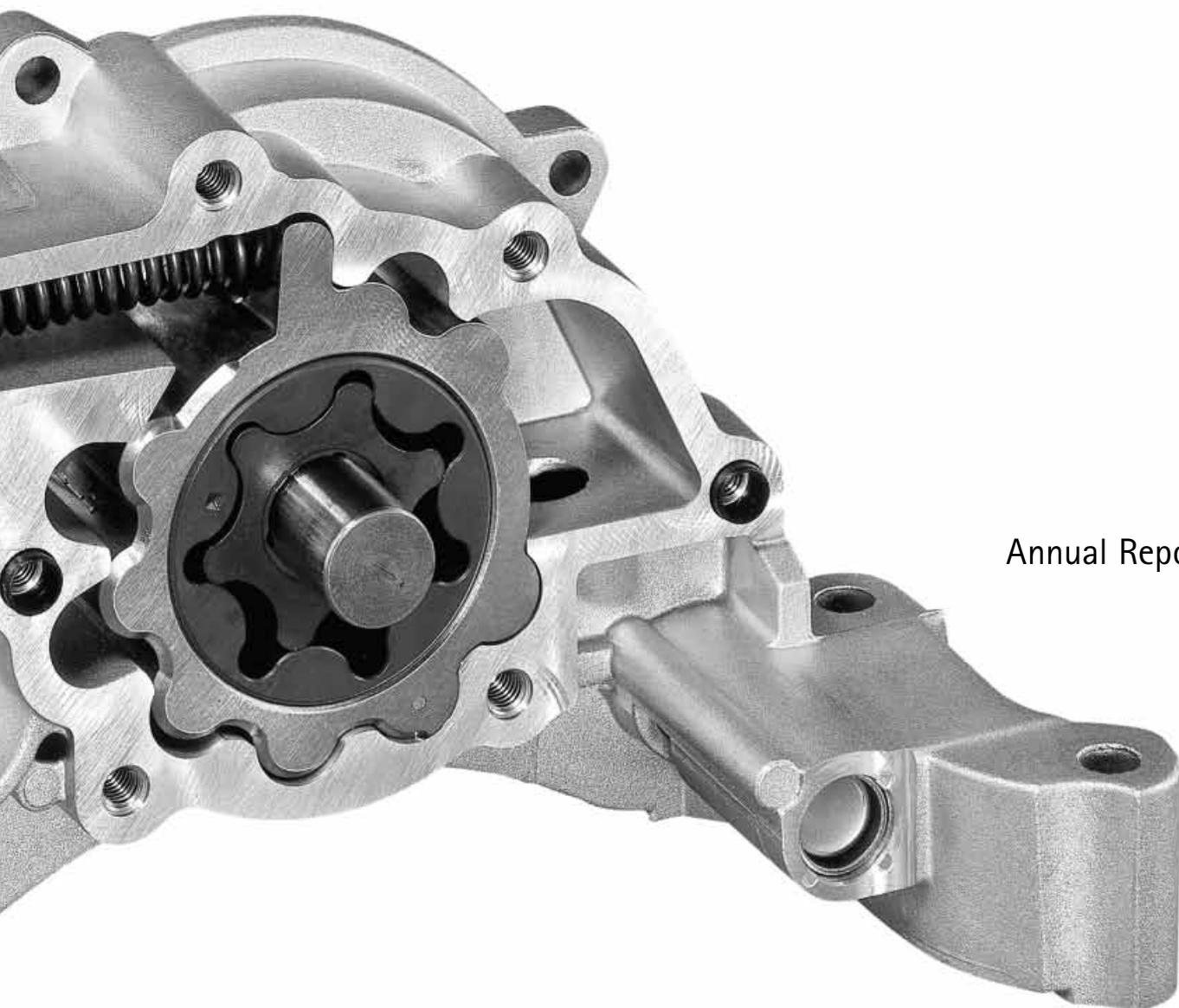


Cutting-edge technology for environmentally-friendly mobility



Annual Report 2011

Key facts 2011

- The need to reduce CO₂ emissions is driving the demand for SHW's core products (variable oil pumps and start-stop pumps).
- Technology leadership reinforced with the new, variable vane-type oil pump for 3-cylinder engines.
- Many large new orders assure further growth in the coming years.
- Further strengthening of financial position with improved equity ratio and reduced net bank debt.
- Successful initial public offering opens up new sources of financing for the planned growth strategy.

Key figures 2011

K EUR	2011	2010	Change in %
Sales	360,575	290,274	24.2
EBITDA	33,866	30,708	10.3
as % of sales	9.4 %	10.6 %	
EBIT	23,776	20,186	17.8
as % of sales	6.6 %	7.0 %	
Net income for the year	16,998	13,515	25.8
Earnings per share (in €) ¹⁾	2.93	2.46	19.1
Adjusted EBITDA ²⁾	36,101	32,330	11.7
as % of sales	10.0 %	11.1 %	
Adjusted EBIT ²⁾	26,171	22,770	14.9
as % of sales	7.3 %	7.8 %	
Cash flow from operating activities	25,866	24,143	7.1
Cash flow from operating activities/sales	7.2 %	8.3 %	
Equity	55,127	37,949	45.3
Equity ratio	31.7 %	23.9 %	
Net bank debt	8,621	13,385	-35.6
Number of employees (average) ³⁾	1,063	1,017	4.5

¹⁾ 2010: On the basis of 5,500 million shares; 2011: on the basis of an average of 5,798 million shares.

²⁾ Adjusted for special effects; cf. page 25 of the Annual Report.

³⁾ Excluding trainees and temporary workers.

SHW profile

The SHW Group is one of the leading automobile suppliers offering products that contribute substantially to a reduction in fuel consumption and consequently also CO₂ emissions. We supply well-known European and North American producers of passenger and commercial vehicles and in addition other automotive industry suppliers. Our profitable growth and our financial stability are based on technology and excellence in innovation that are recognised by our customers. We systematically expand new markets – for new fields of application and new regions. We currently employ more than 1,000 people at our four locations in Germany and our Canadian joint venture. We plan to establish production capacities in China, Brazil and India in the coming years.

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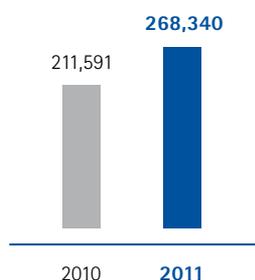
SHW business segments

Pumps and Engine Components



The Pumps and Engine Components business segment manufactures pumps for passenger vehicles and truck and off-highway applications, e.g. trucks, agricultural and construction vehicles, as well as stationary engines and wind power stations. The passenger vehicle products include variable oil pumps, electric pumps for hybrid vehicles, and other fuel-saving engine components. The pumps are assembled at the plant in Bad Schussenried. Sintered and powder metallurgy aluminium components, particularly for engine components, are manufactured at the Aalen-Wasserralfingen site.

Sales in K EUR



K EUR	2011	2010
Adjusted EBIT	26,704	23,097
as % of sales	10.0%	10.9%

SHW innovations since 2000



2000

Balancer shaft unit with oil pump



2002

Variable oil pump in engines



2004

Aluminium camshaft phaser



2005

Transmission oil pump for dual clutch



2006

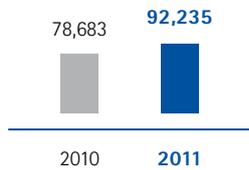
Variable external gear pump

Brake Discs



The Brake Discs business segment develops and manufactures cast iron ventilated brake discs and lightweight brake discs. The discs are produced as original equipment and as replacement parts. The SHW Group is not only a producer of brake discs, it is also a development partner with many years of know-how in engineering, design, simulation and prototype production. This also enables the company to develop individual, special solutions for high-end vehicle series.

Sales in K EUR



K EUR	2011	2010
Adjusted EBIT	785	573
as % of sales	0.9%	0.7%



2006

Oil-vacuum pump



2006

Map-controlled engine oil pump



2007

Vane pump in engines



2010

Electrical pump for hybrid



2011/12

Camshaft phaser for diesel

Cutting-edge technology for environmentally-friendly mobility

SHW is an innovation leader in products contributing to a reduction in fuel consumption and consequently in CO₂ emissions. The CO₂ targets for the automotive industry stipulated by law provide us with an attractive growth opportunity in the global market for fuel-saving components.



1.

Our product portfolio benefits from the megatrend towards CO₂ reduction.

The trend towards a more environmentally-friendly mobility, driven by legislation and consumer expectations, will change the demands on engine manufacturers considerably over the coming years. This megatrend is causing a significant increase in demand for CO₂ reduced components for internal combustion engines. With the increasing sales of more efficient engines, we can convert our product expertise into profitable growth. Furthermore, we benefit from the resulting demand for alternative drive systems for hybrid vehicles.

SHW motor lubricating oil pumps ensure the oil supply to the engine and offer an impressive compact design and high efficiency.

SHW engineers work hand in hand with customers to develop innovative products and solve complex automotive industry problems.

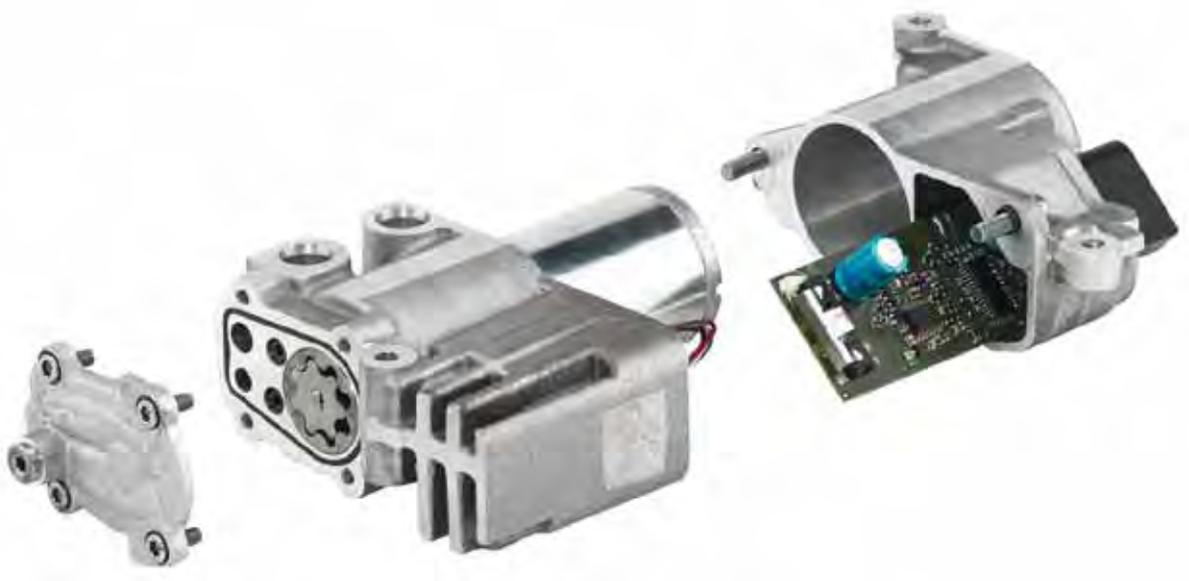


2

Long-standing technological excellence makes us a trendsetter for innovative automotive components.

A clear focus on product development has yielded a wide range of innovations over the past ten years, which today are included as standard features in vehicles. These product innovations have made us a preferred partner of the automotive industry and assure our future growth.

We have developed solutions for alternative drive systems, which are already being used in several different hybrid vehicles in series production. Our Pumps and Engine Components have a high fuel-saving potential: around 2 percent in variable oil pumps, for example. Our composite Brake Discs reduce the vehicle weight by up to 8 kg and offer better braking performance than conventional brake discs. A large number of international automotive manufacturers have trusted in this technological expertise for decades now and consequently involve us in the development of new components early on. The outcome is long-standing relationships with customers and follow-up orders over several vehicle generations.



The **additional electric oil pump** keeps the gearbox oil pressure constant during start-stop operation.

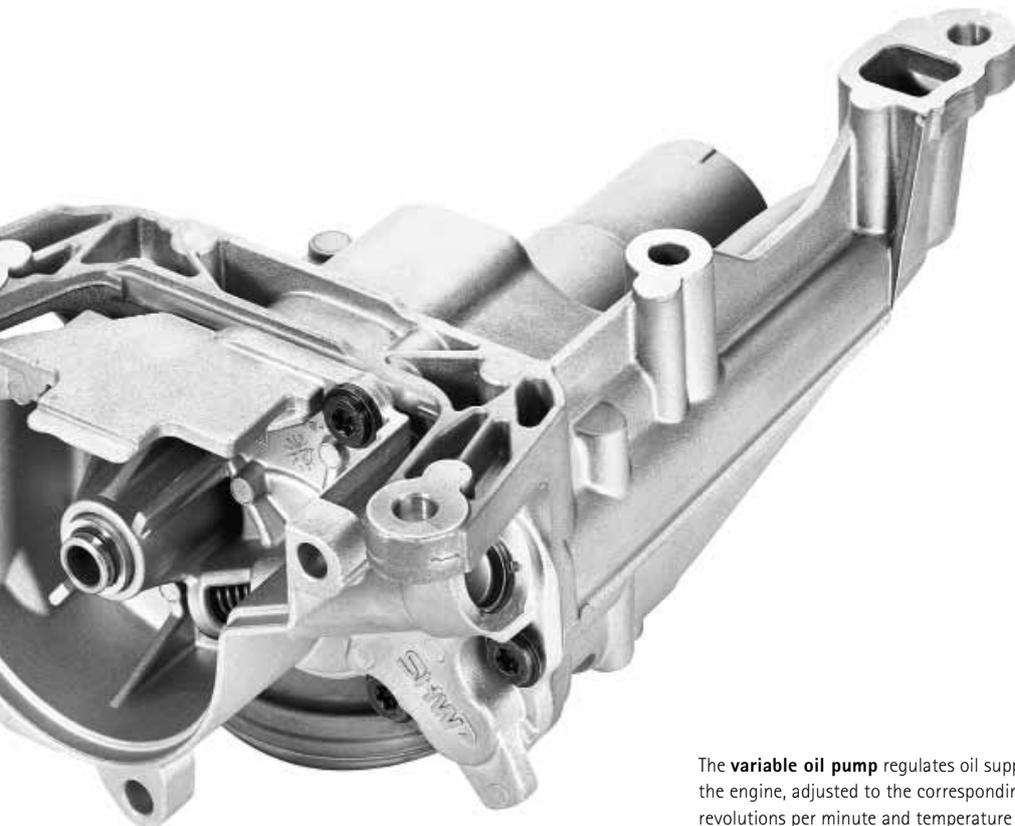
3



With a clear strategy, we utilise our international growth opportunities.

We are extending our position as an innovation leader in CO₂ reduced components, expanding into additional markets with high growth potential outside of the automotive sector such as trucks, agricultural and construction vehicles, as well as stationary engines and wind turbines, and rolling out our successful business model globally.

Based on a diversified and attractive product portfolio, we can sell more components per vehicle. A full order book assures us high sales figures for the coming years and a high market share in our established markets of Europe and North America. We will also follow our customers into growth markets such as Brazil, India and China, and establish production facilities within these markets. The simple scalability of the Pumps and Engine Components business segment facilitates this step.



The **variable oil pump** regulates oil supply to the engine, adjusted to the corresponding revolutions per minute and temperature range.

The **composite brake discs with aluminium pot** combine durability with the highest level of safety and low weight.

4.



We afford an operative success story with strong financial results and a sound balance sheet.

In recent years, we have achieved strong growth with high profitability and a sound financing structure. Our Group sales is on a clear growth course: it has risen by more than 50 percent since 2009 to €360.6 million. Growth was associated with rising operating results: compared to 2009, the adjusted Group EBIT has more than tripled to €26,2 million. The adjusted Group EBIT margin was 7.3 percent in 2011 (2009: 3.6 percent). The good results have also enabled satisfactory provisions for the future. We have increased investments (2009 to 2011: +220.6 percent) and R&D spending (2009 to 2011: +71.2 percent) considerably. Since 2005, we have systematically reduced our debts with positive free cash flows, thus laying the foundation for future growth.

We shall continue to consistently pursue our profitable growth course. An advantage in this effort is that as a listed company, we benefit from easier access to further financing sources and can utilise growth opportunities.



Group sales totalled in 2011

€ 360.6 million.



From left
to right:

Dr.-Ing. Wolfgang Krause, Chief Executive Officer

After studying mechanical engineering, in which he holds a doctorate, Wolfgang Krause gained extensive professional experience in the automobile industry, including positions with Freudenberg, Audi and Cosworth in the UK. He joined SHW Automotive GmbH in 2001 and was appointed as a member of the Management Board in 2005, which he has chaired since 2008. He is responsible for the business segment Pumps and Engine Components.

Oliver Albrecht, Chief Financial Officer

Oliver Albrecht studied business administration. After various management positions in the banking and private equity sector and at Peri GmbH, he joined centrotherm photovoltaics AG in 2006, taking it to the stock market as CFO in 2007. Oliver Albrecht has been a member of the SHW Automotive GmbH board and CFO at SHW AG since 2011. He is responsible for the commercial side of business including the head office.

Andreas Rydzewski, Member of the Board

After studying business administration, Andreas Rydzewski gained extensive professional experience in a variety of management positions in the automotive supplier industry, including positions with Mannesmann, Otto-Wolf-Group, Wirth in Brazil and ThyssenKrupp. He joined SHW Automotive GmbH in 2008 and has been a member of the Management Board ever since. He is responsible for the business segment Brake Discs.

Dear Shareholders, dear Ladies and Gentlemen,

We look back on 2011 as a business year, which has been both an eventful and successful one for SWH AG in numerous respects. Following an intensive preparation phase, we achieved a new milestone in our company development, which has been successful for years: listing on the stock exchange on 7 July 2011.

At the same time, we succeeded in developing our position as one of the leading suppliers of CO₂ relevant pumps and engine components in addition to brakes discs. This is reflected in the key financial figures: Orders increased by 19.8 percent to €374.1 million. Group sales rose by 24.2 percent to €360.6 million. This was due to the launch of a number of new products and high capacity utilisation of the existing facilities. The Group's result before interest and tax (EBIT adjusted) rose by €3.4 million to €26.2 million. The Group net profit totalled €17.0 million (previous year: €13.5 million). A further improvement in the equity ratio to 31.7 percent and low net bank debt of just €8.6 million also testify to the financial soundness of the company.

We have signed off our first financial report since our successful stock exchange listing with "Cutting-edge technology for environmentally-friendly mobility". We are excellently positioned strategically with this core competence. Our products make a key contribution to the necessary CO₂ emission reductions in motor vehicles. We are also pleased to note the clear trend towards hybrid vehicles. A primary aim of our growth strategy is: To be the preferred supplier for our customers in all significant volume and growth markets around the globe. Moreover, we will also roll out our successful business model in the Pumps and Engine Components segment globally, and follow our customers into growth markets such as China, Brazil and India.

Our order book is full, hence we are confident that we can also maintain our growth course in the 2012 financial year under slightly more challenging conditions. This growth is largely driven by demand for our variable oil pumps and start-stop pumps. The multitude of new major orders submitted in 2011 lends us a high degree of visibility for the next year.

Dear Shareholders, as already announced at the time of the company's listing, we would like you to share in the positive trend within your company. The Management and Supervisory Boards will therefore propose payment of a dividend of €1.00 at the Annual General Meeting on 15 May 2012. This corresponds to a payout of 34.4 percent in relation to the Group net profit of €17.0 million.

We would like to take this opportunity to thank our investors as well as our customers, suppliers, business and cooperation partners for their trusting and constructive cooperation. Our employees deserve special thanks, as the results achieved would not have been possible without an excellent, highly-qualified and committed workforce. We can assure you, honourable Shareholders that we will continue to do everything we can to sustainably increase SHW AG's value and to do justice to the trust placed in us.

With the present financial report, we would like to give you a detailed overview of developments during the 2011 financial year and an outlook for the 2012 financial year. We wish you an informative and interesting read.

Aalen, 2 March 2012
The SHW AG Management Board



Dr.-Ing. Wolfgang Krause
Chairman



Oliver Albrecht



Andreas Rydzewski

Report of the Supervisory Board

General

In the 2011 reporting year the Supervisory Board performed the responsibilities incumbent upon it by law, its articles of association and rules of procedure. It monitored the situation of the company in detail and supervised and advised the Management Board on an on-going basis.

The Management Board informs the Supervisory Board regularly, without delay and comprehensively in writing or verbally, on all matters of planning, development of the business, risks and risk management, and compliance, and includes it in decisions of special importance. For this purpose, the Management Board prepares a monthly written report which includes detailed information on the business and financial situation of SHW AG and its subsidiaries. It also makes detailed reports at the regular meetings of the Supervisory Board, in which the Supervisory Board discusses with the Management Board the development of the business, planning, and company strategies. The members of the Supervisory Board were also in contact with the Management Board outside the regular meetings, in particular the chairmen of each board. Thus, the members of the Supervisory Board were consistently and promptly informed of current business developments and important events.

