised cost using the effective interest rate method, less any impairment.

### Interest-bearing 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.

### Financial liabilities and assets measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss include financial liabilities held for trading and other financial liabilities classified at fair value through profit or loss upon initial recognition.

Financial liabilities are classified as held for trading if acquired for the purpose of being sold in the near future. Derivatives, including embedded derivatives recorded separately, are also classified as held for trading. Gains or losses from financial liabilities which are held for trading will be recognised in profit or loss. This excludes derivatives which are designated as hedging instruments and are effective as such.

Currently, there are no financial assets or financial liabilities in the SHW Group that have been classified as measured at fair value upon initial recognition or financial assets that are classified as held-to-maturity financial investments.



On each reporting date, the SHW Group determines whether to recognise impairment on a financial asset or a group of financial assets.

If there is objective indication that financial assets carried at amortised cost are impaired, the amount of the loss is the difference between the carrying amount of the asset and the present value of the expected future cash flows for a comparable financial asset, discounted by the original effective interest rate for the financial asset. The carrying amount of the asset is reduced by way of an allowance account. The loss is recognised through profit or loss.

Trade receivables which normally have a term of 30 to 90 days are carried at the original invoice amount less an impairment for doubtful accounts receivable. An impairment using an allowance account is recognised when there is objective, material evidence that the SHW Group will not be in a position to collect the receivable in full. Receivables are derecognised as soon as they become uncollectible.

If the amount of the impairment of a financial asset carried at amortised cost decreases in one of the subsequent fiscal years and this decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment is reversed through profit or loss. Any increase in the carrying amount may not exceed the amount that would have resulted if the measurement of the asset had continued at acquisition cost without impairment.

When an available-for-sale asset becomes impaired, an amount equal to the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value is reclassified from equity to profit or loss. Any reversals of impairment losses on equity instruments classified as available-for-sale are not recognised in profit or loss. Reversals of impairment losses on debt instruments classified as available-for-sale are recognised in profit or loss when the rise in the fair value of the financial instruments resulted from an event occurring after the impairment's recognition in profit or loss.

Financial assets and financial liabilities are derecognised when the claims or obligations underlying these assets or liabilities are settled, cancelled, transferred or have lapsed.

#### Presentation of financial assets and financial liabilities

Financial assets and financial liabilities are presented separately on the balance sheet, i.e. separate from non-financial assets and non-financial liabilities.

#### Cash and cash equivalents

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

#### Inventories

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 taken for inventory risks resulting from excessive storage periods or reduced saleability.

#### Pension provisions and similar obligations

The SHW Group has two defined benefit plans in Germany with essentially uniform conditions. They are measured using the projected unit credit method and take into account the future development of salaries and pensions as well as the 2005 G reference tables ("RICHTTAFELN") published by Klaus Heubeck on 19 July 2005, 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.

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.

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.

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

### Other provisions

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.

### 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.

### 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.

### Leases

A lease is classified as a finance lease if essentially all opportunities and risks relating to ownership are transferred to the lessee by the lease agreement. All other leases are classified as operating leases.

If the fundamental opportunities and risks related to the ownership of the asset lie with the SHW Group, the lease is treated as a finance lease. Upon the inception of the lease, the leased asset is recognised at the lower of fair value of the leased item or at the present value of the minimum lease payments. The corresponding liability to the lessor is recorded in the balance sheet as a financial lease obligation. The lease payments are divided into an interest component and a repayment component, with the interest expenses being directly reported through profit or loss unless they can be unambiguously allocated to a qualified asset.

Lease instalments on operating leases are recognised on a straight-line basis as an expense over the term of the lease.

### 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.

Derivative financial instruments are carried at fair value on the date the contract is concluded and measured at fair value in the subsequent periods. Fair value is determined using standardised valuation techniques. Derivative financial instruments will be recognised as a financial asset if the fair value is positive and as a financial liability in case of negative fair values. Gains or losses arising from changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised directly in profit or loss.

The relationship between the underlying transaction and the hedging instrument is documented at the inception of a hedge relationship, including the risk management objectives as well as the company strategy underlying the hedge relationship. Furthermore, documentation is kept at the inception of the hedge relationship and during its term with regard to the effectiveness of the hedging instrument at offsetting changes in fair value and in cash flows of the underlying transaction.

For derivative financial instruments used in a hedge relationship, the changes in fair value in the course of the fiscal year are recognised according to the type of hedge relationship. In the case of a cash flow hedge, changes in fair value of the effective portion of the hedge instrument are recorded directly in equity under other reserves ("changes in the fair value of hedging instruments") and take into account deferred taxes. The non-effective portion will be directly recognised in the income statement under other operating income or other operating expenses. To the extent that the requirements for a cash flow hedge no longer exist, the amounts recognised under "other reserves" are released in profit or loss over the remaining term of the hedging instrument.

The changes in the fair value of derivatives that qualify for fair value hedges and are designated as such are recognised directly in the Consolidated Income Statement together with the changes in the fair value of the underlying transaction attributable to the hedged risk. The change in the fair value of the hedging instrument and the changes in the underlying transaction attributable to the hedged risk are recognised in the Consolidated Income Statement under the item associated with the underlying transaction.

The accounting of the hedge relationship ends when either the SHW Group dissolves the hedge relationship, the term of the hedging instrument expires, the instrument is sold, terminated or exercised, or when it no longer qualifies for hedge accounting. At that time, the adjustment in the carrying amount of the underlying transaction resulting from the hedged risk commences through profit or loss.

Neither cash flow hedges nor fair value hedges currently exist within the SHW Group.

### Income and expenses

Income from the sale of goods and merchandise is recognised when the opportunities and risks of the goods and merchandise sold have been transferred to the buyer. This is generally the case upon delivery of the goods and merchandise. Sales are measured at the fair value of the consideration received or to be received, less any discounts, customer bonuses or rebates.

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 qualified assets within the meaning of IAS 23 and if the opportunities and risks of the goods sold have been transferred to the buyer.

### 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.

### Key estimates

The preparation of the Annual 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 €7,055 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 (10) "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 2017, the capitalised development costs amount to €5,258 thousand (previous year €5,877 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 2017, the provision for pensions and similar obligations amounted to €27,905 thousand (previous year €28,036 thousand). For further details, please refer to Note (17) "Pension provisions and similar obligations".

### Deferred tax assets

Deferred tax assets are recognised for all unutilised tax-loss carry-forwards to the extent that it is probable that taxable income will be available in the future so that 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 utilize 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 (8) "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.
- Financial assets are to be allocated to the categories of "held-to-maturity financial investments", "loans and receivables", "available-for-sale financial assets" and "financial assets measured at fair value through profit or loss".

### Segment reporting

Reporting for the business segments is carried out in a manner consistent with the internal reporting to the Company's chief operating decision maker. The chief operating decision maker is responsible for decisions regarding the allocation of resources to the business segments and for the monitoring of the segments' profitability. The Management Board is the Company's chief operating decision maker.



## Notes to the income statement

### (1) Selling expenses

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

### (2) General administrative expenses

Administrative costs include all administrative expenses which cannot be directly allocated to other functional areas. This includes expenses for general administration, management and other higher-level departments (see also the explanations on the results of operations in the Combined Group Management Report and Management Report).

### (3) 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 2017, the additionally capitalised development costs amounted to €1.4 million (previous year €0.9 million). Additional development services were billed within the scope of customer orders.

### (4) Other operating income

Other operating income comprises, in particular, income from reversals of provisions and other liabilities of €4,411 thousand (previous year €3,403 thousand) and income from settlement payments and insurance indemnification payments of €3,144 thousand (previous year €993 thousand).

### (5) Other operating expenses

Other operating expenses mainly comprise legal and consulting costs of €1,190 thousand (previous year €232 thousand). In addition, expenses from claims for damages of €417 thousand (previous year €1,358 thousand) are presented here (as in the previous year) which are offset by substantial insurance indemnification payments posted to other operating income.

## (6) Financial result

The financial result breaks down as follows:

K EUR	2017	2016
Financial income	49	26
<b>Financial expenses</b>		
Interest and similar expenses	-777	-662
Interest portion in the addition to pension provisions	-439	-562
Interest expense from finance leases	-44	-39
	<b>-1,260</b>	<b>-1,263</b>
<b>Financial result</b>	<b>-1,211</b>	<b>-1,237</b>

Financial income mainly results from interest on non-current assets and interest income from fixed-term deposits.

Other interest and similar expenses refer in particular to interest and borrowing costs from the syndicated loan of €479 thousand (previous year €380 thousand) determined using the effective interest rate method (see Note 19 "Liabilities").