Where the approval of the Supervisory Board or one of its committees was required by law, articles of association or rules of procedure, for particular measures, a resolution was passed in this respect. On matters requiring such approval, in addition to verbal explanations, where necessary the Management Board prepares written documentation containing the information necessary for the Supervisory Board's decision.

In the year under review the Supervisory Board carefully examined the reports and draft resolutions of the Management Board and discussed them in detail at its meetings. Examination of company documents in addition to the documents submitted to the Supervisory Board was not necessary in the year under review. The Supervisory Board passes its resolutions in meetings as a rule. Where necessary, resolutions may also be passed outside meetings, especially in telephone conferences or by way of written procedure.

Meetings of the Supervisory Board and key topics

In the year under review there were four ordinary meetings of the Supervisory Board plenum. All Supervisory Board members took part in over half the meetings. In two cases in the 2011 financial year, Supervisory Board decisions were taken outside of meetings.

In the 2011 meetings the Supervisory Board was comprehensively informed, by means of verbal and written reports, on all central questions of the development of the business, company strategy, risks and risk management, and the financing structure of SHW AG and the Group. Among other things, the Management Board explained current domestic and export sales and profit developments of the SHW Group, and went into detail on developments within the individual business segments in the respective competitive context. Key topics in the year under review were:

- SHW AG was formed from the Schwäbische Hüttenwerke Beteiligungs GmbH as a result of the change of legal form as resolved on 24 February 2011. As part of the resolution on the change of legal form, the members of SHW AG's Supervisory Board were appointed. At its constituent session of 28 February 2011, among other business the Supervisory Board elected a Chairman and Deputy Chairman, passed the rules of procedure of the Supervisory Board, and resolved the formation of an Executive and Audit Committee and appointed the members of these committees. Furthermore, the Supervisory Board appointed the members of the Management Board and its Chairman, issued a resolution on the conclusion of corresponding employment contracts for Management Board members, and decided on Management Board rules of procedure. The remuneration system for the Management Board had already been drawn up prior to the meeting with the assistance of outside consultants.
- At its meeting of 6 July 2011 the Supervisory Board considered in particular the impending flotation of SHW AG, and gave its consent to it and to the conclusion of the necessary acquisition agreement with the issuing banks. At this meeting information was also provided on current business developments.
- At its meeting of 7 September 2011 the Supervisory Board was informed about business developments from January to July 2011 in particular.

- At its meeting of 30 November 2011 the Supervisory Board passed the 2012 budget and multi-year plan. Furthermore, it agreed to Management's plans requiring its consent, including various investment plans in the SHW Group. At this meeting information was also provided on risk management and business developments from January to October 2011.

Committee work

In order to perform its duties efficiently, the Supervisory Board formed two committees in 2011, the Executive Committee and the Audit Committee.

- The **Executive Committee** prepares the meetings of the Supervisory Board. Furthermore, it acts as a personnel committee, and as such prepares personnel decisions by the Supervisory Board, in particular the appointment and dismissal of Management Board members, their remuneration, and other personnel matters under the purview of the Supervisory Board, including the regular review of the remuneration system of the Management Board and the Management Board's long-term successor planning. It further decides, where not reserved by law for the overall Supervisory Board, in the place of the Supervisory Board on the conclusion, change and termination of employment contracts with Management Board members and other transactions with respect to Management Board members and related parties, to whom the company is represented by the Supervisory Board in accordance with § 112 AktG (Aktengesetz – German Stock Corporation Act). The Executive Committee further decides in the place of the Supervisory Board on the approval of ancillary activities and other activities of Management Board members in accordance with § 88 AktG, the granting of loans to persons named in §§ 89, 115 AktG, and approves contracts with Supervisory Board members in accordance with § 114 AktG. Finally, it decides in the place of the overall Supervisory Board on the approval of matters and actions submitted to it and requiring consent. The Executive Committee further performs the function of a nominating committee in accordance with Clause 5.3.3 of the German Corporate Governance Code, and as such prepares the decisions of the Supervisory Board on its suggestions to the General Meeting for election to the Supervisory Board. During the period under review the Executive Committee met five times. In addition, a decision was made by written procedure.
- The **Audit Committee** prepares the decisions of the Supervisory Board concerning Annual and Group Reports and agreements with the auditors, in particular the audit assignment, audit focus, and fee. It also looks into the necessary independence of the auditors. Further, it prepares the decision of the Supervisory Board for its suggestion to the General Meeting on the appointment of the auditors, and makes its recommendation on this matter to the Supervisory Board. The Audit Committee examines financial reporting and monitors the financial reporting process, the effectiveness of the internal monitoring system, the risk management system, and the compliance and internal auditing systems. In accordance with Clause 7.1.2 of the German Corporate Governance Code in its version of 26 May 2010, the Audit Committee discusses the half-yearly and quarterly reports with the Management Board before they are published. In the year under review, the Audit Committee met twice.
- The Supervisory Board was regularly and comprehensively informed of the activities of the committees in its plenary sessions. More detailed information on the composition of the committees can be found in the Corporate Governance Statement or the Corporate Governance Report (see page 11 to 16 of the Annual Report).

Audit of the annual and consolidation financial statements

The annual and consolidated financial statements of SHW AG and the combined report for the Company and the Group for the 2011 financial year have been examined by the company's auditors, PricewaterhouseCoopers Aktiengesellschaft in Stuttgart, and given an unqualified audit opinion. The audit focused on: Risks from mass transactions, sales, personnel, value of goodwill, fraud, harm to assets and irregularities, and the completeness of the Group notes and management report.

The Supervisory Board carefully examined these documents. All reports as well as the report by the auditors were submitted to the members of the Supervisory Board in good time. The annual and consolidated financial statements and the combined report for the Company and the Group were discussed in detail in the presence of the responsible auditors, first by the Audit Committee and then by the general Supervisory Board. The auditor reported on the main results of its audit. The auditor also discussed the scope, emphases and costs of the audit. There were no circumstances which gave rise to concerns about the auditor's impartiality. In the year under review, the auditor provided services totalling € 412 thousand in addition to services relating to the audit of the financial statements.

The Supervisory Board agreed with the outcome of the audit, and after its own audit concluded that it had no objections. The annual and consolidated financial statements prepared by the Management Board and examined by the auditor and the combined report for the Company and the Group were approved by the Supervisory Board. The annual financial statements were thereby adopted. Finally, the Supervisory Board examined the Management Board's proposal for the appropriation of profit and concurs with this proposal, in particular in consideration of the year-end result, liquidity, and financial planning of the company.

As auditor, PricewaterhouseCoopers in Stuttgart also examined the Management Board's report on relationships with associated companies in the 2011 financial year, and submitted its report to the Supervisory Board. The auditor found no issues, and made the following unqualified opinion:

"After our compulsory examination and evaluation we confirm that

- 1) the information given in the report is correct,
- 2) the payments by the company for the transactions listed in the report were not inappropriately high, and
- 3) for the activities listed in the report there are no circumstances that would call for an assessment differing substantially from that of the Management Board."

The auditor took part in the proceedings of the Supervisory Board concerning the Management Board report on relationships with associated companies, and reported on the main results of its examination. The examination of the Management Board report on relationships with associated companies by the Supervisory Board likewise gave no cause for concern. The Supervisory Board therefore concurred with the result of the auditor's examination. After completing its own examination, the Supervisory Board had no objections to the declaration of the Management Board at the conclusion of the report on relationships with associated companies.

Conflicts of interest

Conflicts of interest within the Supervisory Board did not arise during the year under review.

Corporate Governance

In early September 2011 the Management Board and Supervisory Board made a joint declaration in accordance with Section 161 AktG. This declaration was made permanently available on the company website. SHW AG complies with the recommendations of the German Corporate Governance Code to a large extent. The Declaration of Compliance of September 2011, including explanations of the few deviations from the recommendations of the German Corporate Governance Code, can be found on page 11 of the Annual Report. Further information on corporate governance in the SHW Group can be found in the Corporate Governance Report of the Management Board and Supervisory Board (see page 11 to 16 of the Annual Report).

Composition of Management Board and Supervisory Board

The Management Board and Supervisory Board were formed in connection with the founding of SHW AG in the year under review by the change of legal form of Schwäbische Hüttenwerke Beteiligungs GmbH to a joint stock company. In the year under review there were no subsequent changes in the composition of the Supervisory Board or Management Board.

The Supervisory Board thanks the Management Board and all employees whose commitment and work over the past year have significantly contributed to the success of SHW AG.

Aalen, March 2012

For the Supervisory Board



Anton Schneider
Chairman

Corporate Governance report

In the chapter that follows, the Management Board and Supervisory Board will report on corporate governance at SHW AG per Clause 3.10 of the German Corporate Governance Code.

Good corporate governance as a guiding principle

For SHW AG, good corporate governance is a central element of responsible Company management, which is oriented towards long-term growth in Company value. It boosts the confidence of German and international investors, customers, employees and the public in the leadership and supervision of the Company, and is a basic cornerstone of sustainable Company success.

In conjunction with the initial public offering in July 2011 and thereafter, the Management Board and Supervisory Board of SHW AG have examined the requirements of the German Corporate Governance Code in detail. On 7 September 2011, the following declaration of compliance was approved by the Management Board and Supervisory Board; it states that with the three exceptions set forth below, all recommendations of the German Corporate Governance Code will be followed.

"The Management Board and Supervisory Board of SHW AG declare that the Company complies and will comply with the recommendations of the German Corporate Governance Code as published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette in the version of 26 May 2010 (hereinafter 'Code'), with the following exceptions:

• Call to General Meeting

The Company will not send the calls to General Meetings and meeting documentation to all domestic and foreign financial service providers, shareholders and shareholder organisations electronically (Deviation from Code Clause 2.3.2).

The Company cannot fulfil this recommendation because the shares of the Company are bearer shares (§ 4 Para. 2 of the Articles of Association), so that full determination of all possible recipients is not feasible.

• Diversity

The Supervisory Board lays down no specific targets or quotas for the composition of the Supervisory Board (Deviation from Code Clause 5.4.1, Para. 2).

The Supervisory Board considers the qualification of the respective Supervisory Board member and candidate as the decisive criterion for accepting a Supervisory Board position and for the composition of the Board. Notwithstanding, diversity is a goal and the Board strives to have an appropriate number of women (§ 8 Para. 7 of the Supervisory Board rules of procedure). The Supervisory Board thus supports and takes into account the criteria in Code Clause 5.4.1, without being restricted in its ability to choose by specific targets and quotas.

• Remuneration of the Supervisory Board

The members of the Supervisory Board receive no performance-based remuneration (Deviation from Code Clause 5.4.6).

The Management Board and Supervisory Board do not consider a performance-based remuneration appropriate. For one thing, remuneration of the Supervisory Board based on Company performance would contradict the Board's monitoring function; for another, the Supervisory Board and Management Board are of the opinion that performance-based remuneration can be linked only to the operative results of the Group, over which the Supervisory Board has little influence. The Company considers basing Supervisory Board remuneration on the amount of dividends paid to be problematic, as this amount is suggested to the General Meeting by the Management Board and Supervisory Board, so that such remuneration would be at least in part self-determined by the recipients."

Aalen, 7 September 2011

For the Supervisory Board



Anton Schneider

For the Management Board



Dr.-Ing. Wolfgang Krause

This Declaration of Compliance is available on the SHW AG website at
> http://www.shw.de/cms/en/investor_relations/corporate_governance/cgcodex/.

Shareholders and General Meeting

Shareholders of SHW AG can exercise their rights at the General Meeting, and in particular exercise their voting right. Each share of SHW AG equals one vote at the General Meeting. Shareholders can exercise their voting right in person or through an authorised representative of their choice. The Company intends to appoint a proxy, whom shareholders can entrust to vote on their behalf and instruction. Furthermore, the Management Board is entitled to make provision that shareholders can vote without attending the meeting, in written or electronic form (absentee ballot) (§ 17 Para. 3 of the Company Articles of Association). In addition, the Management Board is entitled to make provision for shareholders to participate in the meeting without physically attending and without a representative, and exercise their rights in whole or in part electronically (online participation) (§ 17 Para. 4 of the Company Articles of Association).

The General Meeting is chaired by the Chairman of the Supervisory Board, unless the Supervisory Board appoints another member of the Supervisory Board or a third party (§ 18 of the Company Articles of Association).

All necessary reports and documents are made available to shareholders in good time on our website. In addition, attendance and voting results are publicised online after the General Meeting. The Company Articles of Association also enable the Management Board to permit audio and video transmission of the General Meeting, and to make more detailed determinations pertaining to this.

Cooperation between the Management Board and the Supervisory Board

The Management Board and Supervisory Board of SHW AG cooperate closely in the interests of the Company. Their shared goal is to provide for the continued existence, sustained value creation and growth of the Company.

In accordance with legal requirements, SHW AG has a dual leadership system characterised by the separation of management and supervisory functions. The Management Board leads the Company in its own responsibility and in the interests of the Company. It develops the strategic orientation, consults with the Supervisory Board on this, and provides for its implementation.

The Management Board manages the Company in accordance with the applicable laws, Articles of Association, rules of procedure and employment contracts. The Supervisory Board oversees and advises the Management Board, and is directly involved in decisions of fundamental importance for the Company. The Supervisory Board works closely and in good faith with the Management Board for the good of the Company.

To this end, the Supervisory Board receives regular, timely and comprehensive reports from the Management Board, in and outside of Supervisory Board meetings, concerning the strategic orientation of the Company and its business policies, planning, business development, risks, risk management and compliance. Deviations in the course of business from plans and objectives are discussed and explained in these reports. The Management Board reports to the Supervisory Board verbally or in writing. In all matters of special importance for the Company, the Chairman of the Management Board additionally reports without delay to the Supervisory Board Chairman, verbally or in writing. Meeting documents, especially individual and consolidated financial statements and audit reports, are provided to the Supervisory Board in good time before the respective meetings. Details are provided in the report of the Supervisory Board of SHW AG for the 2011 financial year.

The specific tasks and duties of the Management Board in respect of the Supervisory Board are set forth in rules of procedure prepared by the Supervisory Board for the Management Board. In particular, the rules of procedure stipulate the information and reporting duties of the Management Board. They also define those business actions of special importance, such as major acquisitions, divestments and financing measures, which require the prior consent of the Supervisory Board.

The Management Board and Supervisory Board both act with the due diligence of prudent corporate governance. If they fail to exercise the due diligence of a prudent and conscientious business manager or Supervisory Board member, they are liable for damages to the Company. To protect the management and to provide the Company with a solvent debtor in the event of liability, SHW AG has arranged for indemnity (D&O) insurance for the members of the Management and Supervisory Boards. Management Board members have a deductible of at least 10 percent of the damage up to at least one and a half times their fixed annual remuneration. In accordance with the recommendation in Clause 3.8 of the German Corporate Governance Code, the D&O insurance for members of the Supervisory Board also has a corresponding deductible.

Management Board

Tasks and responsibilities

The Management Board of SHW AG manages the Company with the goal of sustained value creation and growth, in its own responsibility and in the interest of the Company. In doing so, the Board takes into consideration the interests of shareholders, employees, and other stakeholders in the Company.

The Management Board must provide for an appropriate monitoring system within the Company, so that threatening developments can be detected early on. The Board must further ensure that legal requirements and internal rules are followed, and works to their compliance.

Each Board member manages his or her business segment as assigned in the rules of procedure within the context of Board decisions in his or her own responsibility. Notwithstanding this allocation of responsibilities, the Management Board members bear joint responsibility for overall management. They work together as colleagues and keep one another informed on an on-going basis concerning important measures and developments in their business segments.

When assigning leadership functions in the Company, the Management Board takes account of diversity, and in particular strives for appropriate representation of women.

Composition

SHW AG was formed from the Schwäbische Hüttenwerke Beteiligungs GmbH as a result of the change of legal form as resolved on 24 February 2011. In its constituent meeting on 28 February 2011, the Supervisory Board created as part of that resolution appointed Dr. Wolfgang Krause (Chief Executive Officer, Pumps and Engine Components business segment), Oliver Albrecht (Chief Financial Officer): business management including central administration) and Andreas Rydzewski (Brake Discs business segment), all of whom had previously worked as directors of Schwäbische Hüttenwerke Beteiligungs GmbH, as members of the Management Board. In addition, Dr. Wolfgang Krause was named Chairman of the Management Board. At this session, the Supervisory Board also passed rules of procedure for the Management Board. These rules of procedure order the tasks of the Chairman of the Management Board as well as the responsibilities of the other Board members. The rules of procedure also define the decisions and measures which require approval by the entire Management Board, and settle the issues regarding majorities for Board decisions. Further information on the workings of the Management Board are contained in the Annual Report in the Corporate Governance Statement pursuant to § 289a HGB (Handelsgesetzbuch – German Commercial Code), (see page 50).

Remuneration

The remuneration of the Management Board members is explained in the Remuneration Report, which is part of the (Group) management report (see page 34 to 36 of the Annual Report).

Conflicts of interest

Each member of the Management Board must immediately report conflicts of interest to the Supervisory Board, and – in consultation with the Chairman of the Supervisory Board – also inform the Management Board. Management Board members are obliged to act in the Company's best interest. During their membership on the Management Board of SHW AG and during the term of their employment, they are subject to a comprehensive non-compete agreement (§ 88 AktG). Furthermore, they may perform ancillary functions, including positions on supervisory boards, advisory councils and similar advisory bodies, only with the agreement of the Supervisory Board. The current members of the Management Board have at this time no positions on legally formed supervisory boards or comparable domestic or foreign supervisory bodies of business corporations.

Supervisory Board

Tasks and responsibilities

The Supervisory Board advises and supervises the Management Board in its management of the Company; it performs its tasks, rights and duties as defined by law and the Articles of Association. In particular, it is responsible for appointing and removing members of the Management Board. With respect to the composition of the Management Board, the Supervisory Board takes account of diversity, and in particular strives for the appropriate representation of women. Together with the Management Board, it works towards long-term succession planning. The Supervisory Board has set an age limit of 67 years for Management Board members.

The Supervisory Board has established its own rules of procedure with detailed rules on meetings and decision-making, forming committees, and the rights and responsibilities of Supervisory Board members. Further information on the workings of the Supervisory Board are contained in the Annual Report in the Corporate Governance Statement pursuant to § 289a HGB (see page 50).

Composition

In accordance with the Articles of Association, the Supervisory Board of SHW AG is made up of six members - Anton Schneider (Chairman), Dr. Martin Beck (Deputy Chairman), Dr. Hans Albrecht, Christian Brand, Ernst Rieber and Edgar Kühn. These persons were appointed to the Supervisory Board in the context of the resolution of 24 February 2011 to change the Company's legal form from Schwäbische Hüttenwerke Beteiligungs GmbH to SHW AG. Their term ends with the conclusion of that General Meeting which decides on the discharge for the fourth financial year after the beginning of their term, not counting the financial year in which the term begins, i.e. at the conclusion of the 2016 Annual General Meeting.

None of the Supervisory Board members is a former member of the Management Board of the Company or one of its legal predecessor companies. No Supervisory Board member has a corporate body or consulting function with a major competitor of the Company.

No Supervisory Board member is in a business or personal relationship with the Company or its Management Board that would bring about a conflict of interest. In particular, no Supervisory Board member has a consulting, service, or work contract with the Company.

Each member of the Supervisory Board must have the knowledge, abilities and professional experience necessary for the proper performance of his or her duties. All members of the Supervisory Board are required to improve their qualifications as necessary; in doing so they are assisted by the Company as appropriate. Supervisory Board member terms should as a rule not extend beyond the end of the Annual General Meeting that follows their seventieth birthday. In nominations presented to the General Meeting for election to the Supervisory Board, diversity should be taken into consideration, especially an appropriate representation by women. The Supervisory Board supports and observes the criteria in Clause 5.4.1 of the German Corporate Governance Code, but in deviation from the recommendation therein contained, it has not laid down specific targets for its composition (see also the Declaration of Compliance on page 11).

Formation of committees

In order to increase the efficiency of Supervisory Board work and the treatment of complex issues, in accordance with its rules of procedure the Supervisory Board has formed an Executive Committee and an Audit Committee. The Executive Committee prepares the meetings of the Supervisory Board. In addition, the Executive Committee decides instead of the Supervisory Board on the approval of business matters for which Supervisory Board consent is required by the Management Board rules of procedure passed by the Supervisory Board, where these decisions have been delegated to the Executive Committee by the rules of procedure. In addition, the Executive Committee prepares personnel decisions for the overall Supervisory Board in respect of appointments, removals and remuneration of Management Board members and other personnel matters that come under the purview of the Supervisory Board, including regular examination of the remuneration system of the Management Board and long-term succession planning. In long-term succession planning it considers in particular the leadership planning of the Company as well as diversity. The Executive Committee, as far as permitted by law, is also responsible for concluding, modifying and terminating employment contracts with the Management Board members. It further represents the Company in other legal acts with Management Board members and persons and companies close to them, where the overall Supervisory Board is not required by law to do this. Finally, the Executive Committee acts as nominating committee pursuant to Clause 5.3.3 of the German Corporate Governance Code. The Executive Committee consists of Supervisory Board Chairman Anton Schneider, who is also Chairman of the Executive Committee, Deputy Supervisory Board Chairman Dr. Martin Beck, and Supervisory Board member Edgar Kühn.

In accordance with § 107 Para. 3 Sent. 2 AktG and Clause 5.3.2 of the German Corporate Governance Code, the Audit Committee monitors the financial reporting process, the effectiveness of the internal monitoring system, the risk management system, the compliance and internal auditing systems. The Audit Committee also prepares the decisions of the Supervisory Board concerning Annual and Group Reports and agreements with the annual account auditor (in particular, the auditing assignment, audit focus, and fee); it also takes appropriate measures to determine and monitor the independence of the auditors. Finally, it prepares the decision of the Supervisory Board for proposal to the General Meeting on the appointment of the auditors, and makes its recommendation on that point to the Supervisory Board.

The Executive Committee consists of Supervisory Board Chairman Anton Schneider, Deputy Supervisory Board Chairman Dr. Martin Beck, and Supervisory Board member Christian Brand as an independent member with expertise on financial reporting and annual reporting pursuant to §§ 100 Para. 5, 107 Para. 4 AktG, Clause 5.3.2 Sent. 2 of the German Corporate Governance Code. Mr Brand is also the Chairman of the Audit Committee.

Remuneration

The remuneration of the Supervisory Board members is explained in the Remuneration Report, which is part of the (Group) management report (see page 37 of the Annual Report).

Conflicts of interest

Each member of the Supervisory Board is required to serve the Company's interests. In his decisions, he may neither pursue his own interests nor use business opportunities of the Company for himself. If there is the possibility of a conflict of interest for a Supervisory Board member, for example due to a consulting or corporate body function with a customer, supplier, creditor or other associated business, that member must immediately and fully report this to the Supervisory Board Chairman. The Supervisory Board Chairman must likewise report his conflicts of interest to the Executive Committee. The report of the Supervisory Board explains possible conflicts of interest and how they are dealt with.

Efficiency

The Supervisory Board regularly examines the efficiency of its work. This examination takes the form of a self-evaluation by means of a questionnaire.

Transparency

SHW AG considers itself bound to inform all capital market participants in a comprehensive, equal and timely manner. Shareholders and potential shareholders can find out about current developments in the Group at any time on the Internet, where all press and ad-hoc releases of SHW AG are published in German and English. Further, all required financial reports, in particular annual reports, annual and interim statements and interim reports are provided online. The Group statement is made publicly available 90 days after the end of the financial year, and interim reports within 45 days after the end of the reporting period. The Company Articles of Association and information on implementation of the recommendations of the German Corporate Governance Code are also provided online.

As part of our investor relations, we remain in close contact with shareholders and potential investors. For example, we regularly meet with analysts and institutional investors. The locations and dates of roadshows and investor conferences can be found online. We also maintain an intensive dialogue at analyst and investor conferences, and in telephone conferences held regularly and on special occasions. Presentations made at such events can be viewed online. Recurring events and the date of the Annual General Meeting, and the publication dates of interim reports, are published in good time on a financial calendar, likewise provided on the Company website.

Financial accounting and annual audits

The Group statement and Interim Reports of SHW AG are drawn up in accordance with the International Financial Reporting Standards (IFRS) as applied in the European Union. The individual statement of SHW AG as mandated by law and definitive for dividend payment is prepared according to the requirements of German Commercial Code (HGB). It has been agreed with the annual auditor, the accounting firm PricewaterhouseCoopers AG in Stuttgart, that they will immediately inform the Supervisory Board Chairman or Audit Committee Chairman of any possible grounds for exclusion or partiality that may arise during the audit, if these issues are not immediately resolved. The agreement further states that the auditor will immediately report on all important questions and occurrences that may arise during the annual audit that are relevant for the tasks of the Supervisory Board. The annual auditor must further inform the Supervisory Board or note in his audit report if during the audit he determines that there are issues which result in the Compliance Statement being incorrect.

The Group statement is prepared by the Management Board and examined by the annual auditor and the Supervisory Board. Half-yearly and any quarterly financial reports are discussed by the Supervisory Board or its Audit Committee with the Management Board prior to publication. The Company has no stock option programs or similar stock-based incentive systems.

Management and Supervisory Board share transactions and ownership subject to reporting requirements

Members of the Management and Supervisory Boards and related parties are required by § 15a WpHG (Wertpapierhandelsgesetz – German Securities Trading Act) to disclose reportable transactions in shares of SHW AG or financial instruments associated with them, where the value of the transactions reaches or exceeds € 5,000 within a calendar year. These disclosures are published on the Company website under > http://www.shw.de/cms/en/investor_relations/corporate_governance/directors_dealings/.

On 31 December 2011 a total of 45,073 shares were held by members of the Management Board. Of that total, 5,303 shares were held by Andreas Ryzewski; the Chairman of the Management Board Dr. Wolfgang Krause held 39,770 shares, whereof 14,847 in trust for his wife.

On 31 December 2011, the Chairman of the Supervisory Board, Anton Schneider, also held 28,000 shares.

Remuneration Report

The Remuneration Report can be found on page 34 to 37 of the Annual Report. It is also part of the Corporate Governance Report.

SHW shares

Stock markets burdened by debt crisis and gloomy growth forecasts

The protracted negotiations regarding a solution for the imminent threat of a Greek default, rising bond yields in Spain and Italy, the lowering of the USA's credit rating by Standard & Poor's, and weaker economic indicators in Europe, the USA and China caused tangible uncertainty on the capital markets during 2011. Coupled with real economic burdens, both economic and profit projections for companies were cut significantly in part. This caused considerable losses on the international stock markets, particularly in the third quarter of 2011. These share price corrections were the reason most stock indexes ended 2011 in the red.

One of the few exceptions was the American leading index, Dow Jones, which closed up 5.5 percent at 12,218 points. The Japanese Nikkei index suffered as a result of the devastating earthquake in spring with a yearly loss of 17.3 percent and closed at 8,455 points.

In Europe, the Euro Stoxx 50 lost a little over 17 percent, closing at 2,317 points on 30 December 2011. Compared with last year, the German leading index, DAX, lost almost 15 percent of its value, ending the trading year on 5,898 points. The SDAX index had to surrender around 750 points or just under 14.5 percent of its value in light of difficult market conditions, ending at 4,421 points.

The DAXsector Automobile Performance index lost around 19 percent as a result of an uncertain outlook in the sector, closing at 849 points.

SHW shares exceed industry index slightly

The SHW shares issued at a price of €26 were unable to elude the stock market trends entirely, falling by around 29 percent to €18.50 on 30 December 2011 with relatively low trading volumes. Compared to the DAXsector Automobile Performance index, SHW shares fared a little better in the period from 7 July (date of initial listing) until the end of December 2011. SHW shares are currently trading at €25.01 (20 March 2012) close to the issue price.

SHW AG's shareholder structure underwent a decisive change as a result of the initial public offering (IPO): Prior to the IPO, the major shareholder, SHW Holding L.P., held 97.4 percent. After the IPO its share of the capital stock is 58.3 percent. The free float amounted to 40.2 percent. 1.5 percent is held by management.

Active investor relations work

Investor relations, i.e. relationship management with new and current shareholders, has become even more important at SHW since the IPO. The aim of SHW Investor Relations is the appropriate assessment of SHW shares by the capital market. The basis of this is continuous and open dialogue with all market participants as well as making available precise information relevant to the assessment.

The Management Board and the IR Department made every effort following the successful IPO to satisfy the interest in SHW and the associated information needs. We have provided analysts and investors with information about the Company's latest developments and perspectives at several investor conferences and road shows, and answered their questions. Topics such as strategy, market and products as well as the Company's economic development were the focus.

Intensifying investor relation activities planned

The SHW shares are currently being monitored by three banks and analyst firms. Other banks and research institutes have announced their intention to begin coverage in the coming months. The Company will continue to further investor relations work in 2012, particularly on the international level. As a Company with a clear focus on CO₂ reduction, we will also increasingly approach investors who focus on sustainability in their investments. In addition, as part of the Baden-Württemberg Small Caps (BWSC) syndicate, we want to maintain and expand contact with asset managers and private investors at investor information events organised jointly with regional banks. Last but not least, Family Offices are increasingly a focus of our IR activities.

Share at a glance

WKN	A1JBPV
ISIN	DE000A1JBPV9
Ticker Symbol	SW1
Type of shares	Ordinary no-par-value bearer shares
Number of shares	5.85 million
Share capital	€ 5.85 million
Market capitalisation ¹⁾	€ 146.3 million
Free float	40.2%
Stock Exchange	Frankfurt Stock Exchange
Market Segment	Regulated Market (Prime Standard)
First listing	7 July 2011
Designated Sponsor	Commerzbank AG

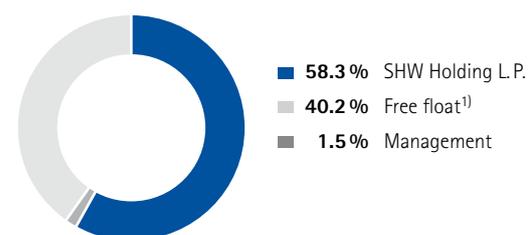
¹⁾ Based on the closing price of €25.01 on 20 March 2012.

Relative price performance vs. DAXsector Automobile Performance index

Issue price: 7 July 2011 = 100%



Shareholder structure as at 20 March 2012



¹⁾ Free float, as defined by the German stock exchange, Deutsche Börse AG. Of which: Capital Research and Management Company (3.93 percent).

Consolidated Group management report and SHW AG management report

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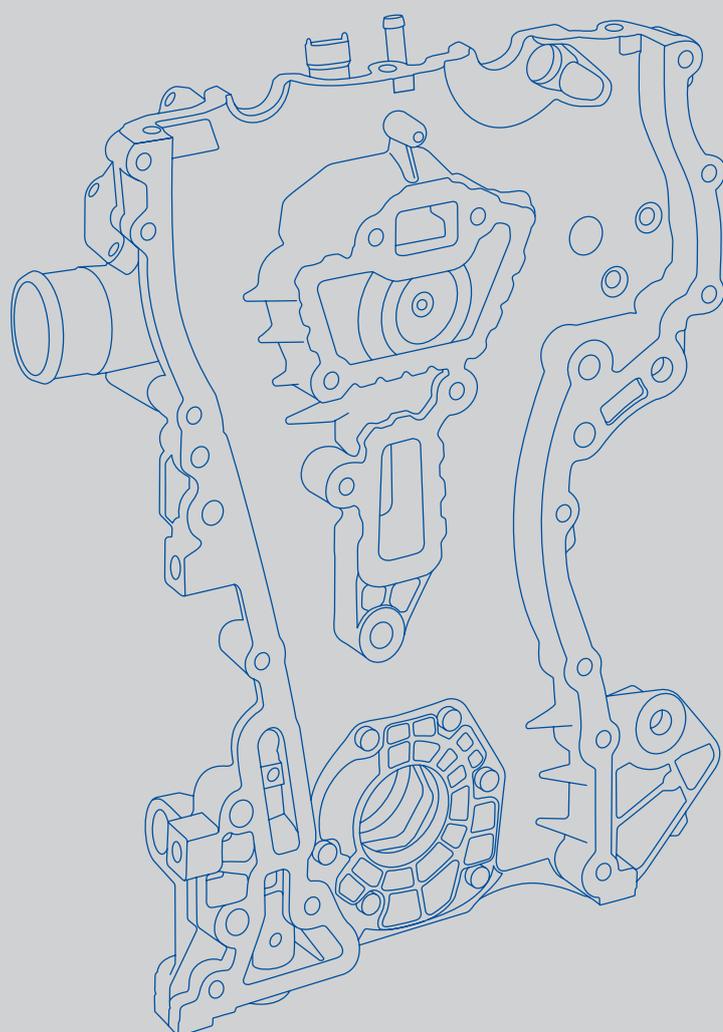
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Business activities and framework conditions

Business activities and corporate structure

The SHW Group supplies European and North American automobile and commercial vehicle manufacturers that have production sites in Europe, the NAFTA region and China. The SHW Group acts as a Tier-1 supplier for numerous clients, meaning that it supplies the manufacturers of the end products. On the other hand, the SHW Group supplies other suppliers of the automotive industry.

The Group's business is divided into the Pumps and Engine Components business segment and the Brake Discs business segment. The main focus of the SHW Group's business activity is on developing and manufacturing products that contribute toward reducing fuel consumption, and therefore CO₂ emissions, in the automotive sector.

Leading European manufacturer of pumps and engine components

The Pumps and Engine Components segment is SHW Group's largest business segment, with production facilities in Bad Schussenried and Aalen-Wasseraalengen. Via its 50 percent interest in the

Canadian company STT Technologies Inc., SHW also has production sites in Canada and Mexico. They mainly produce oil pumps for automobile manufacturers. In Germany, the Group also produces gearbox pumps, vacuum pumps, water pumps, balancer shafts and camshaft phasers for motor vehicles.

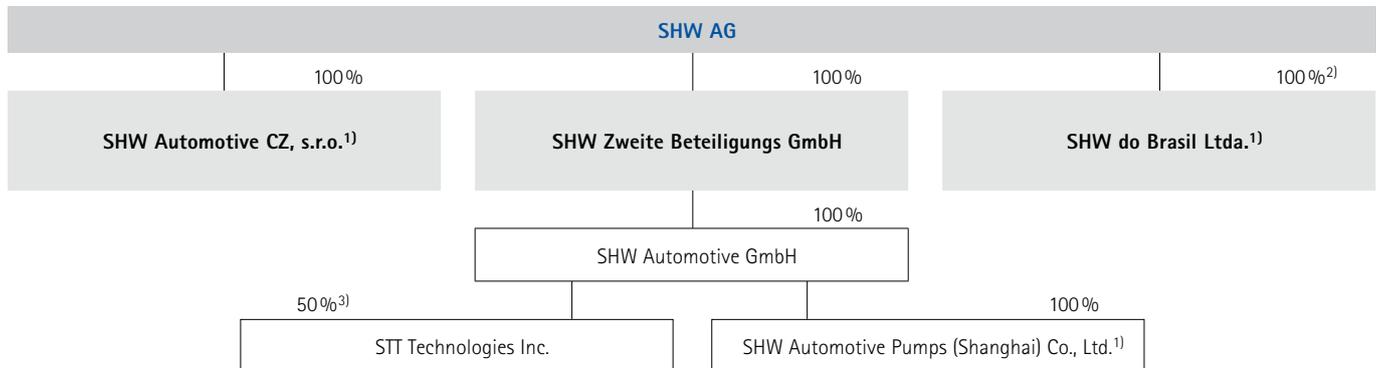
The SHW Group's Truck and Off-Highway division produces different types of pumps for trucks, farm and construction vehicles, stationary engines and wind power stations.

In addition, the Group manufactures engine components in the Powder Metallurgy division at its Aalen-Wasseraalengen production facility. Examples of these include gear sets and other pump components (e.g. rotors and adjustment rings) as well as other components for engines and transmissions.

Technological leader in the manufacture of brake discs for high-performance vehicles

The SHW Group is technological leader in the manufacture of brake discs for high-performance vehicles. In its Brake Discs business segment, the SHW Group develops and manufactures monobloc ventilated brake discs made from cast iron as well as composite brake discs made from a combination of an iron friction ring and aluminium pot. The SHW Group has sites in Tuttlingen-Ludwigstal and Neuhausen ob Eck.

Pumps and Engine Components			Brake Discs
Bad Schussenried, Germany/ STT: Concord, Canada/Apodaca, Mexico		Aalen-Wasseraalengen	Tuttlingen-Ludwigstal/ Neuhausen ob Eck
Passenger Car	Truck and Off-Highway	Powder Metallurgy	
Oil pumps for engines and gearboxes	Gearbox oil pumps	Sintered steel or aluminium components for camshaft phasers	Unprocessed monobloc ventilated brake discs
Variable oil pumps/ map-controlled pumps	Engine oil pumps	Gear sets	Ready-to-install monobloc ventilated brake discs
Oil/vacuum pumps	Fuel pumps	Sintered components for engines and transmissions	Composite brake discs
Water pumps	Electric pumps		
Balancer shafts			
Camshaft phasers			



¹⁾ Inactive.

²⁾ The shares are held in part directly and in part indirectly through SHW Zweite Beteiligungs GmbH.

³⁾ The remaining shares are held by Magna Powertrain Inc.

Group structure

The SHW AG is the parent company of the SHW Group and a pure holding company. It holds all shares of SHW Zweite Beteiligungs GmbH with its registered office in Aalen-Wasserralfingen, an intermediate holding company which, in turn, holds all shares of SHW Automotive GmbH with its registered office in Aalen-Wasserralfingen. In addition, SHW AG directly or indirectly holds all shares of the international subsidiaries SHW Automotive CZ, s.r.o., with its registered office in Brno, Czech Republic, and of SHW do Brasil Ltda. with its registered office in São Paulo, Brazil. SHW Automotive GmbH holds all shares of its Chinese subsidiary SHW Automotive Pumps (Shanghai) Co., Ltd. as well as a 50 percent interest in joint venture STT with its registered office in Concord, Ontario, Canada. The operative business of the SHW Group is conducted by SHW Automotive GmbH and STT.

Company strategy and corporate management

Company strategy

SHW AG's goal is to further enhance the strong market position in the Pumps and Engine Components and Brake Discs business segments so as to continue growing profitably in the future. The Company works according to the following strategy to achieve this goal:

Focus on innovative product solutions

In the Pumps and Engine Components business segment, the Company has contributed to a significant reduction in CO₂ emissions from motor vehicles over the past ten years through its continuous

innovations. The Company wants to focus on this key competence in the future and be the automotive industry's leading technological partner for the various powertrain concepts. Further optimisation of the Pumps and Engine Components already available on the market remains the focus for combustion engines for passenger vehicles. In the case of hybrid vehicles, SHW has developed solutions which are already being applied in series production. Intensive work is being carried out on the application of pumps in purely electric cars.

In addition, the friction-reducing hydraulic pumps developed by the SHW Group for passenger vehicles are to be adapted for so-called Truck and Off-Highway applications (trucks, agricultural and construction vehicles, as well as stationary engines and wind power stations).

In the Brake Discs business segment, the SHW Group is planning to produce cost-effective, ready-to-install composite brake discs for series production.

Globalisation of manufacturing and sales activities

The scalability of the pumps business allows for relatively simple business expansion into countries where clients of the SHW Group already have production facilities or are planning to build new ones in the future. The company plans to follow its customers into growth markets such as China, Brazil and India.

In July 2011, permission was granted to establish SHW Automotive Pumps (Shanghai) Co., Ltd. thus laying the foundation for business activities in China. Preparations for series production have begun.

In Brazil, we have a 100 percent subsidiary with SHW do Brasil Ltda. In addition, SHW opened a representative office in New Delhi, India in 2010 and started the process of launching a manufacturing company.

Securing long-term operational and financial flexibility

To secure long-term operational flexibility, the Company constantly reviews all internal processes whilst endeavouring to further optimise its manufacturing processes and further reduce its break-even point. Current measures include planned further automation of the Tuttlingen-Ludwigstal foundry, linking the manufacturing facilities in the Powder Metallurgy division at the Aalen-Wasseralfingen plant, and optimising the materials flow in Bad Schussenried.

In order to secure SHW Group's long-term financial flexibility, the following focus areas have been defined:

- Strengthening capital structure – equity ratio of at least 35 to 40 percent
- Sustainable, result-orientated dividend policy – dividend payouts from 30 to 40 percent of net income in compliance with legal restrictions and with consideration of the SHW Group's financial needs
- Retention of low leverage ratio (Net bank debt/EBITDA)
- Securing appropriate liquidity – current revolving credit facility of €30 million

Key Performance Indicators

The SHW AG Management Board uses various instruments to assess the current business developments from which it makes future strategy and investment decisions. The aim is to take full advantage of all potential commercial and business successes.

For SHW, the EBITDA (defined as Group earnings before interest, tax, and amortisation of intangible assets and depreciation of tangible assets) as well as the EBIT (defined as Group earnings before interest and tax), are key operating figures. They serve as a measure of the quality of Group sales, and indicate how efficiently we are managing our operational business. The operating result indicated in the Group consolidated income statement is used as the baseline value for calculation of the EBITDA and EBIT.