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

K EUR	Net results		of which impairment losses / reinstatements	
	2017	2016	2017	2016
Loans and receivables (LaR)	384	40	14	14
Available-for-sale assets (AFS)	-11	-19	-11	-19
Financial liabilities measured at amortised cost (FLAC)	-821	-701	0	0
<b>Total</b>	<b>-448</b>	<b>-680</b>	<b>3</b>	<b>-5</b>

**(7) Joint ventures accounted for using the equity method**

The figure of €16.4 million as at 31 December 2016 presented in the previous year relates solely to the Chinese joint venture SHW Longji Brake Discs (LongKou) Co., Ltd., which was consolidated in the Consolidated Financial Statements of SHW AG from 1 April 2015 using the equity method. The second capital contribution that was still outstanding as at the reporting date of the previous year was presented under other current financial liabilities as at 31 December 2016. The second capital contribution was paid in February 2017 in accordance with the contract.

Based on a resolution to sell the 51 per cent holding to the Chinese joint venture partner and the loss of control over the joint venture as a result, the equity method was discontinued as at 26 September 2017. From this date onwards, the carrying amount previously measured using the equity method was reclassified to held-for-sale assets pursuant to IFRS 5, commencing in the quarterly report of SHW AG as at 30 September 2017. The transaction was fully executed in the fourth quarter of 2017. After deducting Chinese taxes, the purchase price receivable amounted to €16.2 million and is presented under current other financial assets as at 31 December 2017. See Note (14) "Current other assets and other financial assets". The associated cash inflow was recorded at the beginning of 2018.

Condensed financial information for the joint venture, SHW Longji Brake Discs (LongKou) Co., Ltd., based on a 100 per cent holding until control was lost:

K EUR	1-9 / 2017	1-12 / 2016
Share (in %)	51.0	51.0
<b>Balance sheet as at 26.9. / 31.12.</b>		
Non-current assets	14,220	16,288
Current assets	20,521	13,417
of which cash and cash equivalents	7,647	3,360
Deferred tax liabilities	379	535
Current liabilities	3,374	3,508
of which financial liabilities	2,569	2,741
Net assets	30,988	25,662
<b>Income statement</b>		
Sales	17,675	19,474
EBITDA	1,885	2,109
Amortisation and depreciation	824	1,564
EBIT	1,061	544
Earnings before tax	1,091	659
Income tax expense	306	166
Earnings after tax	785	494
Other comprehensive income after tax (from currency translation)	-1,978	-998
Total comprehensive income after tax	-1,193	-504

Net assets (equity) and the current assets of the joint venture have been shown net as at 31 December 2016, without including the second capital tranche.

The hidden reserves and burdens identified in the course of the first-time consolidation are rolled forward in the condensed financial information.

Reconciliation of the condensed financial information and the carrying amount in the Consolidated Financial Statements:

K EUR	
Carrying amount accounted for using the equity method as at 1 January 2017	16,412
Share of earnings after tax 1-9 / 2017	401
Share of other comprehensive income after tax (from currency translation) 1-9 / 2017	-1,009
<b>Carrying amount of held-for-sale assets as at 26 September 2017</b>	<b>15,804</b>
Disposal of the carrying amount due to sale / deconsolidation	-15,804
	<b>0</b>

Upon the sale of the share in the joint venture, the profits and losses arising from the currency translation of joint ventures accounted for using the equity method of previous periods (2016, 2015), and until control was lost, that were previously presented under other comprehensive income / other reserves were recycled through the income statement under investment income. Consequently, the result of joint ventures accounted for using the equity method in fiscal year 2017 can be presented as follows:

K EUR		2017
Proceeds from the disposal	16,463	
Local Chinese taxes	-244	
<b>Purchase price receivable</b>	<b>16,219</b>	<b>16,219</b>
Carrying amount of held-for-sale assets as at 26 September 2017		-15,804
Losses from the currency translation of joint ventures accounted for using the equity method 2015	-1,033	
Losses from the currency translation of joint ventures accounted for using the equity method 2016	-509	
<b>Realised losses from the currency translation of joint ventures accounted for using the equity method by 31 December 2016</b>	<b>-1,542</b>	<b>-1,542</b>
Realised losses from the currency translation of joint ventures accounted for using the equity method 1.1.2017 to 26.9.2017		-1,009
Gains on the currency translation of the second tranche of the capital contribution for joint ventures accounted for using the equity method 2015 - 2017		587
Disposal costs		-22
<b>Loss upon deconsolidation of joint ventures accounted for using the equity method</b>		<b>-1,571</b>
Share in earnings after tax of joint ventures accounted for using the equity method until termination of the equity method		401
<b>Profit or loss of joint ventures accounted for using the equity method</b>		<b>-1,170</b>

## 8) Income taxes

### a) Tax recognised in profit or loss

K EUR	2017	2016
<b>Current taxes</b>	<b>-5,668</b>	<b>-5,921</b>
Current year	-5,679	-5,600
Adjustments for previous years	11	-321
<b>Deferred taxes</b>	<b>707</b>	<b>773</b>
Recognition / reversal of temporary differences	707	773
<b>Total</b>	<b>-4,961</b>	<b>-5,148</b>

The revaluation of defined benefit obligations resulted in deferred tax expenses of €30 thousand (previous year deferred tax benefits of €619 thousand) which were recognised directly in equity.

### b) Reconciliation of effective tax rate

K EUR	2017	2016
Earnings before tax	15,120	17,953
Expected income tax (28.4 [previous year 28.2] per cent)	4,294	5,063
Tax-free income, non-deductible expenses	43	-43
Tax effect of joint ventures accounted for using the equity method	332	-71
Taxes from previous years	-11	321
Reduction in assessed value	-14	-12
Add backs (pursuant to Section 8 of the German Trade Tax Act-GewStG)	27	24
Unrecognised deferred tax assets from loss carryforwards	430	0
Deviating foreign tax rate	66	-14
Other	-206	-120
<b>Income taxes</b>	<b>4,961</b>	<b>5,148</b>
Effective tax rate	32.8%	28.7%

In Germany, corporate income tax totalled 15.8 per cent in 2017. Trade tax amounts to 12.6 per cent, with an average assessment rate of 359.6 per cent.

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

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

No deferred taxes were calculated on outside basis differences amounting to € -4,260 thousand (previous year € 643 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 2017 or 2016 and will not have an income tax impact in 2018.

#### c) Composition of deferred taxes

K EUR	Consolidated balance sheet	
	31.12.2017	31.12.2016
<b>Deferred income tax assets</b>		
Property, plant and equipment	13	0
Inventories	207	0
Other current assets	39	0
Pension provisions and similar obligations	3,643	3,661
Other non-current liabilities and provisions	571	785
Current liabilities, provisions and accruals	188	147
Unused tax losses	1,302	678
<b>Total</b>	<b>5,963</b>	<b>5,271</b>
<b>Deferred income tax liabilities</b>		
Intangible assets	1,833	2,031
Property, plant and equipment	119	112
Other non-current assets	67	0
Inventories	0	54
Other current assets	150	133
Non-current liabilities and provisions	78	0
Current liabilities, provisions and accruals	0	118
<b>Total</b>	<b>2,247</b>	<b>2,448</b>

#### d) Deferred taxes directly recognised in equity

K EUR	Before tax	Tax income / expense	After tax
<b>2017</b>			
Actuarial gains / losses from pension provisions and similar obligations	107	-30	77
Realised gains / losses from currency translation for joint ventures accounted for using the equity method	1,542	0	1,542
Currency translation differences	-1,787	0	-1,787
<b>Total</b>	<b>-138</b>	<b>-30</b>	<b>-168</b>
<b>2016</b>			
Actuarial gains / losses from pension provisions and similar obligations	-2,194	619	-1,575
Unrealised gains / losses from currency translation for joint ventures accounted for using the equity method	-509	0	-509
Currency translation differences	824	0	824
<b>Total</b>	<b>-1,879</b>	<b>619</b>	<b>-1,260</b>

#### e) Unrecognised deferred tax assets

For tax losses amounting to € 1,803 thousand (previous year € 111 thousand) no deferred tax assets were recognised since it is unlikely that taxable income will be available in the future against which the deferred tax asset can be used.

Of the deferred tax assets for tax losses, € 622 thousand (previous year € 400 thousand) are attributable to the Chinese subsidiary SHW Automotive Pumps (Kunshan) Co., Ltd., which generated a loss for the period in fiscal year 2017 and in the previous year. The Group's Chinese subsidiary started series production of variable engine oil pumps for a Chinese-European automobile manufacturer in September 2016. In fiscal year 2015, deferred tax assets were recognised on tax losses for the first time because the Management Board believes it is probable that taxable income will be available in the future to offset these tax losses.

In fiscal year 2014, deferred tax assets were recognised on tax losses of the Brazilian subsidiary SHW do Brasil Ltda. for the first time (as at the balance sheet date € 368 thousand), since this subsidiary is about to start series production for a major order and the Management Board therefore considers it likely that it will be possible to offset losses in future.