We use the EBIT adjusted for one-off factors for calculation of the ROCE (return on capital employed) key value management indicator. The "capital employed" represents the operational interest-bearing capital expenditure of the SHW Group. The derivation of this tied-up capital (capital employed) is presented in the following table:

K EUR	2011	2010
Goodwill	7,055	7,055
Other intangible assets	8,552	4,477
Tangible assets (property, plant and equipment)	58,360	49,306
Deferred tax assets	3,401	3,573
Other non-current financial assets	823	952
Inventories	37,741	29,604
Trade receivables	45,059	35,874
Other current financial assets	748	5,524
Other assets	1,345	2,101
Asset items of capital employed	163,084	138,466
Deferred tax liabilities	-3,194	-2,005
Other non-current accruals	-2,984	-2,917
Other non-current financial liabilities	-130	-158
Other liabilities		
Trade payables	-42,166	-36,729
Other current financial liabilities	-11,511	-6,158
Income tax liabilities	-950	-857
Other current accruals	-8,858	-9,150
Other liabilities	-6,560	-5,840
Liability items of capital employed	-76,353	-63,814
Capital employed	86,731	74,652
Adjusted EBIT	26,171	22,770
ROCE	30.2%	30.5%

Besides earning figures, figures relating to liquidity are particularly significant. As a consequence, we continuously monitor and manage the main factors influencing working capital (defined as the total of inventories and trade receivables minus trade payables). The ratio of working capital to sales is the most important figure for us here.

All operational key performance indicators are planned, determined and monitored for the SHW Group as well as for both operational reporting segments, i.e. the Pumps and Engine Components and Brake Discs business segments.

Finance management is also part of the SHW management system. Within this, we pay particular attention to liquidity, capital structure and possible market price risks, especially with interest and currencies. We use net bank debt, defined as liquid assets less current and non-current liabilities to banks, as an important management indicator.

Framework conditions

Sovereign debt crisis burdens the global economy

Against the backdrop of a worsening sovereign debt crisis in the eurozone, the global economy's growth dynamics slowed in part significantly during 2011.

Region	GDP growth (%)		
	2009	2010	2011
China	9.2	10.3	9.2
Japan	-6.3	4.5	-0.9
US	-3.5	3.0	1.7
Eurozone	-4.2	1.7	1.5
Germany	-5.1	3.6	3.0

Source: Global Insight, Commerzbank Research.

Growth rates and patterns for 2011 differ greatly according to the country or region: Positive trends have been set mainly in the threshold countries, with China continuing to be one of the global driving forces behind economic growth. In Japan, there has been a significant return to normality in economic activity following the production losses resulting from the earthquake. In the United States, the economic recovery continued to be highly sluggish whilst private consumption had an unexpected impact.

In the eurozone, growth has been severely affected by the worsening sovereign debt crisis, centering around the continuing discussions on the potential insolvency of Greece. Despite a weak fourth quarter, the German economy nevertheless achieved a substantial growth rate of three percent throughout the year. In contrast, the economy stagnated in countries more heavily affected by the crisis such as Italy and Spain.

Automobile production continues to grow

Global production figures for so-called light vehicles (less than 6t) have overall continued to develop positively in 2011 in line with the growth in the global economy.

Light vehicle production

in million units	2011	2010	Change in %
China	15.0	14.5	3.7
US	8.5	7.6	11.0
Japan	8.0	9.1	-12.0
Germany	5.8	5.4	7.2
South Korea	4.4	4.1	7.7
India	3.4	3.0	13.3
Brazil	3.1	3.1	-0.8
Mexico	2.5	2.2	13.6
Spain	2.4	2.4	-0.6
France	2.2	2.2	-0.1
Worldwide	74.3	71.6	3.8

Source: PwC Autofacts January 2012.

Among the five largest manufacturing countries, a new dynamic unfolded in the United States in particular. Production there was driven by rising exports, commissioning of new production facilities and a series of high-volume product launches.

However, the production volume also increased significantly in Germany as a result of continued strong exports to China, Russia and the USA.

SHW customers with above-average growth rates

SHW's largest customers, Volkswagen and BMW, were the two automobile manufacturers to experience by far the strongest growth worldwide in 2011. This means the VW Group has attained second place in the ranking with 8.6 million vehicles manufactured. BMW also enjoyed remarkable success with its vehicle fleet. Two further important SHW customers, Daimler and GM, also fared better than the market as a whole.

Light vehicle production

in million units	2011	2010	Change in %
GM Group	9.2	8.7	6.2
VW Group	8.6	7.4	14.9
Toyota Group	8.5	9.3	-8.6
Renault-Nissan	8.0	7.3	9.5
Hyundai Group	6.6	5.9	12.8
Ford Group	5.4	5.1	6.4
Fiat Group	4.3	4.0	8.6
PSA Group	3.6	3.7	-1.8
Honda Group	3.1	3.6	-14.4
Suzuki Group	2.4	2.6	-8.2
BMW Group	1.7	1.5	17.5
Daimler Group	1.6	1.5	6.7
Worldwide	74.3	71.6	3.8

Source: PwC Autofacts January 2012.

Thanks to positive growth in the industry and high demand for its CO₂ relevant automotive components, SHW again experienced considerably stronger growth in 2011 than the overall automobile market.

Overview of business performance

New sales and profit records

A multitude of new product launches and high capacity utilisation of existing facilities – a result of strong demand among automobile customers – were the basis for a very successful financial year in 2011. Both Group sales and the Group's net income for the year reached record levels. The Pumps and Engine Components business segment was the key driver which also achieved a new record operating result before interest and taxes (EBIT).

We have been able to exceed the double digit sales growth rate predicted in the 2010 consolidated annual financial statements significantly.

This, combined with positive earnings growth, has further enhanced the SHW Group's financial profile. The equity ratio increased from 23.9 percent to 31.7 percent. Net bank debt has been reduced from € 13.4 million to € 8.6 million.

SHW was able to win important new contracts in both the Pumps and Engine Components and the Brake Discs business segments. In the Pumps and Engine Components segment they were, in particular, for:

- Start-stop pump (European OEM)
- Oil vacuum pump (European OEM)
- Start-stop pump (additional order – European OEM)
- Oil pump for dual-clutch gearbox (European Tier-1 supplier)
- Oil pump for automatic gearbox (North American OEM)
- Oil pump for electric vehicle with range extender (North American OEM)

The Brake Discs business segment was also highly successful in acquiring new business. It secured the following orders:

- Composite brake disc for front axle (European sports car manufacturer)
- Brake disc for OES business (European OEM)
- Composite brake disc (European OEM)
- Unprocessed monobloc ventilated brake discs (European OEM)
- Composite brake disc (European OEM)
- Unprocessed monobloc ventilated brake discs (European OEM)

Significant events affecting business performance

The first half of 2011 was dominated by the planned initial public offering (IPO). As a prerequisite for the going public the Group's holding company SHW Beteiligungs GmbH underwent a change in legal form to an Aktiengesellschaft (AG) in June 2011. The first listing in the Prime Standard of the Frankfurt Stock Exchange's regulated market then took place on 7 July 2011. The issue price was € 26.00.

Earnings, net assets and financial position of the SHW Group

K EUR	2011	2010	Change in %
Sales	360,575	290,274	24.2
EBITDA	33,866	30,708	10.3
as % of sales	9.4%	10.6%	
EBIT	23,776	20,186	17.8
as % of sales	6.6%	7.0%	
Net income for the year	16,998	13,515	25.8
Adjusted EBITDA ¹⁾	36,101	32,330	11.7
as % of sales	10.0%	11.1%	
Adjusted EBIT ¹⁾	26,171	22,770	14.9
as % of sales	7.3%	7.8%	
Net cash flow from operating activities	25,866	24,143	7.1
Net cash flow from operating activities/sales	7.2%	8.3%	
Equity	55,127	37,949	45.3
Equity ratio	31.7%	23.9%	
Net bank debt	8,621	13,385	-35.6
Net bank debt/adjusted EBITDA ¹⁾	0.24	0.41	

¹⁾ 2010: Adjusted for depreciation arising from the purchase price allocation, restructuring expenses and costs arising from a bargaining agreement with works council.
2011: Adjusted for depreciation arising from the purchase price allocation and IPO costs.

Earnings position

Group sales considerably higher than in previous year:

+24.2 percent

The SHW Group's order intake in the financial year 2011 improved compared to the previous year by 19.8 percent to €374.1 million. Group sales increased by 24.2 percent to €360.6 million compared to €290.3 million in the previous year. This was due to the launch of a number of new products and the efficient use of the existing production capacities.

Slight increase in cost of sales ratio

The cost of sales increased in the financial year 2011 from €252.1 million to €314.8 million compared to the previous year. The slight increase in the cost of sales ratio from 86.9 percent to 87.3 percent was mainly due to a change in the product mix, higher energy costs and higher costs for temporary staff.

Compared with the previous year, selling expenses increased slightly by €0.6 million to €4 million in the 2011 financial year. The selling expenses ratio fell at the same time from 1.2 percent to 1.1 percent.

In the financial year 2011 administrative expenses rose compared to the previous year by €1.5 million to €9.0 million due to additional personnel and IT costs. The administrative expenses ratio experienced a slight 0.1 percent decrease to 2.5 percent.

In the financial year 2011 other operating expenses increased by €1.3 million to €8.8 million (previous year: €7.5 million). After non-recurring costs arising from a bargaining agreement (cf. page 80 of the Annual Report) as well as depreciation arising from purchase price allocation were included in this position during the 2010 financial year, the position was characterised by non-recurring costs totalling approximately the same amount arising from the IPO in the 2011 financial year. Just as last year, goods provided for a subcontractor amounting to €3.6 million are also recorded and were off set against equal income.

Other operating income rose in the financial year 2011 compared to the previous year from €4.1 million to €5.0 million. The main reason for this was income from reversing provisions from accruals and liabilities.

Significant rise in research and development spending

In the 2011 financial year, spending on research and development increased by 38.4 percent to €5.2 million (previous year: €3.8 million) compared to the previous year. In addition, €2.8 million (previous year: €1.7 million) was capitalised development costs. A total of 2.2 percent of sales (previous year: 1.9 percent) was invested in research and development. The main focus of spending in the Pumps and Engine Components business segment was on the development of variable oil pumps, start-stop pumps, oil vacuum pumps, balancer shafts and camshaft phasers. In the Brake Discs business segment, focus was on the further development of lightweight brake discs.

Increase in operating result to €23.8 million

Group earnings before interest and tax (EBIT) improved during the 2011 financial year by €3.6 million compared to the previous year or by 17.8 percent to €23.8 million (previous year: €20.2 million). The corresponding EBIT margin dropped to 6.6 percent (previous year: 7.0 percent). This can be widely attributed to increased expenses due to a high number of new production facilities.

Reconciliation statement: SHW Group

K EUR	2011	2010
Sales	360,575	290,274
Operating result (EBIT)	23,776	20,186
Total PPA ¹⁾	160	962
PPA ¹⁾ customer base	-	522
PPA ¹⁾ patents/licences	-	174
PPA ¹⁾ fixed assets	160	266
Restructuring expenses	-	212
Cost of works agreement	-	1,410
IPO expenses	2,235	-
Total adjustments	2,395	2,584
Adjusted EBIT	26,171	22,770
as % of Group sales	7.3 %	7.8 %
Other write-offs	9,930	9,560
Adjusted EBITDA	36,101	32,330
as % of Group sales	10.0 %	11.1 %

¹⁾ Depreciation arising from the purchase price allocation.

€3.4 million (15 percent) increase in the adjusted EBIT

The adjusted Group earnings before interest and tax (EBIT adjusted) increased in the period from January until December 2011 by €3.4 million or 14.9 percent compared to the previous year to €26.2 million (previous year: €22.8 million) and equates to an EBIT margin of 7.3 percent (previous year: 7.8 percent).

Special effects in the financial year 2011 and in the previous year

Expenses incurred in preparation for the IPO during the reporting period totalled €2.2 million and are listed under "Other/Consolidation". €1.4 million was for costs directly related to the IPO and €0.8 million for a provision for real estate transfer tax. The latter provision had to be created because all shares in SHW Automotive GmbH were first time fully consolidated by SHW AG as a result of the structural change undertaken in preparation for going public. Furthermore, depreciation arising from the purchase price allocation totalling €0.2 million was undertaken in the two business segments of Pumps and Engine Components and Brake Discs. The total burden of special effects on the Group during 2011 amounted to a total of €2.4 million.

In the 2010 financial year, depreciation arising from the purchase price allocation totalling €1.0 million was accrued in the two business segments of Pumps and Engine Components and Brake Discs, and €0.2 million was accrued for restructuring costs. In addition, €1.4 million in costs arising from a bargaining agreement are listed under "Other/Consolidation". The agreement states that in the event of a sale or partial sale by Nordwind Capital, employees that have been with the company on the date of the takeover and on the date of the sale will be paid a total 4 percent of the net proceeds. The total burden of special effects on the Group for the financial year 2010 came to a total of €2.6 million.

Financial result improved

Financial income rose in the financial year 2011 to €2.2 million from €0.3 million in the same period of the previous year. This figure includes €2.0 million in special income from the sale of shares of SHW AG in SHW Management Beteiligungs GmbH & Co. KG in connection with the IPO. Financial expenses remained practically unchanged from the previous year at €2.4 million.

Increased tax ratio

In 2011, income tax amounted to €6.6 million (previous year: €4.7 million). This figure includes tax expenses of €0.1 million resulting from special income totalling €2 million. Taking this special effect into account, the tax ratio for the 2011 financial year was 28.1 percent, compared with 25.8 percent in the previous year. Excluding this special effect, the tax ratio would have been 30.2 percent.

25.8 percent increase in net earnings

Overall, the Group's €17.0 million net income for the year was 25.8 percent higher than the result for the comparative period of the previous year (€13.5 million). This figure includes €1.9 million in special income (after tax) from the sale of shares of SHW AG in SHW Management Beteiligungs GmbH & Co. KG.

Earnings per share increased from €2.46 to €2.93. In 2011, the weighted average number of shares for calculating earnings per share amounted to 5,798,194. During the same period in 2010, the number of shares for calculating earnings per share amounted to 5,500,000.

Net assets position

Growth reflected in a considerable increase in tangible assets, inventories and receivables

At the end of the 2011 financial year, the balance sheet total increased by 9.5 percent to €173.8 million compared to the previous year (€158.7 million). This is partly due to the commissioning of new production facilities as well as an increase in other intangible assets resulting from capitalising development costs and own work for the SAP project. As a result of the increase in business activities inventories and trade receivables totalling €17.3 million were built up.

Other financial assets dropped from €5.5 million in the comparative period in the previous year to €0.7 million – mainly due to a decline in the value of a receivable from the joint venture partner in Canada, and repayment of a loan.

K EUR	2011	2010	Change absolute	Change in %
Non-current assets	78,191	65,363	12,828	19.6
of which other intangible assets	8,552	4,477	4,075	91.0
of which tangible assets	58,360	49,306	9,054	18.4
Current assets	95,575	93,305	2,270	2.4
of which inventories	37,741	29,604	8,137	27.5
of which trade receivables	45,059	35,874	9,185	25.6
of which other financial assets	748	5,524	-4,776	-86.5
of which liquid assets	10,682	20,202	-9,520	-47.1
Balance sheet total	173,766	158,668	15,098	9.5

Financial position

K EUR	2011	2010	Change absolute	Change in %
Equity	55,127	37,949	17,178	45.3
Non-current liabilities and accruals	40,541	50,898	-10,357	-20.3
of which liabilities to banks	11,250	22,500	-11,250	-50.0
Current liabilities and accruals	78,098	69,821	8,277	11.9
of which liabilities to banks	8,053	11,087	-3,034	-27.4
of which trade payables	42,166	36,729	5,437	14.8
of which other financial liabilities	11,511	6,158	5,353	86.9
Balance sheet total	173,766	158,668	15,098	9.5

Marked improvement in equity ratio to 31.7 percent

As of 31 December 2011 the Group's equity increased due to positive income development compared with the end of the previous year by € 17.2 million to € 55.1 million. This corresponds to an equity ratio of 31.7 percent compared with 23.9 percent on 31 December 2010.

Liabilities to banks were reduced by a total of € 14.3 million as planned.

At the end of the reporting year, trade payables increased by 14.8 percent to € 42.2 million (previous year: € 36.7 million). This increase was primarily due to merchandise purchases as a result of sales growth of 24.2 percent.

An 86.9 percent increase in other financial liabilities to € 11.5 million (previous year: € 6.2 million) is primarily attributable to the increase in accruals for outstanding invoices as part of business expansion.

Positive free cash flow despite considerably higher investments

Cash flow from operating activity amounted to € 25.9 million as of 31 December 2011, or € 1.7 million more than the previous year's € 24.1 million. A € 3.5 million increase in the net income for the year to € 17 million (previous year: € 13.5 million), a € 1.3 million change in both accruals and deferred taxes as well as a € 1.6 million change in net working capital contributed positively to this. The changes by € 2.3 million to "Other non-cash-effective expenses/income", € 1.9 million to "Financial investment income through profit or loss" and € 2.0 million to "Gain on the disposal of assets" had a particularly negative impact.

In the 2011 financial year, investment activities led to a € 23.2 million outflow of funds (previous year: € 10.2 million). This rise was largely a result of order-related capital expenditures in new assembly lines and the ongoing SAP project.

Free cash flow for the 2011 financial year thus totalled € 2.6 million (previous year: € 13.9 million).

A further reduction in the net bank debt to just € 8.6 million

As at 31 December 2011, the SHW Group's net bank debt of € 8.6 million was € 4.8 million lower than on 31 December 2010 (€ 13.4 million). This reduction primarily resulted from positive free cash flow totalling € 2.6 million as well as € 2.4 million in funds from the disposal of financial assets.

Change in net bank debt

K EUR	2011	2010
Cash flow from operating activities	25,866	24,143
Cash flow from investment activities	-23,228	-10,217
Cash flow before financing activities (free cash flow)	2,638	13,926
Other	2,126	481
Change in net bank debt	4,764	14,407

As at 31 December 2011, the SHW Group had liquid funds totalling € 10.7 million (previous year: € 20.2 million). Bank debts could be reduced further through scheduled repayment of the syndicated loan totalling € 8.3 million as well as a special repayment of € 6.0 million, which are creditable to the next two scheduled loan repayments. In addition, the Group has access to a € 30 million credit facility of which € 4.0 million had already been drawn on through sureties. The debt is subject to variable interest rates on the basis of Euribor plus a margin. We have hedged ourselves against the existing interest risk by means of two interest-rate swaps. The Group does not use any other derivative hedging instruments.

Investments

Due to pending production start-ups, investments increased from € 10.2 million to € 23.2 million in the 2011 financial year compared to the previous year. This was primarily caused by the launch of a wide range of new products in the Pumps and Engine Components business segment. € 17.4 million was spent in this area (previous year: € 7.8 million). The Brake Discs business segment invested a total of € 4.1 million (previous year: € 1.4 million). A further € 1.7 million was invested in the ongoing SAP project.

General statement by the Management Board on business performance and the economic situation

The Management Board of SHW AG evaluates the business performance in 2011 and the economic situation of the SHW Group positively. Against the backdrop of strong growth in vehicle production, customer demand has developed so dynamically that both Group sales and the Group's net income for the year have attained new record levels. With the significant improvement in the equity ratio and further reduction of the net bank debt, SHW's financial profile can be rated as extremely sound.

The Management Board of SHW AG believes the Group is well positioned with its innovative product portfolio and current contracts to continue to grow more strongly than the overall automobile market in the future too. Furthermore, its IPO means various equity instruments are available to the Company enabling it to expand its market position in selected areas and regions with any possible acquisitions.

Business segments

Pumps and Engine Components

26.8 percent increase in sales

In the Pumps and Engine Components business segment sales increased in the financial year 2011 compared to the previous year by 26.8 percent to € 268.3 million (previous year: € 211.6 million)

Key figures Pumps and Engine Components

K EUR	2011	2010	Change in %
Sales	268,340	211,591	26.8
EBITDA	33,666	29,543	14.0
as % of sales	12.5%	14.0%	
EBIT	26,664	22,225	20.0
as % of sales	9.9%	10.5%	
Adjusted EBITDA ¹⁾	33,666	29,588	13.8
as % of sales	12.5%	14.0%	
Adjusted EBIT ¹⁾	26,704	23,097	15.6
as % of sales	10.0%	10.9%	

¹⁾ Adjusted for special effects, cf. reconciliation statement for business segment Pumps and Engine Components.

Demand for variable oil pumps/start-stop pumps drives sales in the Passenger Car division

As part of the Pumps and Engine Components business segment, the Passenger Car division (excluding Powder Metallurgy) benefited from a 25.8 percent increase in sales to € 208.9 million owing to increased demand for variable oil pumps, start-stop pumps as well as numerous new product launches. The Truck and Off-Highway division continued its strong growth in sales from the previous quarters, increasing sales to € 31.5 million. In the Powder Metallurgy division, sales improved 22.7 percent on last year's figure of € 22.8 million to € 28.0 million.

Increase in operating result (EBIT) to €26.7 million

The Pumps and Engine Components business segment reported an increase in the financial year 2011 in the operating result before interest and taxes (EBIT) compared to the previous year of €4.4 million or 20.0 percent to €26.7 million (previous year: €22.2 million). The return on sales fell to 9.9 percent (previous year: 10.5 percent). The main reasons for this were increased launch costs.

Adjusted EBIT rose by 15.6 percent

The adjusted operating result before interest and taxes (adjusted EBIT) of the Pumps and Engine Components business segment in 2011 compared to the previous year rose by €3.6 million or 15.6 percent to €26.7 million (previous year: €23.1 million). The EBIT margin totalled 10.0 percent (previous year: 10.9 percent).

Special effects 2011 and 2010

Depreciation arising from the purchase price allocation totalled a rounded €0.0 million in the 2011 financial year (previous year: €0.8 million). Compared to the previous year, no restructuring costs were accrued in the financial year 2011.

Reconciliation statement: Pumps and Engine Components

K EUR	2011	2010
Sales	268,340	211,591
Operating result (EBIT)	26,664	22,225
Total PPA ¹⁾	40	827
PPA ¹⁾ customer base	-	522
PPA ¹⁾ patents/licences	-	174
PPA ¹⁾ fixed assets	40	131
Restructuring expenses	-	45
Total adjustments	40	872
Adjusted EBIT	26,704	23,097
as % of sales	10.0%	10.9%
Other write-offs	6,962	6,491
Adjusted EBITDA	33,666	29,588
as % of sales	12.5%	14.0%

¹⁾ Depreciation arising from the purchase price allocation.

Brake Discs**17.2 percent increase in sales**

During the financial year 2011, sales earned by the Brake Discs business segment compared to the previous year rose by 17.2 percent to €92.2 million (previous year: €78.7 million).

Key figures Brake Discs

K EUR	2011	2010	Change in %
Sales	92,235	78,683	17.2
EBITDA	3,562	3,276	8.7
as % of sales	3.9%	4.2%	
EBIT	665	271	145.4
as % of sales	0.7%	0.3%	
Adjusted EBITDA ¹⁾	3,562	3,443	3.5
as % of sales	3.9%	4.4%	
Adjusted EBIT ¹⁾	785	573	37.0
as % of sales	0.9%	0.7%	

¹⁾ Adjusted for special effects, cf. reconciliation statement for business segment Brake Discs.

This increase was mainly due to a marked increase in demand for ready to install and composite brake discs. Sales growth was also partly due to higher scrap prices, part of which was passed on to customers with a time lag in the form of surcharges. Sales of composite brake discs rose from approximately 140,800 to some 147,400 units. This represents an increase of 4.6 percent. With a growth rate of 32.6 percent, sales of processed brake discs rose even more significantly compared to the previous year: by about 436,600 to about 1,777,000.

Increased EBIT margin

The Brake Discs business segment reported in the financial year 2011 an improvement of the operating result before interest and taxes (EBIT) compared to the previous year by €0.4 million to €0.7 million. The return on sales rose to 0.7 percent (previous year: 0.3 percent). Increased coke prices and start-up costs of a new production facility both had a negative impact.

Adjusted EBIT improves by €0.2 million

In 2011, the adjusted operating result before interest and tax (adjusted EBIT) improved by a good €0.2 million compared to the previous year to €0.8 million. This increase resulted in an EBIT margin of 0.9 percent (previous year: 0.7 percent).

Reconciliation statement: Brake Discs

K EUR	2011	2010
Sales	92,235	78,683
Operating result (EBIT)	665	271
Total PPA ¹⁾	120	135
PPA ¹⁾ customer base	-	-
PPA ¹⁾ patents/licences	-	-
PPA ¹⁾ fixed assets	120	135
Restructuring expenses	-	167
Total adjustments	120	302
Adjusted EBIT	785	573
as % of sales	0.9%	0.7%
Other write-offs	2,777	2,870
Adjusted EBITDA	3,562	3,443
as % of sales	3.9%	4.4%

¹⁾ Depreciation arising from the purchase price allocation.

Special effects 2011 and 2010

Depreciation arising from the purchase price allocation only totalled a rounded €0.1 million in 2011 (previous year: €0.1 million). In the financial year 2010 special effects also affected restructuring costs of a rounded €0.2 million.

SHW AG individual financial statements

The consolidated Group management report and the SHW AG management report for the 2011 financial year have been compiled in accordance with § 315 Para. 3 of the German Commercial Code (Handelsgesetzbuch, HGB) in conjunction with § 298 Para. 3 of the HGB. The consolidated annual financial statements, consolidated Group management report and SHW AG management report will be published on the electronic Federal Gazette.

The following figures and explanations refer to the individual financial statements of the SHW AG compiled in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch, HGB) and the German Stock Corporation Act (Aktiengesetz, AktG).

Explanations of earnings position

SHW AG income statement

K EUR	2011	2010	Change absolute
General administration expenses	-1,580	-685	-895
Other operating income	1,324	320	1,004
Other operating expenses	-691	-76	-615
Income from investments	23,848	16,535	7,313
Interest result	-337	318	-655
Result from ordinary activities	22,564	16,412	6,152
Extraordinary result	-1,243	0	-1,243
Taxes on income and earnings	-4,849	-4,495	-354
Other taxes	-808	0	-808
Net income for the year	15,664	11,917	3,747

The result from ordinary activities increased by €6.2 million to €22.6 million compared to the previous year. This is primarily due to the increase in income from investments from the profit transfer agreement with SHW Zweite Beteiligungs GmbH of €21.9 million (previous year: €16.7 million).

Furthermore the income from investments figure contains income totalling €2 million from the sale of shares of SHW AG in SHW Management Beteiligungs GmbH & Co. KG to SHW Holding L.P.

The increase in general administration expenses mainly resulted from internal takeovers of SHW Automotive GmbH and SHW Zweite Beteiligungs GmbH employees. Conversely, contracts on the provision of SHW AG services to SHW Group companies were revised which led to an increase in other operating income.

Net income for the year was negatively impacted by extraordinary expenses for the provision of services and fees totalling €1.2 million (previous year €0 million) relating to SHW AG's IPO. Further costs of €0.8 million in real estate transfer tax due to a contribution in kind of shares to SHW Zweite Beteiligungs GmbH in relation to the IPO were accrued by the Company.

Explanations of net assets and financial position

SHW AG balance sheet (summarised)

K EUR	2011	2010	Change absolute
Fixed assets	74,715	58,358	16,357
Current assets including prepaid expenses	81,768	69,407	12,361
Total assets	156,483	127,765	28,718
Equity	80,072	62,242	17,830
Accruals and liabilities	76,411	65,523	10,888
Total capital	156,483	127,765	28,718

Fixed assets mainly include the interest in SHW Zweite Beteiligungs GmbH totalling €74.6 million (previous year: €55.7 million). This increase compared to the previous year is a result of SHW Zweite Beteiligungs GmbH reinvesting remitted profit in its capital reserve.

Current assets mainly includes receivables from profit transfers as well as interest-bearing loans against SHW Zweite Beteiligungs GmbH.

SHW AG's equity increased by €17.8 million. This increase is a result of net income for the 2011 financial year and capital increase effective from 8 June 2011 in connection with the contribution in kind of shares to SHW Zweite Beteiligungs GmbH totalling €2.2 million. The equity ratio is now at 51.2 percent, compared to 48.7 percent last year.

The increase in accruals and liabilities is primarily due to an increase in loan liabilities to SHW Automotive GmbH of €15.9 million to €65.0 million. At the same time, liabilities to banks resulting from a refinancing loan were reduced by €6.8 million to €9.0 million.

Reference to Dependent Company report pursuant to § 312 Para. 3 Sent. 3 of the German Stock Corporation Act

The Management Board of SHW AG prepared a report on relationships with affiliated companies which includes the following final declaration:

"The Management Board declares that according to the circumstances known to the Management Board at the time at which the Company entered into a transaction or took or refrained from taking a certain measure, the Company received adequate consideration for each such transaction and did not suffer any disadvantage resulting from the fact that the measures were or were not taken."

Non-financial performance indicators

Employees

SHW takes on more employees

The multitude of new product launches and the high capacity utilisation are also reflected in the SHW Group's employment figures. The yearly average number of employees increased at a Group level from 1,017 to 1,063.

In Germany, the number of employees on average rose by 2.7 percent to 946. The overwhelming majority of these employees were assigned to the two domestic locations of the Pumps and Engine Components business segment. The number of employees at our overseas locations increased by 21.9 percent to 117 employees.

At the domestic locations of the Pumps and Engine Component business segment, the average number of employees rose from 531 to 560. Our Canadian joint venture STT, which is also part of the Pumps and Engine Component business segment, had an average of 117 employees pro rata. The number of employees at the two German locations of the Brake Discs business segment remained virtually the same with 347 (previous year: 353).

Employee productivity, defined as sales per employee (annual average), improved by 18.8 percent from € 285,000 to € 339,000 compared to the previous year.

As at 31 December 2011, SHW employed 40 apprentices in Germany (previous year: 39). The focus for new hires was on apprenticeship industrial mechanics.

In 2011, seven employees celebrated 40 years, 26 employees 25 years, and 66 employees 10 years of working for the Company. This is proof for marginal fluctuation and long periods of service among employees.

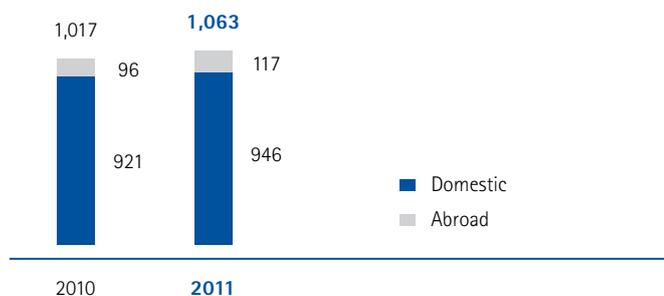
Research and Development

A leader in innovative and highly-efficient vehicle components

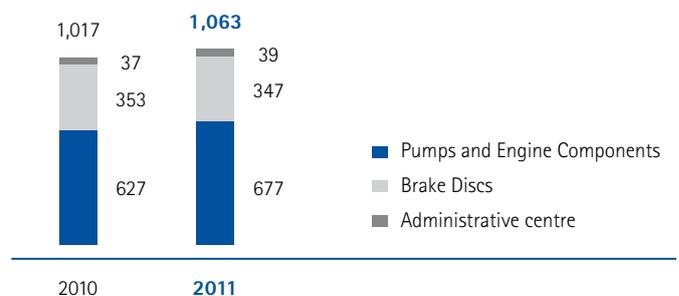
SHW Group customers are faced with the challenge of having to develop sustainable concepts to be able to react to growing shortages in global oil reserves as well as to meet future CO₂ standards and fuel consumption regulations. They are focusing on measures to reduce fuel consumption, in particular by increasing the efficiency of combustion engines and reducing vehicle weight. The development and marketing of alternative drive concepts is also becoming increasingly significant.

The SHW Group is the leader in innovative and highly-efficient engine and gear components as well as the technological leader in the brake discs for high-performance vehicles and sports cars.

Employees domestic and abroad



Employees by segments



In the Pumps and Engine Components business segment, the Company has contributed to a significant reduction in CO₂ emissions from motor vehicles over the past ten years through its continuous innovations. Specifically, the SHW Group has succeeded in continually optimising oil pumps. The first variable engine oil pump, the production of balancer shafts with integrated oil pumps, the first oil pumps for dual-clutch gearboxes in mass production, the first oil/vacuum pump as well as the first map-controlled oil pumps are just a few of the key innovations in this field. These technical innovations have enabled us to make a major contribution to improving the efficiency of engines and gearboxes and thereby reducing fuel consumption.

The SHW Group was one of the first to recognise the future significance of hybrid vehicles and delivered the first electric gearbox oil pump for the first European hybrid vehicle in 2008. Today this technology is widely used in the start-stop function of vehicles with automatic gearboxes. The SHW Group has long-standing experience in powder metallurgy and is the only manufacturer in Europe to have built up a mass production for highly wear-resistant sintered aluminium components. The components manufactured in this process are characterised by their particularly low weight.

The Brake Discs business segment has also produced a whole host of innovations. Thus SHW has been able to bring the first ventilated brake disc onto the market. This was followed by the first composite brake disc with steel pins developed in collaboration with BMW Motorsport for the M5. The advantage of a composite brake disc is the low weight in comparison with conventional brake discs made of iron. By using aluminium for the brake disc pot, the vehicle's overall weight can be reduced by up to 8 kg. Lower weight reduces the unsuspended mass of a vehicle which improves the responsiveness of the spring and damper unit and positively affects the driving dynamics of the vehicle.

Intellectual property secured for the long-term

The SHW Group protects its expertise and intellectual property relating to pumps and other engine components, brake discs, alloys and sintered metals. The SHW Group is the owner of numerous industrial property rights or applications for such rights, including patents, utility models and industrial designs.

These are mainly registered in Germany and various countries of the European Union, as well as in the USA, Canada, Mexico and Asia. Some patents are held jointly with customers (Porsche, BMW and Audi), but each party is entitled to unrestricted use thereof.

Significant expansion of R&D activities in 2011

During the 2011 financial year, the SHW Group significantly increased spending on research and development by 44.8 percent to €8.0 million (previous year: €5.5 million). This increase is mainly due to specific development orders from customers.

The main focus of spending in the Pumps and Engine Components business segment was on the development of variable oil pumps, start-stop pumps, oil vacuum pumps, balancer shafts and camshaft phasers. In the Brake Discs business segment, focus was on the further development of lightweight brake discs.

Focus on innovations for reducing CO₂ emissions

The aim of Research and Development is to develop products which enable our customers to achieve their goals in reducing fuel consumption and CO₂ emissions.

Another focus of our development activities is adapting hydraulic pumps produced by SHW for use in truck and off-highway applications (truck, agricultural and construction machinery, stationary engines and wind turbines). In addition, SHW is working intensively on new uses for pumps in hybrid and electric vehicles.

In the Brake Discs business segment development work is focused on producing cost-effective, ready-to-install composite brake discs for series production. This is happening firstly by means of the aforementioned further development of existing designs and secondly by means of developing new construction and assembly concepts.

The SHW Group expects that market entry barriers will continue to increase owing to increasing product characteristic requirements for pumps, such as those required to adapt to new drive concepts.

Remuneration report

The following remuneration report is an integral part of the consolidated (Group) management report. It describes the remuneration structure for members of the Management Board and Supervisory Board together with their individual remuneration elements. The report complies with the requirements of the German Commercial Code (HGB) and the International Financial Reporting Standards (IFRS); furthermore, it considers the recommendations of the German Corporate Governance Code.

Management Board

Regulation of remuneration in connection with the formation of SHW AG

SHW AG was formed as a result of a conversion resolution as of 24 February 2011 in the process of changing the legal form of Schwäbische Hüttenwerke Beteiligungs GmbH. The change of legal form became effective on 8 June 2011 by registration with the commercial register.

At its constituent meeting on 28 February 2011 the Supervisory Board of SHW AG appointed the members of the Management Board and resolved upon the corresponding service contracts for Management Board members, including their remuneration. The Supervisory Board consulted external advisers for the arrangement of the remuneration system for the Management Board and – in anticipation of the subsequent initial public offering of the company in July 2011 – considered from the outset the legal framework relevant for a listed company.

At the time of their appointment to the Management Board of SHW AG, all members of the Management Board of SHW AG were – and subsequently continued to be – managing directors of Schwäbische Hüttenwerke Automotive GmbH, an indirect subsidiary of SHW AG and of Schwäbische Hüttenwerke Beteiligungs GmbH, respectively. Furthermore, until the change of legal form converting Schwäbische Hüttenwerke Beteiligungs GmbH into SHW AG, each of them was also a managing director of Schwäbische Hüttenwerke Beteiligungs GmbH. Until the change of legal form became effective, the remuneration for their activities within SHW Group was governed by a managing director's contract with

Schwäbische Hüttenwerke Automotive GmbH which also remunerated their activities as managing directors of Schwäbische Hüttenwerke Beteiligungs GmbH and as Management Board members of future SHW AG prior to the effectiveness of the change of legal form, for which the Management Board members of SHW AG do not receive a separate remuneration.

Each managing director's contract with Schwäbische Hüttenwerke Automotive GmbH was cancelled and replaced by the service contract with SHW AG as of the date when the change of legal form converting Schwäbische Hüttenwerke Beteiligungs GmbH into SHW AG became effective by registration with the commercial register on 8 June 2011. The fixed remuneration set in the respective service contracts is payable for the first time for the period after 1 June 2011, and, from that time on, replaces the equal amount of fixed remuneration payable according to the managing director's contract with Schwäbische Hüttenwerke Automotive GmbH. The variable remuneration set in the service contract is payable for the first time for the full financial year of 2011; in this respect, it replaces the variable remuneration set in the managing director's contract with Schwäbische Hüttenwerke Automotive GmbH for the financial year of 2011, which ceases to be applicable due to a corresponding regulation in the associated termination agreement.

Remuneration system

In compliance with the requirements of the Stock Corporation Act and the recommendations of the German Corporate Governance Code, the remuneration of the Management Board members consists of fixed (non-performance related) and variable (performance-related) elements. 40 percent of the variable remuneration is made up of an annual bonus and 60 percent consists of a rolling sustainability bonus half based on a two year and half based on a three year assessment basis. The remuneration elements are configured so that, both separately and in their entirety, they are suitable with regard to the success and future prospects of SHW AG taking into account the tasks of the individual Management Board member and their personal performance together with the economic situation.

Non-performance-related remuneration elements

The members of the Management Board receive an annual fixed remuneration which is paid in twelve equal monthly instalments. In addition, the members of the Management Board receive supplementary benefits in the form of a company car, insurance premium subsidies or insurance policies for the benefit of the Management Board members with the premiums paid by the Company.

Variable remuneration elements

For the performance-related remuneration, a target bonus is set in the service contract which corresponds to the performance-related remuneration when the objectives are completely (100 percent) met.

The first element of the variable management remuneration is the annual bonus for each financial year, which accounts for 40 percent of the target bonus. It is determined based on achieving objectives, which are related to certain key figures of the company and its subsidiaries and associated companies (together SHW Group). 70 percent of it depends on the change in SHW Group's EBITDA and 30 percent of it depends on the change in the net debt of SHW Group. Relevant comparative figures for assessing whether the objectives have been achieved are the EBITDA and net debt targets for SHW Group in the annual budget approved by the Supervisory Board for the relevant financial year. The annual bonus to be paid for a financial year is calculated and subsequently paid out in the following year on the basis of the audited and approved consolidated annual financial statements of SHW AG. The Supervisory Board can give appropriate consideration to extraordinary developments when assessing whether objectives have been achieved. This determined amount is reduced if the financial targets contained in the credit and external financing agreements of SHW Group (so-called covenants) in the relevant

financial year are not met. If the objectives are exceeded, the annual bonus can exceed the related pro rata target bonus; however, the annual bonus cannot amount to more than twice the pro rata target bonus.

The second element of the variable remuneration is the so-called sustainability bonus, which comprises 60 percent of the target bonus. In turn, half the sustainability bonus is calculated on a two year and the other half on a three year assessment basis. The amount is determined by the share price development of the Company in relation to the DAX benchmark index for the automobile sector (performance) in the running financial year and the following year (two year basis) and in each financial year and the two following years (three year basis), respectively. The relevant price is calculated as the 90 day average price at the end of the respective year; the basis for 2011 is the issue price of the share at the initial public offering. The objectives are met in full when the share price development in the applicable time period corresponds to the development of the benchmark index. The sustainability bonus rises or falls as compared to the pro-rata target bonus in the ratio in which the market price of the SHW share gains or loses against the benchmark index during the applicable time period; however, it cannot amount to more than 150 percent of the pro-rata target bonus. The calculated sustainability bonus will be paid out two months after the end of the applicable assessment period.

Total remuneration of the Management Board for the 2011 financial year

EUR	Non-performance-related remuneration elements ¹⁾		Performance-related remuneration elements ²⁾		Annual remuneration
	Annual fixed remuneration	Supplementary benefits	Annual bonus ³⁾	Sustainability bonus ⁴⁾	Total
Dr.-Ing. Wolfgang Krause	276,000	15,401	73,720	99,000	464,121
Andreas Rydzewski	201,000	12,225	44,679	60,000	317,904
Oliver Albrecht	176,713 ⁵⁾	11,502	38,071 ^{5),6)}	52,500 ^{5),7)}	278,786
Total	653,713	39,128	156,470	211,500	1,060,811

¹⁾ For the months of January to May, remuneration according to the managing director's contract with Schwäbische Hüttenwerke Automotive GmbH; for June to December, remuneration according to the service contract with SHW AG (for more information see the paragraph "Remuneration report – Management Board – Regulation of remuneration in connection with the formation of SHW AG").

²⁾ Variable remuneration for the full financial year 2011 according to the service contract with SHW AG, which replaces the variable remuneration according to the managing director's contract with Schwäbische Hüttenwerke Automotive GmbH for the financial year 2011 (for more information see the paragraph "Remuneration report – Management Board – Regulation of remuneration in connection with the formation of SHW AG").