## (9) Other income statement disclosures

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

<b>COST OF MATERIALS</b>		
K EUR	2017	2016
Cost of raw materials and supplies and of goods purchased	231,694	239,908
Cost of purchased services	10,688	12,284
<b>Total cost of materials</b>	<b>242,382</b>	<b>252,192</b>

### Depreciation and amortisation

Depreciation and amortisation of intangible assets and property, plant and equipment totalled €23,770 thousand (previous year €24,615 thousand). For a breakdown of depreciation and amortisation to the individual line items of non-current assets for the fiscal year and the previous year, please see the “Statement of Changes in Intangible Assets and Property, Plant and Equipment” in Note (10).

<b>PERSONNEL EXPENSES</b>		
K EUR	2017	2016
Wages and salaries	76,755	74,926
Social security contributions and pension expenses	14,495	13,983
<b>Total personnel expenses</b>	<b>91,250</b>	<b>88,909</b>

Pension expenses comprise the addition to pension provisions (excluding the interest component) of €949 thousand (previous year €459 thousand). Statutory pension insurance expenses totalled €6,323 thousand (previous year €6,250 thousand).

Annual average number of employees:

<b>EMPLOYEES</b>		
	2017	2016
<b>Pumps and Engine Components business segment</b>		
direct employees	419	410
indirect employees	485	453
<b>Brake Discs business segment</b>		
direct employees	262	251
indirect employees	139	136
<b>Corporate</b>		
indirect employees	42	37
	<b>1,347</b>	<b>1,287</b>

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

## Notes to the balance sheet

## (10) Statement of changes in intangible assets and property, plant and equipment

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

K EUR	Acquisition and production costs						As at 31.12.2016
	As at 1.1.2016	Additions from first-time consolidation	Additions	Reclassi- fications	Disposals	Exchange rate differences	
<b>Intangible assets</b>							
Goodwill	7,055	0	0	0	0	0	7,055
Customer base	47,569	0	0	0	-47,569	0	0
Internally generated assets	15,844	0	859	0	-645	0	16,058
Other intangible assets	8,758	0	1,449	0	-665	0	9,542
	<b>79,226</b>	<b>0</b>	<b>2,308</b>	<b>0</b>	<b>-48,879</b>	<b>0</b>	<b>32,655</b>
<b>Property, plant and equipment</b>							
Land, land rights and buildings	37,350	0	2,931	414	-29	8	40,674
Technical equipment and machinery	135,420	0	6,926	3,377	-2,235	237	143,725
Other equipment, operating and office equipment	22,476	0	3,308	718	-205	18	26,315
Advance payments and assets under construction	4,576	0	9,211	-4,509	-151	0	9,127
	<b>199,822</b>	<b>0</b>	<b>22,376</b>	<b>0</b>	<b>-2,620</b>	<b>263</b>	<b>219,841</b>
<b>Total</b>	<b>279,048</b>	<b>0</b>	<b>24,684</b>	<b>0</b>	<b>-51,499</b>	<b>263</b>	<b>252,496</b>

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

	Depreciation and amortisation							Net carrying amounts		
	As at 1.1.2016	Additions from first-time consolidation	Additions	Reclassi- fications	Disposals	Write-ups	Exchange rate differences	As at 31.12.2016	31.12.2016	1.1.2016
	0	0	0	0	0	0	0	0	7,055	7,055
	47,569	0	0	0	-47,569	0	0	0	0	0
	7,603	0	2,709	0	-641	0	0	9,671	6,387	8,241
	5,653	0	1,682	0	-665	0	0	6,670	2,872	3,105
	60,825	0	4,391	0	-48,875	0	0	16,341	16,314	18,401
	10,180	0	1,322	0	0	0	3	11,505	29,169	27,170
	81,884	0	16,201	0	-2,159	0	82	96,008	47,717	53,536
	12,948	0	2,701	0	-188	0	13	15,474	10,841	9,528
	0	0	0	0	0	0	0	0	9,127	4,576
	105,012	0	20,224	0	-2,347	0	98	122,987	96,854	94,810
	165,837	0	24,615	0	-51,222	0	98	139,328	113,168	113,211

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

Intangible assets, with the exception of goodwill, have limited useful lives.

Additions to internally generated assets mainly resulted from capitalised development costs of €1,357 thousand (previous year €859 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 €15,300 thousand (previous year €9,180 thousand).

The residual book value of property, plant and equipment leased under finance leases as at 31 December 2017 is €1,580 thousand (previous year €974 thousand). The acquisition costs for assets leased under finance leases amount to €1,999 thousand (previous year €1,182 thousand). The additions in fiscal year 2017 are due to business combinations of €492 thousand and additions from new finance leases entered into of €325 thousand. Accumulated depreciation amounted to €208 thousand at the start of the fiscal year and to €419 thousand at the end of the fiscal year. Accordingly, in fiscal year 2017 depreciation totalled €211 thousand (previous year €109 thousand).

#### Goodwill

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

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

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

The recoverable amount of the four (previous year three) CGUs was calculated on the basis of their fair value less selling costs. This calculation was made using EBIT forecasts that are based on the financial plan for the years from 2018 to 2021 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 9.8 per cent discount rate was used (previous year 9.2 per cent). This is 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	31.12.2017	31.12.2016
Pumps and Engine Components	4,619	4,233
Brake Discs	2,822	2,822
<b>Total</b>	<b>7,441</b>	<b>7,055</b>

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

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

#### Planned gross margins

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

#### Cost increases

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.

#### Discount rates

The discount rate was derived from a base interest rate after tax of 1.3 per cent and an after-tax market risk premium of 7.0 per cent. The beta factor, capital structure and cost of debt were derived from the data for a peer group of comparable companies.

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



### (11) Other non-current financial assets and other assets

The other non-current financial assets are comprised as follows:

K EUR	31.12.2017	31.12.2016
Cash surrender value of pension insurance policies	287	298
<b>Total</b>	<b>287</b>	<b>298</b>

Of the other non-current assets, a total of €2,852 thousand (previous year €1,404 thousand) are prepaid expenses.

### (12) Inventories

K EUR	31.12.2017	31.12.2016
Raw materials and supplies	17,660	15,582
Unfinished products	16,313	16,291
Finished products	10,445	13,240
Advance payments	1,106	1,265
<b>Total</b>	<b>45,524</b>	<b>46,378</b>

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

Impairments of inventories in fiscal year 2017 amounted to €5,078 thousand (previous year €3,803 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 €245,155 thousand (previous year €252,192 thousand).

The net realisable value totalled €45,524 thousand (previous year €46,378 thousand).

### (13) Trade receivables

K EUR	31.12.2017	31.12.2016
Receivables from customers	46,458	38,982
Impairment losses	-112	-52
Allowance for doubtful debt	-521	-963
<b>Total</b>	<b>45,825</b>	<b>37,967</b>

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. Trade receivables are impaired when there is objective evidence of impairment, for example, in the case of a customer's insolvency.

In fiscal year 2016, a portion of the impairment losses for credit notes yet to be issued was reclassified – not affecting net profit – to the provision for credit notes yet to be issued (see Note (18)). In accordance with the actual settlement behaviour of the OEMs, these credit notes are now mainly considered to be provisions, since the Company has no influence over the time of their offsetting.

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

K EUR	2017	2016
<b>Allowance for impairment losses as at 1 January</b>	<b>1,015</b>	<b>3,230</b>
Additions (expenses from impairment losses)	108	0
Utilisation	-47	-31
Reversals (other operating income)	-1	0
Change in the allowance for doubtful debts	-442	-14
Reclassifications (other current provisions)	0	-2,170
<b>Allowance for impairment losses as at 31 December</b>	<b>633</b>	<b>1,015</b>

### (14) Other current assets and other financial assets

Other current assets include, in particular, receivables from the reimbursement of electricity and energy taxes of €911 thousand (previous year €758 thousand) as well as value-added tax credits of €1,605 thousand (previous year €1,219 thousand).

Current other financial assets comprise €16.2 million from the outstanding purchase price arising from the sale of the investment in the joint venture (see Note (7)) and redemption rights.

**(15) Cash and cash equivalents**

K EUR	31.12.2017	31.12.2016
Cash in banks, cheques, cash in hand	3,868	3,616
<b>Total</b>	<b>3,868</b>	<b>3,616</b>

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

**(16) 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 are comprised of the following:

K EUR	Pension liabilities	Joint ventures accounted for using the equity method	Foreign currency translation	Total other reserves
1 January 2016	-3,558	-1,033	-173	-4,764
Other comprehensive income	-1,575	-509	824	-1,260
<b>31 December 2016</b>	<b>-5,133</b>	<b>-1,542</b>	<b>651</b>	<b>-6,024</b>
Other comprehensive income	77	1,542	-1,787	-168
<b>31 December 2017</b>	<b>-5,056</b>	<b>0</b>	<b>-1,136</b>	<b>-6,192</b>

In fiscal year 2017, other reserves increased by €77 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. Recycling through income of the foreign currency translation differences arising from joint ventures accounted for using the equity method is presented in Note (7).