³⁾ Figures according to the consolidated annual financial statements.

⁴⁾ Value when objectives are 100% met (for more on calculating the sustainability bonus see the paragraph "Remuneration report – Management Board – Variable remuneration elements").

⁵⁾ Pro-rata temporis: Mr Oliver Albrecht was appointed as Managing Director of Schwäbische Hüttenwerke Automotive GmbH effective as of 14 February 2011.

⁶⁾ This includes the sum of €8,750.00, which was awarded to Mr Oliver Albrecht for the financial year 2011 as non-performance-related remuneration.

⁷⁾ This includes the sum of €13,125.00, which was awarded to Mr Oliver Albrecht for the financial year 2011 as non-performance-related remuneration.

Pension commitments

A contractual pension agreement exists only with Dr. Krause, the Chairman of the Management Board and is based on the entitlement to retirement benefits in a service contract from the year 2000. It mainly contains the following provisions:

The pension begins with the termination of his function as member of the Management Board when reaching the age of 65, unless occupational disability or an inability to work occurs as defined in the statutory pension insurance or in the case of a dependant's pension in the event of death. The pension will be reduced accordingly in case of termination before reaching the age of 65. Should an occupational disability or an inability to work arise before retirement age is reached, the Chairman of the Management Board will receive a disability pension in the amount of the pension commitment. In case of death during his term on the Management Board or after entering retirement, his widow will receive a dependant's pension in the amount of 60 percent and any children entitled to maintenance will receive an orphan's pension in the amount of 20 percent of the agreed sum. If there are two or more orphans the orphan's pension will amount to 40 percent of the agreed sum when combined, and is to be divided equally among the orphans. If no widow's pension is granted, the orphan's pension rises in principle to 30 percent per orphan, or if there are three or more orphans to a combined total of 80 percent, divided equally. Should the Chairman of the Management Board resign before reaching retirement age, the non-forfeiture of pension expectancy conforms to the legal regulations. Pension accruals totalling €29 thousand are in place for the pension commitments described above. The cash value of this pension commitment is €32 thousand.

Other benefits in the event of death

Should a Management Board member die during the term of his appointment his widow, or alternatively his dependants, have a claim to the fixed remuneration due for the month of his death and the two following months.

Benefits in the event of termination of the service contracts

Should the appointment of a Management Board member be revoked prematurely for good cause, the service contracts of the Management Board members provide that, at the discretion of the Supervisory Board, the Company may either release the member from his services on full pay (and entitlement to unused holiday time) or terminate the service contract early and pay a settlement in the amount of two years of remuneration (including supplementary benefits), but not exceeding the remuneration due for the remaining term of the contract.

Furthermore, should a third-party purchaser complete a so-called squeeze-out at SHW AG, the service contracts of the Management Board members give the Management Board members the right to resign from their office and to terminate their service contract. When exercising this right to terminate, the Management Board member receives a settlement in the amount of two years of remuneration (including supplementary benefits), but not exceeding the remuneration due for the remaining term of the contract. For the purposes of this provision, a third-party purchaser means a purchaser that is neither SHW Holding L.P., which is currently the main shareholder of SHW AG, nor an affiliated company.

Other remuneration elements

Other remuneration elements were not granted. A managing director's contract was in place between each Management Board member and Schwäbische Hüttenwerke Automotive GmbH until the change of legal form of Schwäbische Hüttenwerke Beteiligungs GmbH into SHW AG became effective; the remuneration granted thereunder also remunerated activities as a member of the Management Board of future SHW AG before the change of legal form became effective (for more information see the paragraph "Regulation of remuneration in connection with the formation of SHW AG" on page 34). Other than that, in the year under review, no Management Board member received benefits or corresponding promises from a third party for their activities as a member of the Management Board or was granted additional remuneration for taking on tasks in the Group companies of SHW Group. In the year under review, the members of the Management Board did not receive loans or advance payments, nor were contingent liabilities entered into in their favour.

Supervisory Board

The remuneration of the Supervisory Board is determined by the General Meeting; it is set forth in § 14 of the Company's Articles of Association.

Regular members of the Supervisory Board receive a fixed annual remuneration amounting to €20,000. The Chairman of the Supervisory Board receives twice this amount (€40,000), the Vice Chairman receives one and a half times the amount (€30,000). In deviation from Clause 5.4.6 Sent. 4 of the German Corporate Governance Code, a variable remuneration is not provided (see the Declaration of Conformity pursuant to § 161 of the German Stock Corporation Act). Supervisory Board members who belong to a committee of the Supervisory Board additionally receive an attendance fee of €500 for each time they attend a meeting of the respective committee; the Chairman of the respective committee receives twice this amount (€1,000) and the Vice Chairman of the respective committee, if appointed, receives one and a half times this amount (€750). Supervisory Board members attending more than one committee meeting (including different committees) on a day are only granted a total of one attendance fee for that day. Furthermore, the company refunds the Supervisory Board members for any expenses incurred in the exercise of their Supervisory Board duties as well as any VAT payable on their remuneration and expenses.

No member of the Supervisory Board received remuneration or advantages for services personally rendered, in particular for consultation and mediation services for SHW AG or its subsidiaries, during the year under review. Members of the Supervisory Board were not granted loans or advance payments from SHW AG during the year under review.

All current members of the Supervisory Board of SHW AG are also members of the Supervisory Board of Schwäbische Hüttenwerke Automotive GmbH, an indirect subsidiary of SHW AG. For periods during which the members of the Supervisory Board of SHW AG are also members of the Supervisory Board of Schwäbische Hüttenwerke Automotive GmbH, members receive remuneration for their activities as members of the Supervisory Board of Schwäbische Hüttenwerke Automotive GmbH instead of the Supervisory Board remuneration otherwise payable, excluding the attendance fee for Supervisory Board meetings of Schwäbische Hüttenwerke Automotive GmbH. The attendance fee amounts to €500 for regular members of the Supervisory Board; the Chairman of the Supervisory Board receives twice this amount, the Vice Chairman receives one and a half times this amount.

Total remuneration for the Supervisory Board in the financial year 2011

EUR	Annual fixed remuneration ¹⁾	Attendance fee for the presiding and audit committees	Total ²⁾
Name			
Anton Schneider Chairman of the Supervisory Board Chairman of the Executive Committee	33,333 ³⁾	7,000	40,333
Dr. Martin Beck Deputy Chairman of the Supervisory Board	25,000 ³⁾	4,000	29,000
Dr. Hans Albrecht	16,667 ³⁾	-	16,667
Christian Brand Chairman of the Audit Committee	19,167	3,000	22,167
Edgar Kühn	19,167	3,000	22,167
Ernst Rieber	19,167	-	19,167
Total	132,501	17,000	149,501

¹⁾ For January and February, remuneration for the activities on the Supervisory Board of Schwäbische Hüttenwerke Automotive GmbH; for March to December, remuneration for the activities on the Supervisory Board of SHW AG.

²⁾ Excluding amounts reimbursed as expenses or VAT payable on remuneration.

³⁾ Exclusively remuneration for the activities on the Supervisory Board of SHW AG for March to December, since for January and February, no remuneration was paid for the activities on the Supervisory Board of Schwäbische Hüttenwerke Automotive GmbH.

Disclosures required by takeover law

This section contains the disclosures according to §§ 289 Para. 4, 315 Para. 4 of the HGB and the Management Board's report in accordance with § 176 Para. 1 Sent. 1 of the AktG (Aktiengesetz – German Stock Corporation Act).

Composition of subscribed capital

The company's subscribed capital amounts to €5,851,100.00. It is divided into 5,851,100 ordinary bearer shares with a pro rata amount of the share capital of €1.00. The shares are fully paid up. There are no different share classes. All shares grant the same rights and duties. Every share grants one vote at the General Meeting.

Restrictions regarding voting rights or the transfer of shares

In connection with the Company's IPO in July 2011, SHW AG undertook towards the syndicate banks mandated with the placement of the shares, by a customary market protection clause generally not to issue, sell, offer, agree to sell, or otherwise divest of, shares from a capital increase or treasury shares that were not part of the initial placement within the IPO or announce a respective offer for a period of six months after the admission of the shares to trading on 6 July 2011, i.e., until and including 6 January 2012. In addition, for a further period of six months, i.e., until and including 6 July 2012, the Company may not carry out such measures, as far as legally permissible and practically viable, without the prior consent of the banks mandated with the placement of the shares.

Furthermore, as SHW AG's majority shareholder, SHW Holding L.P./Hamilton, Bermuda, committed towards the syndicate banks, in accordance with a so-called lock-up agreement in connection with the IPO, to neither directly nor indirectly offer, sell or market the Company's shares, or to announce such actions, for a period of six months after the shares had been admitted to trading without the prior consent of the syndicate banks. This lock-up agreement expired on 6 January 2012.

Finally, a total of seven other selling shareholders, who sold shares in the context of the Company's IPO and were employed by the Company at that time, committed under a lock-up agreement with the syndicate banks to neither directly nor indirectly offer, sell or market the Company's shares, which they held at the time of admission of the Company's shares to trading, or to announce such actions, for a period of twelve months after the admission of the Company's shares to trading, i.e. until and including 6 July 2012, without the prior consent of the syndicate banks. A total of 71,588 SHW AG shares (approximately 1.2 percent of the share capital and voting rights) are affected by this lock-up agreement.

Interests in the share capital which exceed 10 percent of the voting rights

According to the voting rights notification as of 12 July 2011, SHW Holding L.P., Hamilton/Bermuda directly held 53.51 percent of the voting rights in SHW AG on 11 July 2011.

Furthermore, according to the voting rights notifications as of 12 July 2011, due to the attribution of SHW Holding L.P.'s directly held voting rights according to § 22 Para. 1, No. 1, Para. 3 of the WpHG (Wertpapierhandelsgesetz – German Securities Trading Act), the following persons and companies indirectly held 53.51 percent of the voting rights in SHW AG on 11 July 2011:

NCP Fund I (Delaware), L.P., Wilmington/Delaware/USA, NCP Fund I (F&F), L.P., Wilmington/Delaware/USA, NCP Fund I (Bermuda), L.P., Hamilton/Bermuda, NCP G.P., L.P., Wilmington/Delaware/USA, NCP SLP, L.L.C., Wilmington/Delaware/USA, NCP G.P. Corporation, Wilmington/Delaware/USA, Linus Verwaltungs GmbH, Munich, Germany and Mr Reinhold Eder, Munich, Germany.

In connection with SHW AG's IPO and in order to facilitate an over-allotment, SHW Holding L.P. made available to the syndicate banks which were mandated with the placement of the shares a total of 280,000 shares by way of a securities loan, combined with an option for the syndicate banks to finally purchase these shares (a so-called green shoe option). The syndicate banks made no use of this green shoe option and repaid the securities loan on 16 August 2011. Consequently, SHW Holding L.P.'s shareholding in SHW AG and the shareholding of the aforementioned persons and companies held indirectly via SHW Holding L.P. increased to approx. 58 percent of voting rights in SHW AG on 16 August 2011.

Further shareholdings in SHW AG which exceed 10 percent of voting rights are not known to the Management Board.

Shares with special rights which grant controlling powers

No shares with special rights that grant controlling powers were issued.

Method of exercising voting rights if employees hold shares and do not exercise their controlling rights directly

There is no voting rights control in the case that employees who hold an interest in the share capital do not directly exercise their controlling rights.

Legal regulations and provisions in the Articles of Association on the appointment and removal of members of the Management Board and amendment of the Articles of Association

According to the Articles of Association, the Management Board of SHW AG consists of one or more members (§ 6 Para. 1 of the Company's Articles of Association). The Supervisory Board determines the number of Management Board members, appoints them and removes them. Their appointment lasts for a maximum of five years; reappointment or extension of their term is permissible for a maximum of five years in each case (cf. in particular § 84 Para. 1 Sent. 1 to 4 AktG (Aktengesetz – German Stock Corporation Act)). A simple majority of votes in the Supervisory Board is required to appoint a Management Board member; the Chairman of the Supervisory Board has the deciding vote in the case of a tied vote (§ 11 Para. 7 of the Company's Articles of Association). If several persons are appointed to the Management Board, the Supervisory Board can appoint one member as the Chairman of the Management Board (§ 84 Para. 2 AktG, § 6 Para. 2 of the Company's Articles of Association) as well as a further member of the Management Board as Vice Chairman (§ 6 Para. 2 of the Company's Articles of Association). Should a required Management Board member be missing, the court is to appoint a member (§ 85 Para. 1 Sent. 1 AktG) in urgent cases on the request of an involved party. The Supervisory Board can revoke the appointment of a Management Board member and the nomination for Chairman of the Management Board for good cause (cf. in particular § 84 Para. 3 Sent. 1 and 2 AktG).

Amendments to the Articles of Association have to be resolved upon by the General Meeting (§ 179 Para. 1 Sent. 1 AktG). At SHW AG, a resolution passed at the General Meeting which amends the Articles of Association requires a simple majority of cast votes and of the share capital represented at the passing of the resolution (§ 179 Para. 2 AktG in conjunction with § 20 Para. 2 of the Articles of Association), unless a larger majority is required by mandatory legal regulations. This applies in cases such as a change to the object of business of the Company (§ 179 Para. 2 Sent. 2 AktG) as well as the creation of authorised capital (§ 202 Para. 2 Sent. 2 AktG) or contingent capital (§ 193 Para. 1 Sent. 1 AktG), for which a majority of at least three quarters of the capital represented at the passing of the resolution is required. The Supervisory Board is authorised to resolve upon amendments to the Articles of Association which only affect their wording (§ 179 Para. 1 Sent. 2 AktG in conjunction with § 13 of the Company's Articles of Association).

Powers of the Management Board to issue or buy back shares

According to § 4 of the Company's Articles of Association, the Management Board is authorised to increase the Company's share capital once or several times up to a total of € 2,925,550.00 (in words: two million nine hundred and twenty five thousand five hundred and fifty euros) by issuing up to 2,925,550 (in words: two million nine hundred and twenty five thousand five hundred and fifty) new bearer shares in exchange for contributions in cash and/or in kind through 28 February 2016 (Authorised Capital 2011). The Management Board is authorised, with the consent of the Supervisory Board, to determine further details regarding capital increases from the Authorised Capital 2011 and their implementation. The profit entitlement of the new shares can be set regardless of § 60 Para. 2 AktG, which states that, if shares are issued throughout the year, there can be only a pro-rata dividend entitlement for the financial year of issue; therefore, regardless of this, shares issued throughout the year can be awarded with full profit entitlement or, alternatively, with profit entitlement only from the beginning of the following year. In principle, when issuing new shares, the shareholders are entitled to a statutory subscription right in proportion to their interest in the share capital; however, the Management Board is authorised, with the consent of the Supervisory Board, to wholly or partially exclude the subscription right in certain cases, which are explained in more detail in Authorised Capital 2011.

By resolution of the extraordinary General Meeting of 14 June 2011, the Management Board was authorised to issue, once or several times, bearer or registered convertible bonds, warrant bonds, participation rights and/or profit participation bonds (and combinations of these instruments) for a nominal amount of € 125,000,000.00 (in words: one hundred and twenty-five million euros) with or without maturity and to grant and impose to the holders and creditors of bonds conversion and option rights for new no par-value bearer shares of the Company with a pro rata amount of share capital of up to € 2,925,550.00 (in words: two million nine hundred and twenty five thousand five hundred and fifty euros) in accordance with the provisions of the bond conditions.

The bonds are to be issued in exchange for cash payment. As long as the take-up of funds serves Group finance interests, the bonds can also be issued by companies controlled by the Company or in which the Company has a majority; in this case, the Management Board is authorised, with the consent of the Supervisory Board, to take on the guarantee for the bonds as well as give other declarations and take actions required for a successful issuing and to grant holders conversion and option rights for no par-value bearer shares of the Company. In principle, the shareholders are entitled to a statutory subscription right to the aforementioned bonds in proportion to their interest in the share capital; however, the Management Board is authorised, with the consent of the Supervisory Board, to wholly or partly exclude the subscription right in certain cases, which are explained in more detail in the resolution of the General Meeting. The extraordinary General Meeting of 14 June 2011 created a contingent capital amounting to € 2,925,550.00 (Contingent Capital 2011) to serve the aforementioned conversion and option rights and conversion obligations by the Company.

In addition, by resolution of the extraordinary General Meeting of 14 June 2011, SHW AG is, according to § 71 Para. 1 No. 8 AktG, authorised to purchase, with the consent of the Supervisory Board, treasury shares amounting to a maximum of 10 percent of the share capital of the Company existing at the time of the authorisation. Shares purchased based on this authorisation must not, together with the other treasury shares which the Company has purchased and still possesses, at any time exceed more than 10 percent of the share capital. A purchase can take place on the stock exchange or by means of a public offer to all shareholders and/or by means of a public request to submit offers for sale. Treasury shares purchased by the Company can be resold, or cancelled without a further resolution of the General Meeting. The Management Board is authorised, in the case of reselling treasury shares, to wholly or partially exclude the shareholders' subscription rights in certain cases, which are explained in more detail in the General Meeting's resolution, with the consent of the Supervisory Board. According to the resolution of the extraordinary General Meeting as of 14 June 2011, in addition to the aforementioned authorisation to purchase treasury shares according to § 71 Para. 1 No. 8 AktG, in addition to the methods described there, it is permissible to purchase shares of the Company with the use of derivatives.

For this purpose, the Management Board is authorised, with the consent of the Supervisory Board, to sell options which, when exercising the option, obligate the Company to purchase the shares of the company (put options). Furthermore, the Management Board is authorised, with the consent of the Supervisory Board, to purchase options which give the Company the right to purchase shares of the Company when exercising the option (call options) as well to purchase shares using put options, call options and/or a combination of put and call options. Purchases of shares using put options, call options or a combination of put and call options are restricted to shares amounting to a maximum of 5 percent of the share capital existing at the time of the authorisation. The term of the options must be chosen in such way that the purchase of shares of the Company in exercising the options does not take place after 13 June 2016.

Material agreements which are conditional upon the event of a change of control as a result of a takeover bid

As of 20 March 2008, SHW AG (then in the legal form of a GmbH), Schwäbische Hüttenwerke Zweite Beteiligungs GmbH and Schwäbische Hüttenwerke Automotive GmbH entered into a credit and collateral pooling agreement with UniCredit Bank AG (operating at the time as Bayerische Hypo- und Vereinsbank AG), UniCredit Banque Luxembourg Société Anonyme (operating at the time as HVB Banque Luxembourg Société Anonyme), Commerzbank AG, Baden-Württembergische Bank, Kreissparkasse Ostalb and DZ Bank Deutsche Zentral-Genossenschaftsbank. As part of this credit agreement, SHW AG and Schwäbische Hüttenwerke Zweite Beteiligungs GmbH were granted refinancing loans of €26.0 million and €29.0 million, respectively, and Schwäbische Hüttenwerke Automotive GmbH received an operating credit of €30.0 million. The refinancing loans and operating credit mature on 31 December 2013. The credit agreement can be terminated by the banks prematurely in the case of a change in the shareholder structure of SHW AG, if the shares in SHW AG held indirectly by Nordwind Capital through SHW Holding L.P. no longer amount to a minimum of 30.1 percent. In the event of termination, the outstanding loans are to be repaid in full prematurely. On 31 December 2011, the two refinancing loans together were valued at a total of €19.5 million. The operating credit was valued on 31 December 2011 at €0 million.

Agreements with SHW Group customers regarding the development and supply of SHW products were all made between Schwäbische Hüttenwerke Automotive GmbH, a wholly-owned indirect subsidiary of SHW AG, and the respective customer. The latter are entitled to terminate the agreements in accordance with standard market regulations if the shareholder structure of Schwäbische Hüttenwerke Automotive GmbH changes and customer interests are thereby affected.

Finally, there is an extraordinary right to termination for lease agreements which were entered into between Schwäbische Hüttenwerke Automotive GmbH and Structured Lease GmbH, among others as part of "sale and lease back" transactions, inter alia, if the shareholder structure of Schwäbische Hüttenwerke Automotive GmbH changes which in turn causes or threatens a deterioration of the financial situation at Schwäbische Hüttenwerke Automotive GmbH. In the case of premature termination of the leasing agreements due to extraordinary termination, Schwäbische Hüttenwerke Automotive GmbH must ensure the amortisation of Structured Lease GmbH (in particular by paying all outstanding leasing instalments, a calculated residual value as well as a possible early repayment penalty) and immediately return the leased items to Structured Lease GmbH. SHW AG (previously: Schwäbische Hüttenwerke Beteiligungs GmbH) and Schwäbische Hüttenwerke Zweite Beteiligungs GmbH have each accepted joint liability.