#### Authorised capital

Article 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 issuance of shares. The profit entitlement for the new shares may deviate from the provisions laid down in Section 60 (2) German Stock Corporation Act (Aktiengesetz – 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.

#### 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 for 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 €0.50 per share from the unappropriated profit for fiscal year 2017. This would be equivalent to a total dividend distribution of €3,218,104.50 for 6,436,209 no-par value shares.

#### Notification from shareholders

For the notifications according to Section 21 (1) German Securities Trading Act (Wertpapierhandelsgesetz – WpHG), please see the Notes to the Annual Financial Statements of SHW AG as at 31 December 2017.

#### (17) Pension provisions and similar obligations

Pension provisions and similar obligations include pension provisions of €27,905 thousand (previous year €28,036 thousand), including death benefits of €175 thousand (previous year €153 thousand).

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. In the reporting year, employer contributions of approximately €6.3 million were paid to the statutory pension scheme in Germany (previous year €6.3 million).

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 (11)).

Pension provisions are measured in accordance with actuarial principles using the projected unit credit method and taking into account the future development of salaries and pensions as well as the 2005 G reference tables ("RICHTTAFELN") published by Klaus Heubeck.

The following assumptions have been made:

in %	31.12.2017	31.12.2016
Interest rate	1.7	1.6
Pension trend	1.8	1.8

A pension trend of 1.25% was assumed for three vested entitlements.

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

In accordance with IAS 19, provisions for pension obligations also take actuarial gains and losses into account. They are shown in other comprehensive income within equity. Actuarial gains resulting from a change in actuarial assumptions or from adjustments based on experience amounted to €107 thousand in the past fiscal year (previous year losses of € -2,194 thousand).

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

K EUR	31.12.2017	31.12.2016
Defined benefit obligation (funded)	280	284
Defined benefit obligation (unfunded)	27,768	27,891
<b>Total defined benefit obligation (DBO)</b>	<b>28,048</b>	<b>28,175</b>
Fair value of plan assets	-143	-139
<b>Pension provisions</b>	<b>27,905</b>	<b>28,036</b>

The pension provision developed as follows:

K EUR	
<b>Provision as at 1 January 2016</b>	<b>26,274</b>
Current service cost	459
Interest cost	562
Pension payments	-1,453
Actuarial gains and losses from the change in actuarial assumptions	2,395
Actuarial gains and losses from experience adjustments	-201
<b>Provision as at 31 December 2016</b>	<b>28,036</b>
Current service cost	949
Interest cost	439
Pension payments	-1,412
Actuarial gains and losses from the change in actuarial assumptions	-447
Actuarial gains and losses from experience adjustments	340
<b>Provision as at 31 December 2017</b>	<b>27,905</b>

The defined benefit obligation (DBO) developed as follows:

K EUR	2017	2016
<b>Defined benefit obligation (DBO) 1 January</b>	<b>28,175</b>	<b>26,408</b>
Current service cost	949	459
Interest cost	443	567
Pension payments	-1,412	-1,453
Actuarial gains and losses from the change in actuarial assumptions	-447	2,395
Actuarial gains and losses from experience adjustments	340	-201
<b>Defined benefit obligation (DBO) 31 December</b>	<b>28,048</b>	<b>28,175</b>



Plan assets developed as follows:

K EUR	2017	2016
<b>Fair value of plan assets as at 1 January</b>	<b>139</b>	<b>134</b>
Interest income	4	5
<b>Plan assets as at 31 December</b>	<b>143</b>	<b>139</b>

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 2018.

The net pension expenses for defined benefit obligations are comprised as follows:

K EUR	2017	2016
Current service cost	949	459
Net interest cost	439	562
<b>Net pension cost</b>	<b>1,388</b>	<b>1,021</b>

Liabilities from defined benefit plans are as follows:

K EUR	31.12.2017	31.12.2016
Active employees	9,208	8,960
Former employees with vested rights	1,798	1,634
Pensioners / other	16,899	17,442
<b>Pension provisions</b>	<b>27,905</b>	<b>28,036</b>

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 €1,409 thousand in fiscal year 2018. Pension payments of this amount are also expected for the years to come. The pension plan costs in 2018 are expected to amount to €1,268 thousand.

The risks associated with the defined benefit obligations concern the actuarial risks such as longevity, as well as for 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 2017 interest rate of 1.7 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 1.2% (-0.5%)	30,372	28,048
Change in interest rate 2.2% (+0.5%)	26,022	28,048
Change in inflation rate 1.3% (-0.5%)	26,768	28,048
Change in inflation rate 2.3% (+0.5%)	29,445	28,048
Change in life expectancy +1 year	29,372	28,048

The weighted duration of pension provisions amounts to 15.2 years (previous year 15.2 years) as at 31 December 2017.

## (18) Other provisions

K EUR	As at 31.12.2016	Additions from first-time consolidation	Utilised	Reversals	Reclassifica- tion	Additions	As at 31.12.2017
Warranties	1,357	185	-100	-210	0	376	1,608
Other business-related obligations	9,159	28	-2,066	-3,624	0	5,345	8,842
Obligations to employees	4,747	65	-410	0	-220	1,159	5,341
Other provisions	8	215	-212	0	35	380	426
<b>Total</b>	<b>15,271</b>	<b>493</b>	<b>-2,788</b>	<b>-3,834</b>	<b>-185</b>	<b>7,260</b>	<b>16,217</b>
of which non-current provisions	4,747	80	-410	0	-190	1,159	5,386

K EUR	As at 31.12.2015	Additions from first-time consolidation	Utilised	Reversals	Reclassifica- tion	Additions	As at 31.12.2016
Warranties	3,391	0	-1,110	-1,100	0	176	1,357
Other business-related obligations	6,585	0	-179	-1,595	2,170	2,178	9,159
Obligations to employees	3,972	0	-222	0	74	923	4,747
Other provisions	8	0	-3	0	0	3	8
<b>Total</b>	<b>13,956</b>	<b>0</b>	<b>-1,514</b>	<b>-2,695</b>	<b>2,244</b>	<b>3,280</b>	<b>15,271</b>
of which non-current provisions	3,972	0	-222	0	74	923	4,747

## Other non-current provisions / obligations to employees

Of the other non-current provisions of €5,386 thousand (previous year €4,747 thousand), obligations to employees include the provisions for service anniversary bonuses of €2,525 thousand (previous year €2,280 thousand), semi-retirement obligations of €2,366 thousand (previous year €2,121 thousand) and long-term bonuses of €450 thousand (previous year €346).

## 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 with 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 €8,676 thousand (previous year €8,990 thousand). In fiscal year 2016 these items, which had been presented in previous years by deducting €2,170 thousand directly from trade receivables, were reclassified to current provisions. Please see Note (13) for more information.

## (19) Liabilities

K EUR	31.12.2017	31.12.2016
Non-current liabilities to banks	1,593	107
Other non-current financial liabilities	2,633	1,208
Other non-current liabilities	584	0
<b>Non-current liabilities</b>	<b>4,810</b>	<b>1,315</b>
Current liabilities to banks	20,445	1,876
Trade payables	46,353	34,802
Other current financial liabilities	4,931	14,161
Income tax liabilities	74	1,619
Other liabilities	8,211	7,054
<b>Current liabilities</b>	<b>80,014</b>	<b>59,512</b>
<b>Total</b>	<b>84,824</b>	<b>60,827</b>

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 2017.

At the end of the year a loan of €20 million was drawn from the syndicated finance arrangement (previous year €687 thousand under the previous syndicated loan agreement) plus €2,191 thousand (previous year €1,000 thousand) for bank guarantees. In addition, on 19 December 2012 and 11 July 2013, the SHW Group took out two loans via Kreissparkasse Ostalb, Aalen, for €3,900 thousand and €858 thousand, respectively. The loans have an annual interest rate of 1.85 per cent and 1.0 per cent, respectively. In fiscal year 2017, a scheduled repayment of €1,190 thousand was made on these loans. Due to the acquisition of Lust Hybrid-Technik GmbH, Hermsdorf, the three loans from Sparkasse Jena-Saale-Holzland were assumed at the amount of the respective principal on the acquisition date: a loan of €1,500 thousand from 2010, a loan of €750 thousand from 2013 and a loan of €300 thousand from 2015. The loans have an annual interest rate of 3.75 per cent or 1.25 per cent plus EURIBOR or 2.15 per cent, respectively. In fiscal year 2017 the loans were repaid as scheduled. The repayments of principal applicable to the period in which the entity belonged to the group amount to €63 thousand.

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

Other non-current financial liabilities include liabilities from finance leasing of €1,303 thousand (previous year €889 thousand).