Company compensation agreements concluded with members of the Management Board or employees for the event of a takeover bid

There are no compensation agreements in place for the Management Board or employees for the event of a takeover bid. However, all Management Board members' service contracts contain a right of the members of the Management Board to resign and terminate their service contract in the event of a third-party purchaser carrying out a so-called squeeze out at SHW AG. Upon exercising this right to termination, the Management Board member receives a severance payment in the amount of a two year's salary, but not exceeding the remuneration for the remaining term of the contract. For the purposes of this provision, a third-party purchaser means a purchaser that is neither SHW Holding L.P. nor an affiliated company of SHW Holding L.P.

Opportunities and risk report

Risk management system

IPO increases the significance of opportunity and risk management

Since the Company's IPO in July of the reporting year, SHW AG has been subject to increased risk management guidelines. For this reason, we already analysed and adjusted our risk processes and systems in the run-up to the IPO. The aim is reinforcement of the systematic recognition and management of opportunities and risk by those operationally responsible, to boost risk awareness within the Company and, where necessary, to improve internal and external reporting.

Clear responsibilities

Management Board of SHW AG is responsible for risk management and for determining risk management policy. It decides how to deal with the risks and the extent of the risks that SHW will face.

The Management Board regularly informs the Supervisory Board about all risks to the Company and issues relating to risk management.

The Management Board has appointed a Group risk manager who is responsible for the centrally-managed risk and opportunity management process. The risk manager monitors all risk management activities, aggregates the risks at Group level, and verifies the plausibility and integrity of reported risks. The risk manager is also responsible for continually improving the risk management system. The Group risk manager reports directly to the Management Board.

On an operational level, so-called risk owner – usually subordinate to the Management Board – are responsible for monitoring and managing risks.

General risk management process

The risk management process at SHW consists of four steps:

- Risk Identification & Recognition
- Risk Evaluation
- Risk Handling
- Risk Monitoring & Reporting

Risk Identification & Recognition

To ensure that risks are recognised as comprehensively as possible Group-wide risk categories and areas and those responsible for recognising risk (risk owners) have been defined.

Risk owners must identify and recognize risks by means of a risk recognition form at least once a year. Major changes to risks identified throughout the year are to be communicated to the Management Board via established reporting channels.

Risk Evaluation

Risk evaluations are recorded by risk owners on a risk recognition form along with an expected value. This is calculated by multiplying the possible financial impact on the Company by the likelihood of occurrence.

Risk Handling

Risk owners are responsible for the development and implementation of measures designed to reduce risk in their own area of responsibility. The decision regarding the implementation of measures is either reached by the risk owners in coordination with the Management Board or by the Management Board itself. Four different approaches are used in this regard:

- Risk avoidance
- Risk reduction with the aim to minimize impact or likelihood of occurrence.
- Risk transfer to a third party
- Risk acceptance

Risk Monitoring & Reporting

Every risk owner must observe day-to-day and potential risks in his/her area of responsibility in order to be able to react promptly where required. Risk reporting comprises:

- a yearly report on risk management
- regulatory information on major changes to the risk situation
- ad hoc risk information

Group guidelines on risk management and management instruments are checked and developed at regular intervals. Systematic expansion of internal control systems (ICS) is a particular focus in the current year.

Internal control and risk management system for Group accounting process – Information pursuant to § 289 Para. 5 and § 315 Para. 2 No. 5 of the German Commercial Code (Handelsgesetzbuch, HGB)

Pursuant to § 289 Para. 5 and § 315 Para. 2 No. 5 of the German Commercial Code (HGB), SHW AG is obliged to describe the key characteristics of the internal control and risk management system, in particular with reference to the accounting and Group accounting process in the management report and Group management report. In addition to these statutory regulations, the following section also contains the relevant explanations regarding this pursuant to § 175 Para. 2 Sent. 1 of the AktG (Aktiengesetz – German Stock Corporation Act).

The internal control and risk management system relating to accounting should ensure that all sales and transactions are recorded in the financial accounting in their entirety, correctly positioned and assessed, and shown in SHW AG's and its subsidiaries' report in compliance with the legal and contractual requirements as well as the internal guidelines. Group-wide compliance with legal and company-internal provisions is a requirement for this. The scope and focus of the systems implemented is organised by the Management Board based on the requirements specific to SHW AG. They are checked regularly and updated when required. However, it must be pointed out that despite appropriate and functioning systems, full assurance of the identification and management risks cannot be guaranteed.

Within the SHW Group, accounting processes are almost entirely centralised at the headquarters in Aalen. This is facilitated by the use of standardised, uniform processes, and standardised systems in financial accounting.

The accounting department prepares consolidated financial statements for the SHW Group as well as financial statements for all Group companies with the exception of the statement for STT Technologies Inc., which is prepared in Canada, and reports consolidated financial information to the Management Board on a monthly basis. Complex issues with an impact on the financial statements are evaluated with the support of external advisers. In addition, the 'four eyes principle' is used in all accounting processes.

The controlling department regularly checks the integrity and accuracy of the information contained in the statement as well as possible discrepancies in the business plan produced, and reports the results to the Management Board in a standardised report on a monthly basis.

SHW AG already has an appropriate system of various internal guidelines, which cover compliance issues, authorisation concepts for orders and the conclusion of contracts, signatory powers and internal accounting guidelines. The internal accounting guidelines contain control systems such as a Group-wide unified reporting system for consolidation purposes with the aim of guaranteeing uniform consolidated financial statements within the SHW Group. These guidelines are updated at regular intervals. In addition, Group guidelines on risk management are currently being revised and will be implemented during the financial year 2012.

Within the scope of its monitoring activities, the Supervisory Board is also regularly involved in major issues relating to the consolidated financial statements and the associated internal control and risk management systems.

Notes on individual risks

Market and merchandising risks

The SHW Group's business development as a supplier to the automobile industry is directly and vitally dependent on the production of new vehicles. Worldwide passenger vehicle production continued to recover in 2011 and has even exceeded pre-crisis levels in some regions. Industry experts at PwC Autofacts are currently forecasting sustainable growth in global light vehicle production (vehicles < 6 t) for 2012 and the following years.

Macroeconomic framework conditions, which cannot be influenced by the Company, pose a latent potential threat. In particular, further intensification of the sovereign debt crisis could have a negative impact on consumer spending and consequently affect the SHW Group's growth prospects. In this case there would be a risk of installed production capacities not being utilised optimally.

The SHW Group is prepared for a slump in vehicle production comparable with that of 2009. As successfully practised in 2008 and 2009, the Company would react with appropriate cost adjustment measures across the entire value chain in order to protect the Group's financial and earnings position.

In summary it can be said that, according to current figures, a fall in passenger vehicle sales and a corresponding slump in production figures is rather unlikely in 2012.

Customer risks

The continued growth in the international vehicle markets in 2011 has led the earnings position at all major SHW Group customers to once again improve significantly. The risk of default on receivables has therefore been further reduced. During the last financial year the SHW Group achieved more than 10 percent of Group sales with three customers. In the previous year, this was achieved with just two customers. The proportion of sales gained from SHW's largest customer fell from 43.0 percent to 38.2 percent. This has further improved customer structure.

In summary it can be said that, according to current figures based on present, mostly long-running contracts and long-standing customer relationships, both the complete and partial loss of one of our main customers in the next few years is rather unlikely, particularly as SHW delivers a wide range of products for different types of engines, gearboxes and vehicles for every individual customer.

Price risks

To manufacture Pumps and Engine Components as well as brake discs, the SHW Group procures scrap iron, raw aluminium, aluminium and steel powder, and coke (among other materials) from raw materials suppliers. Experience has shown that iron, aluminium and coke prices are subject to major price fluctuations. In many cases, the SHW Group has reached agreements with the automobile manufacturers it supplies, which stipulate that the sales prices of its products will be subject to adjustment on a monthly, quarterly or biannual basis so as to take the short and medium-term fluctuations in raw material prices for raw aluminium, aluminium and steel powder, and scrap iron into account. In these cases, the SHW Group charges the automobile manufacturers it supplies so-called "metals price increase surcharges" (Metallteuerungszuschlag) in addition to the sales prices agreed with the SHW Group. Regarding the volatility of the price of coke, SHW has agreed energy price increase surcharges with a range of customers, which are renegotiated and changed to the revised price level at regular intervals.

Risks to suppliers

The SHW Group depends on the punctual delivery by its suppliers of raw materials and components necessary for production. Late delivery would significantly impede the SHW Group's business activities.

SHW has long-standing business relationships with the majority of its suppliers. SHW deals with the possible risks arising from late delivery or the loss of key suppliers with close contacts and regular credit assessments.

By using a modern inventory control system, the SHW Group has created the necessary basis for ensuring required materials are available on time and in the required amount.

Currency risks

The SHW Group is not facing any notable currency risks, as costs and sales are predominantly billed in euros in virtually all sales markets. Only the STT Technologies Inc. joint venture is exposed to currency risks, which have not been hedged by means of forward exchange contracts since 2008. These transaction risks result from the fact that sales are billed in US and Canadian dollars whilst material and related services are predominantly billed in US dollars, and euros.

Translation risks occur mostly from the exchange rate of the euro against the Canadian dollar.

Financing risks

On the whole, the SHW Group's financial profile is extremely sound, with an equity ratio of 31.7 percent, strong cash flow from operating activities, and sufficient revolving credit facilities.

There is a credit and collateral pooling agreement between numerous SHW Group companies and various banks with a maturity of 31 December 2013 for refinancing loans. As part of the credit and collateral pooling agreement, the SHW Group companies are obliged to comply with certain financial covenants. In the financial year 2011, the company met the covenant targets for the leverage ratio and fixed charge cover ratio.

With last year's IPO, the SHW Group now has the possibility of raising funds on the capital markets if necessary. On the whole, this secures the SHW Group's further growth.

Labour cost risks

After material costs, personnel costs represent the second largest cost item within the SHW Group. If, as part of upcoming pay negotiations, wage agreements considerably exceed previous ones, this could weaken the relative competitiveness of SHW AG as well as having a negative impact on achieving earning targets.

Should the planned quantities called up by customers be considerably cut back contrary to expectation, this could also result in an increase in the personnel cost ratio with corresponding negative effects on earnings.

During the crisis in 2008 and 2009, SHW only made marginal cuts to the core workforce and accomplished the required adjustments through a variety of measures (including a reduction in temporary work contracts). As part of the significant increase in sales in 2010 and 2011, the number of temporary workers once again increased. This means the SHW Group can react relatively quickly and flexibly and adjust capacities as required in the event of an unexpected and rapid slump in business activity.

Overall, a further increase in wage costs presents a significant risk factor for the SHW Group's earning situation, which will have to be compensated for with measures promoting efficiency – particularly in production. The planned increases in sales, together with a disproportionately slow increase in employee numbers should contain any increase in the personnel cost ratio.

IT risks

In 2012, the SHW Group plans to simultaneously introduce SAP software as new company software in all German production facilities. Owing to the complexity of the task, harmonising company software across the entire Group poses a particular challenge for the SHW Group. When introducing new software, that unforeseeable problems could arise with corresponding effects on operating procedures.

A renowned specialist SAP consultancy is supporting SHW in the introduction of SAP. Their expertise and comprehensive test procedures both before and during implementation as well as their presence in the immediate environment on launch day are sufficient assurance that the switch will be a success. At the same time, an accountancy firm will deal with the quality assurance aspects of the project.

Risks in the event of defective products/Legal risks

Despite extensive quality controls, the components manufactured by the SHW Group can be defective. Defective products can also harm the automobile manufacturer's end customer, which can also give rise to claims for damages and product liability claims by these end customers.

In addition, there is a risk that the SHW Group will be obliged to carry out so-called product recalls or the SHW Group's customer will be obliged to take such measures due to defective or potentially defective products.

Appropriate quality assurance systems have been put in place to avoid and minimise these risks. The SHW Group is insured against compensation claims resulting from defective products to the level customary within the industry. Provisions will be established if a concrete claim is predominantly likely.

Furthermore, there is a dispute between STT shareholders concerning the joint venture which has now resulted in arbitration proceedings between the two parties. The loss of interest in STT or even the acquisition of all shares in STT, as well as any other termination of the joint venture, would each come with considerable risks, the presence of which could have considerable adverse effects on the general business activity and asset, financial and earnings position of the SHW Group. SHW's management is expecting a decision on the arbitration by the International Chamber of Commerce (ICC) during 2012, and is confident of winning the pending proceeding.

Environmental risks

The SHW Group's locations are subject to a host of environmental rules and regulations which impose noise restrictions and standards for the treatment, storage and disposal of waste and hazardous substances, among other aspects. Particularly the SHW Group's foundry at its Tuttlingen-Ludwigstal plant is subject to a number of such environmental requirements. Compliance with these environmental rules and regulations and with environmental requirements within the scope of the permits needed to conduct operations incurs operational costs and requires the Group to make ongoing investments. Failure to comply with environmental rules and regulations can have consequences under civil, criminal or public law, which would primarily result in financial penalties and claims for compensatory damages based on property damage or personal injury, or in temporary or permanent plant closure.

Impairment risks (depreciation of goodwill)

Part of the SHW Group's assets consists of intangible assets, including goodwill. As at 31 December 2011, the amount of goodwill accounted for on the balance sheet of the SHW Group totalled € 7.1 million. € 4.2 million of this is allocated to the Pumps and Engine Components business segment and € 2.8 million to the Brake Discs business segment. In the course of the impairment testing of goodwill to 31 December 2011, the planning for 2012 to 2015 was taken as a basis and assumptions were made regarding future developments.

Although as of 31 December 2011 the goodwill was classified as unimpaired, the possibility of a depreciation at a later balance sheet date cannot be excluded.

Overall, there were no further, larger risks compared to the financial year 2010.

Assessment of the overall risk situation

In the 2011 financial year, SHW AG set a new record in both Group sales and Group net income for the year thanks to the launch of a number of new products and the high capacity utilisation. At the same time, it managed to reduce net bank debt to merely € 8.6 million.

Despite positive business growth in 2011, particularly the unresolved sovereign debt crisis still poses a latent potential risk. This results in corresponding uncertainties regarding SHW's medium-term planning. Overall it can be said that risks for the industry and the Company increased slightly during 2011. Risks, which could threaten the continued existence of the Company, are not evident at present.

The Company is today somewhat better prepared than at the beginning of the last crisis in 2008. Long-standing customer relationships, a full order book, an innovative product portfolio as well as a sound financial profile are a good basis enabling SHW to continue to grow more strongly than the underlying automotive market in future and to be able to actively shape the expected industry consolidation.

Opportunities report

Above-average growth in the BRIC countries

Following a good automobile year 2011, industry experts at PwC Autofacts also anticipate a further increase in demand for light vehicles (vehicles < 6 t) in the coming years until 2016. As part of this, production will increasingly relocate from the triad markets in the USA, Europe and Japan towards the BRIC markets.

Light vehicle production

	2011		2016		CAGR
	in million units	in %	in million units	in %	in %
Asia-Pacific – emerging countries	21.9	29.4	38.3	38.1	11.9
European Union	16.9	22.7	18.9	18.7	2.3
North America	13.1	17.6	16.1	16.0	4.2
Asia-Pacific – developed countries	12.6	17.0	13.1	13.0	0.7
South America	4.3	5.7	6.4	6.3	8.4
Eastern Europe	3.3	4.5	4.9	4.9	8.2
Middle East & Africa	2.3	3.1	3.0	3.0	5.5
Worldwide	74.3	100.0	100.7	100.0	6.2

Source: PwC Autofacts January 2012.

Against this backdrop, SHW plans to follow its customers into growth markets such as China, Brazil and India. The Company has been able to win its first contracts in China, and is currently also in negotiations with various car manufacturers. In Brazil, there are signs of a resumption of production, as one of the customers is planning to relocate its order volumes to its Brazilian plant as part of its global engine strategy. SHW currently has a liaison office in India.

Overall we have good prospects for participating in this market growth and in significantly expanding our sales in these countries in the medium and long-term.

Actively shaping the consolidation process

Potential worsening of the sovereign debt crisis and the recapitalisation of various leading European banks as ordered by the European Banking Authority could make it more difficult to obtain credit in the future.

At the same time, engine platforms are increasingly being designed as so-called global engines and manufactured in numerous regions. This increasingly puts suppliers under pressure to have a global presence as well.

In light of these framework conditions, it can be assumed that consolidation will continue in the engine and gearbox component sector. Unresolved provisions on succession and continuation of the company in several family-led competitors could also fuel this development. SHW will strive to actively shape this consolidation process so as to expand its market position in selected areas and regions. We are setting strict criteria for acquisitions. As part of this, key issues such as strategic fit and purchase price are particularly important, as are the sustainably achievable EBIT margin and ROCE of the potential takeover candidate.

As a listed company, SHW has access to various equity instruments for possible acquisitions. Our sound financial structure, as proven by our extremely low leverage ratio (quotient of net bank debt and EBITDA) that is currently 0.24 among other aspects, gives us any further financing potential.

CO₂ reduction as a major market driver in the automobile industry

From 1 January 2012, vehicles newly registered in the European Union are subject to an average CO₂ limit of 130g/km and an emissions target of 95 g/km for 2020. Should car manufacturers not meet this requirement they must pay fines scaled at the European Union's will from 2012 to 2015, which increase year on year. In other countries, such as the United States, similar provisions are in place.

The automobile industry is employing various means to achieve these target values. The focus is on increasing the efficiency of combustion engines and making vehicles lighter. In addition, extensive work is being done on further developing alternative drive concepts.

SHW AG is making an essential contribution to reducing fuel consumption and CO₂ emissions with its Pumps and Engine Components, and brake discs. CO₂ emissions can be reduced by more than 10 percent by using core SHW products such as camshaft phasers, variable oil pumps and electric start-stop pumps.

Experts believe that in the next ten years, the majority of vehicles will be equipped with hybrid drive – a combination of a combustion and electric engine. From 2025, more than half of new vehicles are to be delivered as so-called mild, micro or plug-in hybrids. SHW's electric pumps, which only operate when needed, help save fuel as they consume little electricity and ultimately reduce the burden on the combustion engine.

On the basis of its innovative product portfolio and current contracts, SHW is in a good position to continue growing more strongly than the underlying automotive market in the future.

Forecast

Outlook for the global economy and industry

Accelerated growth in 2013 following a dip in growth in 2012

Since the summer of 2011, the outlook for the global economy has deteriorated significantly. The possibility that the sovereign debt crisis in the eurozone may escalate poses the greatest threat to economic development, not only for Europe, but also for the global economy.

This development has prompted leading economic institutes and institutions to revise their forecasts for the economic outlook for 2012 downwards in the past months. As in previous years, forecasts vary considerably between the "developed countries" and the emerging and developing countries.

Region	GDP growth in %		
	2011	2012	2013
China	9.2	7.5	7.5
Japan	-0.9	2.3	1.8
US	1.7	2.0	2.5
Eurozone	1.5	-0.4	0.8
Germany	3.0	0.5	1.3

Source: Global Insight, Commerzbank Research.

Regarding the eurozone, Commerzbank economists are expecting negative growth of 0.4 percent for 2012 (as at 22 February 2012), whereby the euro economy, after a short recession in spring, should move back to a growth trajectory in autumn thus making GDP growth of 0.8 percent possible in 2013.

The differences between the individual euro member states are likely to remain substantial, as in the previous year. The risks resulting from the sovereign debt crisis will also have an impact on Germany, as only a moderate rise of 0.5 percent in economic output is expected in 2012. Economy experts are then anticipating further growth in the GDP by 1.3 percent in 2013.

In the USA, the economy will continue to recover in 2012 and 2013, resulting in growth successively accelerating to 2 percent and 2.5 percent respectively. As in previous years, the Asian emerging markets (China, India, Indonesia, Malaysia, the Philippines, and Thailand) will once again show strong growth rates. However, in China tighter monetary policy, attractive wages and weaker global demand will slow GDP growth to around 7.5 percent.

Despite current risks, economic prospects and increasing disposable income in emerging markets will offer a solid base for enabling the recovery of the global automobile industry in 2012 and 2013.

Global automobile industry to continue growing in 2012 and 2013

In their base scenario, industry experts at PwC Autofacts expect – despite the weakening macroeconomic framework data for the eurozone in particular – a 6.4 percent increase in global light vehicle production (vehicles < 6 t) in 2012 and, as a consequence of the global economy's recovery, an acceleration in growth of 8.4 percent in 2013. In the USA, several high-volume introductions of compact and medium class vehicles have caused significant increases in capacity and production. The medium-term growth trend in the Chinese automobile market will remain intact in 2012 and 2013. This is driven by further increases to incomes, and the penetration of passenger vehicles, which remains low. The Indian automobile market will become increasingly important and is likely to grow dynamically in both 2012 and 2013. Automotive experts at PwC expect both 2012 and 2013 to bring slightly declining to stagnating production figures for the production facilities in Germany. Reasons for this are primarily fewer exports alongside the start-up of local manufacturing capabilities in markets such as China and Russia.