Other non-current liabilities of €584 thousand consist entirely of deferred liabilities relating to government grants for projects and investments as do other current liabilities of €94 thousand (sum total €678 thousand). The corresponding expenses are spread over the economic life of the underlying assets.

Other current financial liabilities mainly include liabilities for expenses where the underlying services were received in fiscal year 2017, but the corresponding invoice was only recognised in fiscal year 2018.

Other liabilities primarily consist of liabilities for overtime worked and time credits of €2,684 thousand (previous year €2,351 thousand), payments received on account of €1,143 thousand (previous year €0 thousand), vacation accrued of €994 thousand (previous year €974 thousand), wage and church tax of €926 thousand (previous year €970 thousand) and management bonuses of €885 thousand (previous year €1,158 thousand).

## (20) Segment reporting

Segment reporting is based upon the “management approach”. Operating segments are determined on the basis of internal reports, as defined by IFRS 8, which are regularly used by the chief operating decision maker to decide on the distribution of resources and to assess profitability. The profitability of the individual segments is established on the basis of the operating result (EBIT) and EBITDA. The EBIT of the segments is determined in accordance with IFRS, as is the operating result of the Group. The EBITDA of the segments and the Group are derived by taking into account the respective depreciation and amortisation. The assets of each segment are also established on the basis of IFRS. Financial expenses, financial income and income taxes are administered at Group level. The Pumps and Engine Components segment manufactures engine oil pumps and transmission oil pumps as well as sintered metallurgy products for the automotive industry. LHT (electronic components) was also allocated to this business segment. The Brake Discs segment produces unprocessed and processed monobloc brake discs and composite brake discs for the automotive industry. Transactions between the segments are essentially based on market conditions identical to those that apply to transactions with third parties.

The geographic information of the SHW Group is based on sales with customers headquartered in the various countries. The following summary provides an overview of the sales and results of the various business segments. As in the previous year, there were no sales to report on the basis of business transactions with other business segments in fiscal year 2017.

**BUSINESS SEGMENTS IN 2017**

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

**BUSINESS SEGMENTS IN 2016**

K EUR	Pumps and Engine Components	Brake Discs	Other elimination / consolidation effects	Group
Segment sales	317,521	88,249	0	405,770
Segment EBIT	17,528	3,511	-2,101	18,938
Segment EBITDA	37,454	7,899	-1,800	43,553
Financial result	0	0	-1,237	-1,237
Profit or loss of joint ventures accounted for using the equity method	0	252	0	252
Earnings before tax	17,528	3,763	-3,338	17,953
Segment depreciation / amortisation	19,926	4,388	301	24,615
Segment investments	17,624	6,508	552	24,684
Segment assets	149,249	70,224	8,458	227,931
of which joint venture investment accounted for using the equity method	0	16,412	0	16,412
Material segment expenses	0	0	0	0
Number of customers with sales > 10 % of total sales	2	1		2
VW Group	118,484	49,640		168,124
Daimler Group	62,495	127		62,622



#### GEOGRAPHIC SEGMENTS 2017

K EUR	Germany	Rest of Europe	America	Other	Total
External sales	214,428	161,575	8,828	15,753	400,584
<b>Other segment information</b>					
Non-current segment assets	122,814	295	2,637	7,498	133,244

#### GEOGRAPHIC SEGMENTS 2016

K EUR	Germany	Rest of Europe	America	Other	Total
External sales	229,423	164,452	7,498	4,397	405,770
<b>Other segment information</b>					
Non-current segment assets	110,166	0	1,399	3,007	114,572

## Other notes

### (21) Contingent liabilities

There were no contingent liabilities in fiscal years 2017 or 2016.

### (22) Financial instruments

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.

In accordance with IFRS 7, assets and liabilities carried at fair value in the balance sheet are to be categorised according to the

three levels of the fair value hierarchy. This hierarchy reflects the significance of the input data used for measurement and can be divided up as follows:

- (Unadjusted) prices that are quoted in active markets for identical assets or liabilities (Level 1);
- Input data that are either directly (as prices) or indirectly observable (derived from prices) for the asset or liability, whereby the input data does not constitute quoted prices pursuant to Level 1 (Level 2);
- Input data applied to the asset or liability which are not based on observable market data (non-observable input data) (Level 3).

The Company has the following types of financial instruments:

K EUR	Measurement category acc. to IAS 39	Carrying amount as at 31.12.2017	Fair value as at 31.12.2017	Valuation		
				Amortised cost	Fair value through OCI	Fair value through profit or loss
<b>ASSETS</b>						
Other non-current financial liabilities						
Cash surrender value of pension insurance policies	AfS	287	287	287	-	-
Trade receivables	LaR	45,825	*)	45,825	-	-
Other financial assets	LaR	16,311	*)	16,311	-	-
Cash and cash equivalents	LaR	3,868	*)	3,868	-	-

\*) The fair value approximately equals the carrying amount

In the near future, the Company does not plan to sell or derecognise any significant portions of the available-for-sale financial assets recorded as at 31 December 2017.

	Measurement category acc. to IAS 39	Carrying amount as at 31.12.2016	Fair value as at 31.12.2016	Valuation		
				Amortised cost	Fair value through OCI	Fair value through profit or loss
K EUR						
ASSETS						
Other non-current financial liabilities						
Cash surrender value of pension insurance policies	AfS	298	298	298	-	-
Trade receivables	LaR	37,967	*)	37,967	-	-
Other financial assets	LaR	135	*)	135	-	-
Cash and cash equivalents	LaR	3,616	*)	3,616	-	-

\*) The fair value approximately equals the carrying amount

AfS: Available for Sale

LaR: Loans and Receivables

OCI: Other Comprehensive Income

K EUR	Measurement category acc. to IAS 39	Carrying amount as at 31.12.2017	Fair value as at 31.12.2017	Valuation		
				Amortised cost	Fair value through OCI	Fair value through profit or loss
EQUITY AND LIABILITIES						
Liabilities to banks	FLAC	22,038	22,038	22,038	-	-
Trade payables	FLAC	46,353	46,353	46,353	-	-
Other non-current financial liabilities						
Other interest-bearing liabilities	FLAC	1,000	1,000	1,000	-	-
Other non-interest-bearing liabilities	FLAC	330	330	330	-	-
Liabilities from finance leases	FLAC	1,303	1,303	1,303	-	-
Other current financial liabilities						
Other non-interest-bearing liabilities	FLAC	4,602	4,602	4,602	-	-
Liabilities from finance leases	FLAC	329	329	329	-	-

K EUR	Measurement category acc. to IAS 39	Carrying amount as at 31.12.2016	Fair value as at 31.12.2016	Valuation		
				Amortised cost	Fair value through OCI	Fair value through profit or loss
EQUITY AND LIABILITIES						
Liabilities to banks	FLAC	1,983	1,983	1,983	-	-
Trade payables	FLAC	34,802	34,802	34,802	-	-
Other non-current financial liabilities						
Other interest-bearing liabilities	FLAC	0	0	0	-	-
Other non-interest-bearing liabilities	FLAC	319	319	319	-	-
Liabilities from finance leases	FLAC	889	889	889	-	-
Other current financial liabilities						
Other non-interest-bearing liabilities	FLAC	14,043	14,043	14,043	-	-
Liabilities from finance leases	FLAC	118	118	118	-	-

FLAC: Financial Liabilities measured at Amortized Cost

The following overview of maturities illustrates how the cash flows from liabilities (not discounted) affect the Group's liquidity situation as at 31 December 2017:

K EUR	Total	2018	2019	2020	2021	2022 et seq.
<b>Non-current liabilities</b>						
Liabilities to banks	1,593	0	143	143	143	1,164
Other financial liabilities	2,633	0	759	986	298	590
<b>Current liabilities</b>						
Trade payables	46,353	46,353	0	0	0	0
Liabilities to banks	20,445	20,445	0	0	0	0
Other financial liabilities	4,931	4,931	0	0	0	0
<b>Total</b>	<b>75,955</b>	<b>71,729</b>	<b>902</b>	<b>1,129</b>	<b>441</b>	<b>1,754</b>

The situation as at 31 December 2016 was as follows:

K EUR	Total	2017	2018	2019	2020	2021 et seq.
<b>Non-current liabilities</b>						
Liabilities to banks	107	0	107	0	0	0
Other financial liabilities	1,208	0	382	122	119	585
<b>Current liabilities</b>						
Trade payables	34,802	34,802	0	0	0	0
Liabilities to banks	1,876	1,876	0	0	0	0
Other financial liabilities	14,161	14,161	0	0	0	0
<b>Total</b>	<b>52,154</b>	<b>50,839</b>	<b>489</b>	<b>122</b>	<b>119</b>	<b>585</b>

#### 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	31.12.2017	31.12.2016
Liabilities to banks	22,038	1,983
Trade payables	46,353	34,802
Cash and cash equivalents	-3,868	-3,616
<b>Net financial liabilities</b>	<b>64,523</b>	<b>33,169</b>



## Credit risk

Trade receivables showed the following age structure as at the respective balance sheet date:

K EUR	Carrying amount	of which neither impaired nor overdue	of which impaired and not overdue	of which impaired and overdue	of which not impaired and overdue in the following time bands					
					Up to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	More than 360 days
Trade receivables										
<b>As at 31.12.2017</b>	<b>46,458</b>	<b>38,655</b>	<b>109</b>	<b>524</b>	<b>6,086</b>	<b>854</b>	<b>28</b>	<b>43</b>	<b>32</b>	<b>127</b>
As at 31.12.2016	38,982	32,395	0	1,015	3,123	1,510	0	452	263	224

Credit risk results from the possibility of the full or partial default of a counterparty and also exists in the context of cash investments. Impairments of trade receivables and other receivables and assets are recognised according to uniform group-wide rules and cover all recognisable credit risks. Accordingly, impairments are recognised if there are objective indications of impairment, i.e. in the case of customer insolvency or when receivables have been overdue for a certain period of time. The Group mainly delivers to renowned automotive manufacturers and automotive suppliers. 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 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 €47,859 thousand (previous year €26,451 thousand). There are no significant risks of default in terms of trade receivables at the SHW Group due to the customer structure.

## 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 €22.2 million (of which €2.2 million through guarantees). For further information on the maturities of liabilities, please refer to our comments under Note (19) "Liabilities".

## Interest and currency risk

The Group is mainly exposed to foreign exchange risks and changes in interest rates. Risks from exchange rate fluctuations originate from capital investments, financing measures and operating activities in regions using a foreign currency. Interest risks arise from financial instruments bearing a variable interest rate, which have an impact on the Group's interest expenses when the interest rate changes. The management of market price risks is tasked with mitigating the impact of fluctuations in foreign exchange rates and interest rates.

The Group's interest rate risk largely results from the loan agreement concluded on 4 August 2017. The SHW Group has decided not to hedge its interest rate risk. The interest rate risk for the Group in the fiscal year was not material.

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

## Collateral issued

An uncertified land charge of €2,000 thousand was entered in favour of Kreissparkasse Ostalb by means of a notarised agreement on 19 December 2012. The land charge was provided as collateral for two loans of €4,758 thousand. One loan was repaid on 31 December 2017 as scheduled. The balance of the second loan came to €107 thousand as at 31 December 2017. The loans carried by Lust Hybrid-Technik GmbH are secured by land charges, collateral assignment of machines and a global assignment of the trade receivables carried by the entity.

**(23) Other financial obligations**

Financial obligations to third parties originating from investment projects already initiated were within the normal scope of business (see Note (10) for details).

K EUR	31.12.2017	31.12.2016
Obligations under tenancy, rent and (operating) lease agreements	12,637	5,205
<b>Other financial obligations</b>	<b>12,637</b>	<b>5,205</b>
of which due within one year	3,069	1,702
of which due in one to five years	6,576	3,503
of which due more than five years	2,992	0

Other financial liabilities mainly result from rent and leasing agreements for motor vehicles, telephone equipment, computer and office hardware, machinery and warehouses and future obligations arising from finance leases.

The obligations from finance leases relate to 14 (previous year three) items of property, plant and equipment which are attributable to the SHW Group as the beneficial owner, due to the underlying leases. These leases have terms of three and ten years, respectively. Renewal or purchase options have not been contractually stipulated. The future minimum lease payments under these agreements can be reconciled with the liabilities as follows:

**31 DECEMBER 2017**

K EUR	Minimum lease payments	Interest included in lease payments	Liabilities from finance leases
Within one year	380	51	329
Between one and five years	1,016	104	912
More than five years	398	7	391
<b>Total</b>	<b>1,794</b>	<b>162</b>	<b>1,632</b>

**31 DECEMBER 2016**

K EUR	Minimum lease payments	Interest included in lease payments	Liabilities from finance leases
Within one year	153	35	118
Between one and five years	607	99	508
More than five years	405	24	381
<b>Total</b>	<b>1,165</b>	<b>158</b>	<b>1,007</b>

#### (24) Auditor's fee

K EUR	2017	2016
Auditing services	171	156
of which for previous years	0	0
of which other audit services	0	8
Other assurance services	12	2
Tax advisory services	2	5
Other services	64	8

Other assurance services consist mainly of the audit pursuant to Section 64 (5) sentence 4 Renewable Energies Act (Erneuerbare-Energien-Gesetz – EEG) form 2017. The other services are chiefly attributable to due diligence services.

Tax advisory services were not provided by the auditor. Other expenses occurring in fiscal year 2017 amounted to €19 thousand (previous year €20 thousand).

#### (25) Total remuneration of the members of the Management Board and Supervisory Board

K EUR	2017	2016
Benefits due in the short term (remuneration)	991	871
Benefits due in the long term (remuneration)	324	272
Post-employment benefits	366	0
Other benefits due in the long term and benefits upon termination of the employment relationship	0	0

Remuneration of former members of the Management Board amounted to €0 thousand (previous year €580 thousand). In the previous year, provisions of €290 thousand were created for other long-term benefits and termination benefits. A total of €87 thousand has been recognised as provisions for pension obligations to former members of the Management Board (previous year €89 thousand).

The total remuneration of the Supervisory Board amounted to €271 thousand during the fiscal year (excluding the reimbursement of expenses, previous year €271 thousand). We also refer to the remarks in the section titled “Remuneration report” in the Combined Group Management Report and Management Report. These disclosures are an integral part of the Consolidated Financial Statements.

#### (26) 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 €2.5 million in property, plant and equipment assets were capitalised for which no cash outflows had occurred during the fiscal year. In contrast, in the fiscal year cash outflows for investments in property, plant and equipment in the previous year amounted to €0.7 million. Furthermore, there were no cash outflows from the capitalisation of property, plant and equipment within the scope of the €0.3 million finance lease.

The net cash outflow due to the acquisition of subsidiaries (€2,299 thousand) is presented after deducting the net cash acquired (first purchase instalment for LHT of €2,300 thousand less the cash acquired of €1 thousand).

As required by the contract, a cash capital contribution of €6.8 million was paid in February 2017 to the joint venture SHW Longji Brake Discs (LongKou) Co., Ltd. The outstanding purchase price of €16.2 million arising from the sale of the share in the joint venture in the fourth quarter of 2017 has been presented under current other financial assets as at 31 December 2017 (see Notes (7) and (14)). The cash payment was received at the beginning of 2018.

The amount of cash and cash equivalents shown in the cash flow statement is comprised of the cash and cash equivalents presented in the balance sheet. As at the reporting date, short-term loans (money market loans) came to €20,000 thousand and overdrafts to €201 thousand (previous year overdrafts of €687 thousand).

A reconciliation of the movements from the liabilities of financing activities to the cash flows from financing activities for the fiscal year and the previous year is shown below:

K EUR	Non-current liabilities to banks	Current liabilities to banks	Liabilities from finance leases	Sundry other financial liabilities	Total liabilities from financing activities
<b>1 January 2017</b>	<b>107</b>	<b>1,876</b>	<b>1,007</b>	<b>0</b>	<b>2,990</b>
Changes from the acquisition of subsidiaries	1,798	717	503	500	3,518
Changes in due term (non-current to current)	-312	312	0	0	0
Cash received (+) from the assumption of financial liabilities	0	19,290	0	0	19,290
Cash paid (-) for the redemption of financial liabilities	0	-1,750	0	-500	-2,250
Non-cash changes	0	0	0	0	0
New finance leases	0	0	325	0	325
Interest expense from finance leases	0	0	44	0	44
Cash paid (-) for finance leases	0	0	-247	0	-247
Fair value adjustments	0	0	0	0	0
<b>31 December 2017</b>	<b>1,593</b>	<b>20,445</b>	<b>1,632</b>	<b>0</b>	<b>23,670</b>

K EUR	Non-current liabilities to banks	Current liabilities to banks	Liabilities from finance leases	Sundry other financial liabilities	Total liabilities from financing activities
<b>1 January 2016</b>	<b>1,297</b>	<b>1,189</b>	<b>994</b>	<b>0</b>	<b>3,480</b>
Changes in due term (non-current to current)	-1,190	1,190	0	0	0
Cash received (+) from the assumption of financial liabilities	0	687	0	0	687
Cash paid (-) for the redemption of financial liabilities	0	-1,190	0	0	-1,190
Non-cash changes	0	0	0	0	0
New finance leases	0	0	109	0	109
Interest expense from finance leases	0	0	39	0	39
Cash paid (-) for finance leases	0	0	-135	0	-135
Fair value adjustments	0	0	0	0	0
<b>31 December 2016</b>	<b>107</b>	<b>1,876</b>	<b>1,007</b>	<b>0</b>	<b>2,990</b>

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.



## (27) Relationships with related parties

On 18 October 2017 SHW Beteiligungs GmbH, Wels, Austria – a subsidiary of Pierer Industrie AG, Wels, Austria, held 47.5 per cent of the voting rights of SHW AG and 49.4 per cent on 19 February 2018, thereby giving it a relative voting majority at the Annual General Meeting. Pierer Industrie AG, Wels, Austria, is a subsidiary of Pierer Konzerngesellschaft mbH, Wels, Austria.

SHW AG is included in the consolidated financial statements of Pierer Industrie AG, Wels, Austria, and in the consolidated financial statements of Pierer Konzerngesellschaft mbH, Wels, Austria. Supplier and service provider relationships with other entities in the Pierer group of companies were of an immaterial scope in fiscal year 2017. For more information on relationships with affiliates, reference is made to the separate section of the Combined Group Management Report and Management Report that contains the final declaration of the Management Board made in the dependant company report pursuant to Section 312 (3) AktG.

The Consolidated Financial Statements of SHW AG, Aalen, include all major subsidiaries and joint ventures of SHW AG, Aalen. Supplier and service provider relationships with joint ventures occurred to a minor extent in fiscal year 2017.

In fiscal year 2017, the Management Board of SHW AG comprises the following members:

### **Dr.-Ing. Frank Boshoff, Wetter**

- Chief Executive Officer and Managing Director of SHW Automotive GmbH, responsible for the Pumps and Engine Components business segment

### **Martin Simon, Heroldsberg**

- Chief Financial Officer and Managing Director of SHW Automotive GmbH, responsible for administration

### **Andreas Rydzewski, Zweiflingen**

- Member of the Management Board and Managing Director of SHW Automotive GmbH, responsible for the Brake Discs business segment

The Supervisory Board members in fiscal year 2017 were:

### **Georg Wolf, Dietzenbach, Chairman**

- Independent consultant

Further mandates:

- Weber-Hydraulik GmbH, Göggingen, Member of the Advisory Board (until 11 January 2017)

### **Christian Brand, Karlsruhe, Deputy Chairman (until 31 December 2017)**

- Independent consultant

Further mandates:

- Landesbank Baden-Württemberg, Stuttgart, Chairman of the Supervisory Board

- Wüstenrot Holding AG, Ludwigsburg, Deputy Chairman of the Supervisory Board

### **Kirstin Hegner, Munich (until 31 December 2017)**

- Managing Director of Digital Hub Mobility, Munich

### **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

### **Edgar Kühn, Aalen**

- Chairman of the General Works Council of SHW Automotive GmbH and Chairman of the Works Council of the Wasseralfingen plant of SHW Automotive GmbH

### **Eugen Maucher, Ingoldingen-Winterstettendorf**

- Chairman of the Works Council of the Bad Schussenried plant of SHW Automotive GmbH

New Supervisory Board members in fiscal year 2018

### **Klaus Rinnerberger, Gießhübl, Austria, Deputy Chairman (since 2 January 2018)**

- Member of the Management Board of Pierer Industrie AG, Wels, Austria

Further mandates:

- Member of the Supervisory Board of KTM Industries AG, Wels, Austria
- Head of the Advisory Board of Schachinger Logistik Holding GmbH, Hörsching, Austria

### **Stefan Pierer, Wels, Austria (since 2 January 2018)**

- Sole shareholder and CEO of Pierer Industrie AG, Wels, Austria
- Majority shareholder (64 per cent) and CEO of KTM Industries AG, Wels, Austria

Further mandates:

- Chairman of the Supervisory Board of Pankl Racing Systems AG, Kapfenberg, Austria
- Deputy Chairman of the Supervisory Board of WP Performance Systems GmbH, Munderfing, Austria
- Chairman of the Supervisory Board of Wirtschaftspark Wels Errichtungs- u. Betriebs-Aktiengesellschaft, Wels, Austria
- Member of the Board of Directors of swisspartners Group AG, Zürich, Switzerland
- Member of the Board of Directors of QINO AG, Hünenberg, Switzerland

With the exception of Mr. Maucher, the members of the Supervisory Board of SHW AG also serve or served as members of the Supervisory Board of SHW Automotive GmbH.

## (28) German Corporate Governance Code

The Management Board and the Supervisory Board have submitted the Declaration of Conformity pursuant to Section 161 AktG and have made it permanently available to shareholders through its publication on the Company's website (www.shw.de).

## (29) Events after the reporting period (Significant Events after the Balance Sheet Date)

No particularly significant events occurred after the reporting date which require disclosure here.

Aalen, 9 March 2018

*Dr.-Ing. Frank Boshoff*  
Chief Executive  
Officer

*Martin Simon*  
Chief Financial  
Officer

*Andreas Rydzewski*  
Member of the  
Management Board

## Schedule of shareholdings

as at 31 December 2017 according to Section 313 (2) HGB

Company name and location	Interest in capital in %
Schwäbische Hüttenwerke Automotive GmbH, Aalen, Germany	100
SHW Automotive Industries GmbH, Aalen, Germany	100
SHW do Brasil Ltda., São Paulo, Brazil	100
SHW Pumps & Engine Components Inc., Brampton/Ontario, Canada	100
SHW Automotive Pumps (Kunshan) Co., Ltd., Kunshan/Shanghai, China	100
SHW Pumps & Engine Components S.r.l., Ghiroda/Timișoara (formerly: Bucharest), Romania	100
Lust Hybrid-Technik GmbH, Hermsdorf, Germany	100
SensDev GmbH, Chemnitz, Germany *)	90

\*) Not consolidated on grounds of immateriality (total assets of SensDev as at 31 December 2016: € 413 thousand, net loss for 2016: € 75 thousand)

# INDEPENDENT AUDITOR'S REPORT

To SHW AG, Aalen

## Report on the Audit of the Consolidated Financial Statements and of the Combined Group Management Report and Management Report

### 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 December 31, 2017, and the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Cash Flows and Consolidated Statement of Changes in Equity for the financial year from January 1 to December 31, 2017, and notes to the Consolidated Financial Statements, including a summary of significant accounting policies.

In addition, we have audited the Combined Group Management Report and Management Report of SHW AG, Aalen, for the financial year from January 1 to December 31, 2017. In accordance with German law, we did not audit the content of the Non-Financial Statement of the Group contained in the section on "Corporate Governance" in the Combined Group Management Report and Management Report. Also in accordance with German law, we did not audit the content of the Declaration on Corporate Governance pursuant to Sec. 289f and Sec. 315d HGB ["Handelsgesetzbuch": German Commercial Code], which also contains the Report on Corporate Governance, that is published on the website of the Company and referred to in the section on "Corporate Governance" in the Combined Group Management Report and Management Report.

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 December 31, 2017, and of its financial performance for the financial year from January 1 to December 31, 2017, and
- the accompanying Combined Group Management Report and Management Report as a whole provides an appropriate view of the Group's position. In all material respects, this Combined Group Management Report and Management Report is consistent with the Consolidated Financial Statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the Combined Group Management Report and Management Report does not extend to the content

of the Non-Financial Statement of the Group contained in the section on "Corporate Governance" in the Combined Group Management Report and Management Report, nor does it extend to the content of the Declaration on Corporate Governance pursuant to Sec. 289f and Sec. 315d HGB published on the website of the Company and referred to in the section on "Corporate Governance" in the Combined Group Management Report and Management Report.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the Consolidated Financial Statements and of the Combined Group Management Report and Management Report.

### Basis for the Opinions

We conducted our audit of the Consolidated Financial Statements and of the Combined Group Management Report and Management Report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Group Management Report and Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the Consolidated Financial Statements and on the Combined Group Management Report and Management Report.

### Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Consolidated Financial Statements for the financial year from January 1 to December 31, 2017. These matters were addressed in the context of our audit of the Consolidated Financial Statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

We summarize what in our view are the key audit matters below:

- estimates related to the assessment of specific warranties and risks related to customer projects and product-related risks (provisions)

a) The risk for the financial reporting

The Consolidated Financial Statements of SHW AG, Aalen, for the year ended December 31, 2017 report provisions for specific warranties and customer-project and product-related risks totaling EUR 8.8 million which are presented in the balance sheet under the item, “Other provisions (warranties and other business-related obligations)”. As of the reporting date the Management Board of SHW AG, Aalen, remeasured the risk of these obligations.

The disclosures of the Group related to provisions for specific warranties, customer-project and product-related risks are presented in Note (18) Other provisions and – with regard to the estimates and discretionary judgments – in the section on “Accounting and valuation principles” and “Key estimates” as well as “Estimates used in the application of accounting principles” in the notes to the Consolidated Financial Statements. Moreover, we refer to the sections on “Operating risks” and “Legal risks” in the risk report contained in the Combined Group Management Report and Management Report.

In our view, these matters were of special significance during our audit as the recognition and measurement of these large line items in the balance sheet is based to a large degree on estimates and assumptions made by the legal representatives of the parent company.

b) Audit approach and conclusions

In the course of our audit we also, among other items, assessed the process installed by the Company to record, assess the risks and present specific warranties and customer-project and product-related matters. This assessment extended to the risks associated with the defense of a pending law suit against the Company. Our assessment considered the findings of our regular interviews of the legal representatives and the internal legal department of the parent company as well as the appraisals of these matters provided to us in writing. In addition, we obtained confirmations from lawyers as of the balance sheet date that support the risk assessment made by the parent company.

We assessed the presentation of the specific warranties and customer-project and product-related matters and the associated provisions recognized in the Consolidated Financial Statements and are of the opinion that the estimates and assumptions made by the legal representatives of the parent company are suitably documented and substantiated to justify the recognition and measurement of these significant provisions for specific warranties and customer-project and product-related risks.

## Other Information

Management is responsible for the other information. The other information comprises:

- the Non-Financial Statement included in the “Corporate Governance” section of the Combined Group Management Report and Management Report,
- the Declaration on Corporate Governance pursuant to Sec. 289f and Sec. 315d HGB referred to in the section on “Corporate Governance” in the Combined Group Management Report and Management Report which also contains the Report on Corporate Governance pursuant to No. 3.10 of the German Corporate Governance Code that is published on the website of the Company,
- the remaining parts of the annual report, with the exception of the audited Consolidated Financial Statements and Combined Group Management Report and Management Report and our auditor’s report, and
- the confirmation pursuant to Sec. 297 (2) Sentence 4 HGB regarding the Consolidated Financial Statements and the confirmation pursuant to Sec. 315 (1) Sentence 5 HGB regarding the Combined Group Management Report and Management Report.

Our opinions on the Consolidated Financial Statements, on the Combined Group Management Report and Management Report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit of the Consolidated Financial Statements, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the Consolidated Financial Statements, with the Combined Group Management Report and Management Report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

## Responsibilities of the Management Board and the Supervisory Board for the Consolidated Financial Statements and the Combined Group Management Report and Management Report

The Management Board is 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 Management Board is 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 Management Board is 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 Management Board is responsible for the preparation of the Combined Group Management Report and 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 Management Board is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a Combined Group Management Report and 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 Combined Group Management Report and 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 Combined Group Management Report and Management Report.

#### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Group Management Report and 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 Combined Group Management Report and 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 opinions on the Consolidated Financial Statements and on the Combined Group Management Report and 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 the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Financial Statements and this Combined Group Management Report and Management Report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also

- identify and assess the risks of material misstatements of the Consolidated Financial Statements and the Combined Group Management Report and 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 opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit of the Consolidated Financial Statements and of arrangements and measures (systems) relevant to the audit of the Combined Management Report and Management Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- evaluate the appropriateness of accounting policies used by the Management Board and the reasonableness of estimates made by the Management Board and related disclosures.
- conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the Consolidated Financial Statements and in the Combined Group Management Report and Management Report or, if such disclosures are inadequate, to modify our respective 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 opinions on the Consolidated Financial Statements and on the Combined Group Management Report and Management Report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- evaluate the consistency of the Combined Group Management Report and 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 Management Board in the Combined Group Management Report and Management Report. On the basis of sufficient appropriate audit evidence, we evaluate, in particular, the significant assumptions used by the Management Board 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 opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Consolidated Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## Other Legal and Regulatory Requirements

### Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor and group auditor by the annual general meeting on Mai 9, 2017. We were engaged by the audit committee of the Supervisory Board on September 22, 2017. We have been the group auditor of the SHW AG, Aalen, without interruption since the financial year 2013.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

## German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Mr. Christoph Lehmann.

Stuttgart, March 9 2018

Ebner Stolz GmbH & Co. KG  
Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Christoph Brauchle  
Auditor

Christoph Lehmann  
Auditor

## ASSURANCE OF THE LEGAL REPRESENTATIVES

To the best of our knowledge, and in accordance with the applicable reporting principles, the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and statement of comprehensive income of the Group, and the Group Management Report and Management Report of SHW AG represent a fair view of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Aalen, 9 March 2018

Management Board of SHW AG




Dr Frank Boshoff

Chief Executive  
Officer



Martin Simon

Chief Financial  
Officer



Andreas Rydzewski

Member of the  
Management Board

## KEY PERFORMANCE INDICATORS – FIVE YEARS

K EUR	2017	2016	2015	2014	2013
Sales	400.584	405.770	463.478	430.041	365.639
EBITDA	41.271	43.553	42.675	34.827	34.780
as % of sales	10,3 %	10,7 %	9,2 %	8,1 %	9,5 %
EBIT	17.501	18.938	20.132	16.575	20.607
as % of sales	4,4 %	4,7 %	4,3 %	3,9 %	5,6 %
Net profit	10.159	12.805	14.351	10.679	13.395
Earnings per share <sup>1)</sup>	1,58	1,99	2,26	1,83	2,29
EBITDA adjusted	41.271	43.553	43.458	40.597	35.683
as % of sales	10,3 %	10,7 %	9,4 %	9,4 %	9,8 %
EBIT adjusted	17.501	18.938	21.028	22.495	21.661
as % of sales	4,4 %	4,7 %	4,5 %	5,2 %	5,9 %
Equity	124.904	121.349	116.240	84.507	82.529
Equity ratio	48,8 %	53,2 %	50,4 %	40,3 %	44,4 %
Operating free cash flow	- 757	- 4.030	18.097	- 5.354	438
Total free cash flow	- 9.875	- 4.030	9.056	- 5.629	438
Net cash / Net debt	- 18.170	1.633	12.328	- 14.356	- 2.881
Investments <sup>2)</sup>	34.550	24.684	23.923	34.788	32.800
as % of sales	8,6 %	6,1 %	5,2 %	8,1 %	9,0 %
Net Working capital	44.996	49.543	32.534	30.877	31.894
as % of sales	11,2 %	12,2 %	7,0 %	7,2 %	8,7 %
ROCE	9,4 %	12,9 %	17,2 %	17,7 %	19,7 %
Number of employees (average) <sup>3)</sup>	1.347	1.287	1.287	1.173	1.059

<sup>1)</sup> Average number of shares: 2017, 2016: 6.436.209 shares / 2015: 6.359.263 shares / 2014, 2013 and 2012: 5.851.100 shares.

<sup>2)</sup> Additions to property, plant and equipment and intangible assets.

<sup>3)</sup> Excluding trainees and temporary workers.



# FINANCIAL CALENDAR

26 March 2018	Annual report 2017
3 May 2018	Annual General Meeting 2018 (Congress Centrum Heidenheim)
27 July 2018	Financial Report January to June 2018

## Publisher

SHW AG  
Wilhelmstraße 67  
73433 Aalen, Germany

Telephone: +49 7361 502 1  
Fax: +49 7361 502 421  
Email: [info@shw.de](mailto:info@shw.de)  
Website: [www.shw.de](http://www.shw.de)

## Investor Relations & Corporate Communications

Michael Schickling  
Telephone: +49 7361 502 462  
Email: [michael.schickling@shw.de](mailto:michael.schickling@shw.de)

## Concept and Design, Editing and Text

IR-ONE, Hamburg, Germany  
[www.ir-one.de](http://www.ir-one.de)

## Production System

firesys GmbH  
[www.firesys.de](http://www.firesys.de)

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

## Forward-looking statements

This report contains forward-looking statements regarding SHW AG and the SHW Group. Such statements may be identified by the use of such terms as “expects”, “intends”, “plans”, “assumes”, “pursues the goal” and similar wording. Various factors, many of which are outside the control of SHW AG, could affect the Company’s business activities, success, business strategy and results. Forward-looking statements are not historical facts, and therefore incorporate known and unknown risks, uncertainties and other important factors that might cause actual results to differ from expectations. These forward-looking statements are based on current plans, goals, estimates and projections, and take account of knowledge only up to and including the date of preparation of this report. Given these risks, uncertainties and other important factors, SHW AG – subject to legal obligations – undertakes no obligation, and has no intent, to revise such forward-looking statements or update them to reflect future events and developments. Although every effort has been made to ensure that the provided information and facts are correct, and that the opinions and expectations reflected here are reasonable, SHW AG assumes no liability and offers no warranty as to the completeness, correctness, adequacy and/or accuracy of any information or opinions contained herein.



## SHW AG



Wilhelmstraße 67

73433 Aalen, Germany

Telephone: +49 7361 502 1

Fax: +49 7361 502 421

Email: [info@shw.de](mailto:info@shw.de)

Website: [www.shw.de](http://www.shw.de)