Light vehicle production

in million units	2011	2012	Change in %	2013	Change in %
China	15.0	16.5	10.0	19.4	17.6
US	8.5	9.3	9.4	9.9	7.5
Japan	8.0	8.9	11.2	8.6	-3.4
Germany	5.8	5.7	-2.0	5.7	0.7
South Korea	4.4	4.4	0.3	4.5	1.6
India	3.4	3.9	14.3	4.7	18.6
Brazil	3.1	3.3	7.2	3.6	7.7
Mexico	2.5	2.5	-3.4	2.7	11.1
Spain	2.4	2.1	-11.6	2.1	1.8
France	2.2	2.0	-7.1	2.2	6.1
Worldwide	74.3	79.1	6.4	85.8	8.4

Source: PwC Autofacts January 2012.

On the manufacturer side, in 2012 Japanese carmakers will restart after production was halted after the earthquake last year. In 2013 an equally spread volume growth is on the horizon.

Light vehicle production

in million units	2011	2012	Change in %	2013	Change in %
GM Group	9.2	9.6	4.4	10.1	5.2
VW Group	8.6	8.7	1.5	9.2	5.9
Toyota Group	8.5	10.0	17.7	10.2	2.3
Renault-Nissan	8.0	8.0	-0.4	8.7	8.9
Hyundai Group	6.6	7.0	5.0	7.5	7.3
Ford Group	5.4	5.4	0.0	6.0	12.0
Fiat Group	4.3	4.2	-2.6	4.7	12.4
PSA Group	3.6	3.6	1.2	4.0	10.8
Honda Group	3.1	4.1	34.5	4.5	9.9
Suzuki Group	2.4	2.6	10.6	2.8	6.0
BMW Group	1.7	1.8	4.3	1.9	4.6
Daimler Group	1.6	1.7	1.8	1.8	7.6
Worldwide	74.3	79.1	6.4	85.8	8.4

Source: PwC Autofacts January 2012.

Outlook for the Group

In the past financial year, we have set new records in both Group sales and Group net income for the year. We consider ourselves to be well prepared to continue on our path of sustainable growth in the years to come.

Single digit percentage growth in sales expected for 2012 and 2013

Assuming a continued strong order situation of our European and North American customers, SHW AG expects Group sales to grow between 1 and 9 percent in the 2012 financial year. Within this period, the Pumps and Engine Components business segment should benefit from a host of further new product launches, an enhanced product mix (especially variable oil pumps, start-stop pumps) as well as high capacity utilisation, and add around 2 to 10 percent to sales. In the Brake Discs business segment, the proportion of processed brake discs will increase further; sales growth of between 0 and 6 percent is expected.

In the 2013 financial year, we anticipate further single figure percentage growth in sales on a similar scale to 2012, provided that the strong order situation of our European and North American customers does not deteriorate. In addition to several new launches, the planned volume growth in variable oil pumps and oil vacuum pumps should make a decisive contribution to the planned sales growth on the Group level.

Increases in EBITDA at a Group and segment level in 2012 and 2013

If planned growth in sales is achieved, Group earnings before interest, tax, and amortisation of intangible assets and depreciation of tangible assets (EBITDA) should develop at a slightly better rate than sales in the 2012 financial year. In this case, the largest business segment – Pumps and Engine Components – should experience further EBITDA margin growth. In addition, a significant increase in EBITDA is expected in the Brake Discs business segment should capacity utilisation be permanently good, there be no more start-up costs, and the product mix improve.

The Company expects the positive EBITDA trend to continue into the 2013 financial year on the Group level and in both business segments.

Earnings per share increases parallel to operating result

For the financial years 2012 and 2013 we are expecting, parallel to expected growth of Group earnings before interest, tax, and amortisation of intangible assets and depreciation of tangible assets (EBITDA), corresponding growth of earnings per share.

Dividends: Payouts of 30 to 40 percent

The SHW Group pursues a long-term, results-oriented dividend policy. In compliance with legal restrictions and under consideration of the SHW Group's financial requirements, the Company is also planning to pay out a total of 30 to 40 percent of the net income for the year as dividends to the Company shareholders in the future. This means shareholders will participate in the Company's success accordingly.

Investment levels remain high, depreciation to continue to increase

Due to the consistently large number of product launches, we are planning an investment budget at the same level as the 2011 budget for 2012. We are planning fewer investments in 2013 than in 2012.

The large investments made in 2011 and 2012 will consequently be reflected in higher depreciation.

Positive free cash flow expected despite high investments

Under the aforementioned conditions, cash flow from operational activities is expected to exceed current planned payouts for investments and result in positive free cash flows in 2012 and 2013.

Supplementary report

There were no other significant events that ought to be included in the report after the reporting period.

Corporate Governance Declaration

The Corporate Governance Declaration pursuant to § 289a HGB is on our website at > http://www.shw.de/cms/en/investor_relations/corporate_governance/declaration_cg/. It contains the Declaration of Compliance pursuant to § 161 AktG, information on key Company management practices, and a description of the workings of the Management Board and Supervisory Board as well as the composition and function of their committees.

Aalen, 2 March 2012

Management Board of SHW AG



Dr.-Ing. Wolfgang Krause
Chairman



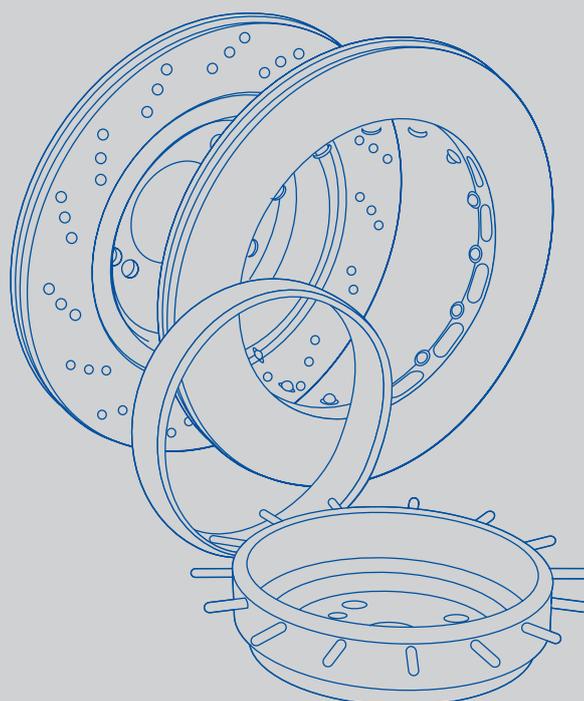
Oliver Albrecht



Andreas Rydzewski

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Consolidated balance sheet (IFRS)

as at 31 December 2011

K EUR	Notes	31 Dec 2011	31 Dec 2010 ¹⁾	1 Jan 2010 ¹⁾
Assets				
Customer base	(1)	0	0	536
Goodwill	(1)	7,055	7,055	7,055
Other intangible assets	(1)	8,552	4,477	2,116
Tangible assets (property, plant and equipment)	(1)	58,360	49,306	51,799
Deferred tax assets	(20)	3,401	3,573	5,897
Other financial assets	(3)	823	952	983
Non-current assets		78,191	65,363	68,386
Inventories	(4)	37,741	29,604	25,752
Trade receivables	(5)	45,059	35,874	26,088
Other financial assets	(6)	748	5,524	4,278
Other assets	(7)	1,345	2,101	1,547
Cash and cash equivalents	(8)	10,682	20,202	16,931
Current assets		95,575	93,305	74,596
Balance sheet total		173,766	158,668	142,982

¹⁾ For explanation see Note (9).

K EUR	Notes	31 Dec 2011	31 Dec 2010 ¹⁾	1 Jan 2010 ¹⁾
Equity and liabilities				
Subscribed capital	(9)	5,851	5,500	58
Capital reserves	(9)	14,780	12,965	16,997
Revenue reserves	(9)	33,417	16,419	2,904
Other reserves	(9)	1,079	899	-516
Minorities		0	2,166	2,166
Total equity		55,127	37,949	21,609
Pension accruals and similar obligations	(10)	22,983	23,318	23,693
Deferred tax liabilities	(20)	3,194	2,005	4,251
Other accruals	(11)	2,984	2,917	3,192
Other financial liabilities	(12)	130	158	277
Liabilities to banks	(12)	11,250	22,500	33,750
Non-current liabilities and accruals		40,541	50,898	65,163
Liabilities to banks	(12)	8,053	11,087	10,973
Trade payables	(12)	42,166	36,729	24,299
Other financial liabilities	(12)	11,511	6,158	3,943
Income tax liabilities	(12)	950	857	1,338
Other accruals	(11)	8,858	9,150	11,503
Other liabilities	(12)	6,560	5,840	4,154
Current liabilities and accruals		78,098	69,821	56,210
Balance sheet total		173,766	158,668	142,982

¹⁾ For explanation see Note (9).

Consolidated income statement (IFRS)

for the financial year as of 31 December 2011

K EUR	Notes	2011	2010
Sales	(13)	360,575	290,274
Cost of sales	(18, 21)	-314,811	-252,138
Gross profit		45,764	38,136
Selling expenses	(14, 18)	-3,978	-3,392
General administration expenses	(15)	-8,991	-7,476
Research and development costs	(16)	-5,201	-3,757
Other operating income	(17)	4,964	4,134
Other operating expenses	(18)	-8,782	-7,459
Operating result		23,776	20,186
Financial income	(19)	2,201	306
Financial expenses	(19)	-2,351	-2,270
Earnings before taxes		23,626	18,222
Deferred taxes	(20)	-1,364	-66
Current income tax	(20)	-5,264	-4,641
Net income for the year		16,998	13,515
Earnings per share in € (undiluted/diluted)		2.93	2.46

Consolidated statement of comprehensive income (IFRS)

for the financial year as of 31 December 2011

K EUR	31 Dec 2011	31 Dec 2010
Net income for the year	16,998	13,515
Currency translation differences	187	1,384
Change in the market value of hedging instruments	-10	43
Variation (gross)	177	1,427
Deferred taxes on changes in value stated under equity	3	-12
Change in value stated under equity	180	1,415
Consolidated comprehensive income	17,178	14,930

Consolidated cash flow statement (IFRS)

for the financial year as of 31 December 2011

K EUR	Notes	2011	2010
1. Net cash flow from operating activities			
Net income for the year		16,998	13,515
Depreciation/amortisation on fixed asset items (+)		10,090	10,522
Income tax expenses through profit or loss (+)	(20)	5,264	4,641
Income tax paid (-)		-5,171	-4,936
Financing costs through profit or loss (+)	(19)	2,351	2,270
Interest paid (-)		-779	-841
Financial investment income through profit or loss (-)	(19)	-2,201	-306
Interest received (+)		393	231
Increase (+)/decrease (-) in accruals		-559	-1,828
Changes in deferred taxes		1,361	78
Other non cash-effective expenses (+)/income (-)		438	2,766
Gain (-)/loss (+) on the disposal of assets		-2,010	-28
Increase (-)/decrease (+) in inventories, trade receivables and other current assets		-11,790	-15,438
Increase (+)/decrease (-) in trade payables and other liabilities		11,481	13,497
Net cash flow from operating activities		25,866	24,143
2. Cash flow from investment activities			
Cash received (+) from disposals of tangible assets		35	28
Cash paid (-) for investments in tangible assets		-18,820	-7,468
Cash paid (-) for investments in intangible assets		-4,443	-2,777
Cash flow from investment activities		-23,228	-10,217
3. Cash flow from financing activities			
Cash paid (-) for the redemption of financial liabilities		-14,250	-11,250
Cash received (+) from the disposal of non-current financial assets		2,420	-
Payments (-) for investments in non-current financial assets		-339	-
Cash flow from financing activities		-12,169	-11,250
4. Cash and cash equivalents at the end of the period			
Cash-effective changes in cash and cash equivalents		-9,531	2,676
Exchange rate-related changes in cash and cash equivalents		11	595
Cash and cash equivalents at the beginning of the period		20,202	16,931
Cash and cash equivalents at the end of the period	(8)	10,682	20,202

Statement of changes in Group equity (IFRS)

as of 31 December 2011

K EUR	Subscribed capital (Note 9)	Capital reserves (Note 9)	Revenue reserves (Note 9)	Other reserves (Note 9)	Minorities	Total equity
Position as of 1 January 2010	58	16,997	2,904	-516	0	19,443
Correction in accordance with IAS 8.42	0	0	0	0	2,166	2,166
As of 1 January 2010 after correction	58	16,997	2,904	-516	2,166	21,609
Foreign currency translation	0	0	0	1,384	0	1,384
Changes in the market value of hedging instruments	0	0	0	31	0	31
Total result recognised directly in equity	0	0	0	1,415	0	1,415
Net income for 2010	0	0	13,515	0	0	13,515
Total net result for the period	0	0	13,515	1,415	0	14,930
Capital increase from business funds	5,442	-5,442	0	0	0	0
Transfers from/to reserves	-	1,410	0	0	0	1,410
Position as of 31 December 2010	5,500	12,965	16,419	899	2,166	37,949
Capital increase	351	1,815	0	0	-2,166	0
Foreign currency translation	0	0	0	187	0	187
Changes in the market value of hedging instruments	0	0	0	-7	0	-7
Total result recognised directly in equity	351	1,815	0	180	0	180
Net income for 2011	0	0	16,998	0	0	16,998
Total net result for the period	351	1,815	16,998	180	0	17,178
Position as of 31 December 2011	5,851	14,780	33,417	1,079	0	55,127

Consolidated notes

Basis for the preparation of consolidated financial statements

SHW AG's consolidated financial statements as at 31 December 2011 were approved by the Management Board on 2 March 2012 for submission to the Supervisory Board. SHW Aktiengesellschaft, based in Germany, was formed through a change in corporate form of SHW Beteiligungs GmbH. The company was entered in the commercial register on 8 June 2011. The largest single shareholder is SHW Holding L.P., Bermuda with 58.3 percent. The Group's principal activity is the manufacture and sale of hydraulic pumps, powder metallurgy parts and brake discs. The present Group consolidated financial statements conform to the applicable International Financial Reporting Standards (IFRS) set by the International Accounting Standards Board (IASB) in London. The version of the IFRS applicable as at 31 December 2011, and how they are to be applied in the EU, is definitive. All interpretations by the International Financial Reporting Interpretations Committee (IFRIC) as well as previous interpretations by the Standing Interpretations Committee (SIC) applicable for the financial year 2011 are applied.

The Group's consolidated financial statements are prepared in accordance with the historical cost convention. Derivative and available-for-sale financial instruments accounted for at a fair value are excluded from this. Deviations from this are given under the accounting and valuation principles.

The consolidated interim financial statements have been prepared in euros (€). Unless indicated otherwise, the figures shown are stated in thousand euros (K EUR). The Group's consolidated financial statements are simultaneously valid as statements exempting the company from the preparation of consolidated financial statements in accordance with § 315a Para. 3 of the HGB (Handelsgesetzbuch – German Commercial Code).

Consolidation methods

Consolidation scope and principles

The Group's consolidated financial statements comprise the financial statements of SHW AG and all of its major subsidiaries as at 31 December of a given financial year. The subsidiaries' financial statements are prepared using standardised accounting and

valuation principles on the same balance sheet date as the parent company's statements. The Group has a 50 percent stake in joint ventures STT Technologies Inc. and Concord, Canada (STT), which are consolidated proportionally. The joint venture is under joint management.

A complete list of all SHW Group holdings is on file in the commercial register at Ulm local court and is attached to these consolidated notes.

Capital consolidation is carried out in accordance with the purchase method. Subsidiaries are fully consolidated from the date of acquisition, i.e. the date on which the Group assumes the ability to control them. Inclusion in the Group's consolidated financial statements ends as soon as the parent company's ability to control the subsidiary ceases. Joint ventures are proportionally consolidated from the date of acquisition, i.e. the date on which the Group assumes joint control. Inclusion in the Group's consolidated financial statements ends as soon as joint control no longer exists. A company's historical costs are allocated to the identifiable financial assets, liabilities and contingent liabilities of the company acquired for initial consolidation. The financial assets acquired, particularly intangible assets, are reassessed in terms of their accounting and recognised at fair value. Insofar as the historical costs for the company acquisition exceed the proportional, fair value of net assets, goodwill is applied and an impairment test is carried out once a year, or additionally with good reason. Should the impairment test reveal a loss in value, then unscheduled amortisation is carried out.

All Group-internal balances, transactions, sales, expenditures, profits and losses from internal Group transactions included in the individual consolidated financial statements of the included companies are eliminated. In the case of proportionate consolidation, these are eliminated according to the share in the holding.

Changes in accounting and valuation principles

1. New and amended standards and interpretations adopted in 2011

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have adopted the following standards and interpretations, which have been transposed by the EU into European law and must be applied to reporting periods beginning on 1 January 2011:

- **IAS 24** (revised), "Related Party Disclosures", was issued in November 2009 and supersedes IAS 24 (2003). The new standard is mandatory for financial years beginning on or after 1 January 2011. Earlier adoption is permitted.

In particular, the revision of IAS 24 fundamentally revises the definition of related party disclosures. It also clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The lifting of the disclosure requirement, which simply provides for certain minimum information, covers data regarding the reporting company's transactions with the government-related entities themselves as well as data regarding transactions with other government-related entities. The Group will apply the new rules from 1 January 2011. Once the revised standard is applied, the Group will have to disclose any transactions between its subsidiaries and its associates. The Group is currently putting systems in place to record the necessary information.

The revision simply leads to further information in the notes.

- **IAS 32** (amended), "Classification of rights issues", was issued in October 2009. The amendment is mandatory for financial years beginning on or after 1 February 2010. Earlier adoption is permitted. When a company grants rights, options or warrants to acquire a fixed number of the company's own shares in a currency other than the company's functional currency, these rights were reported as financial liabilities up to now as, due to exchange rate fluctuations, the "fixed for fixed" criterion in IAS 32.16(b)(ii) is not fulfilled. The amended IAS 32 adds the supplementary provision that rights, options and warrants to acquire a fixed number of shares in return for a fixed amount denominated in any currency are to be recorded as equity instruments, provided these are issued on a pro rata basis to all existing shareholders of the same class of equity. The amendment applies retrospectively in accordance with IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors". The Group will apply the new rules from 1 January 2011.

This amendment has no impact on the Group's consolidated financial statements.

- **IFRIC 14**, "IAS 19 – Prepayments of a Minimum Funding Requirement". The amendments to IFRIC 14, "IAS 19 – Prepayments of a Minimum Funding Requirement" are relevant when there is a benefit plan prescribing a minimum funding requirement and the company makes related prepayments.

Compared to the rules existing hitherto, the economic benefit arising from the company's prepayments of contributions – recovered through lower minimum funding requirements in future years – is capitalised as an asset. If there is a minimum funding requirement relating to contributions in respect of future employee service, the interpretation now stipulates that an asset be recognised. The amount of this asset is based on two amounts: firstly, the voluntary prepayment made, which reduces the minimum funding requirement in future; secondly, the estimated future service cost, which must also be considered. In this process, the estimated payments based on the minimum funding requirement (not taking the prepayments of contributions into consideration) must be deducted. The amendment is mandatory for financial years beginning on or after 1 January 2011. The amendments are to be adopted from the beginning of the earliest comparative period presented to which this interpretation applies. Adjustments resulting from applying the amendments are to be shown in the revenue reserves in the opening balance sheet of this comparative period. The Group will apply the new rules from 1 January 2011.

This amendment has no impact on the Group's consolidated financial statements.

- **IFRIC 19**, "Extinguishing Financial Liabilities with Equity Instruments", applies to financial years beginning on or after 1 July 2010. The interpretation clarifies the accounting by a company when the terms of a financial liability are renegotiated and result in the company issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (so-called debt-for-equity swaps) and the creditor is an independent third party. IAS 39.41 requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. IFRIC 19 now additionally clarifies that equity instruments issued by the debtor to extinguish all or part of the financial liability are to be seen as a portion of the amount paid. Equity instruments are to be measured at their fair value at the time of contribution. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished in full or in part. According to IFRIC 19, it is no longer possible to measure equity instruments issued at the carrying amount of the financial liability extinguished in full or in part, i.e. to merely transfer the financial liability over to equity. The Group will apply the new rules from 1 January 2011.

They are not expected to have any major impact on the Group.

- Collection of amendments to various IFRS. In addition to the amendments to individual standards presented here, the IASB also revises existing standards as part of its annual improvements process. In May 2010 the IASB issued such a collection of amendments in order to eliminate inconsistencies and clarify formulations; the EU adopted these in February 2011. Many of these amendments are to be adopted for financial years beginning on or after 1 January 2011 and 1 July 2010. Amendments have been made to the following standards and interpretations: IFRS 1, IFRS 3, IFRS 27, IAS 34, IFRIC 13.

The amendments merely lead to changes to the presentation of financial statements.

2. Standards, interpretations and amendments to existing standards that are not yet mandatory in 2011 and not adopted early by the Group.

The IASB and IFRIC have adopted further standards and interpretations that have not been applied in this financial year, either because the EU has not yet endorsed them or because their application is not yet mandatory. The Group's assessment of the impact of these new standards and interpretations is described below:

- IFRS 7 (amended), "Financial Instruments: Disclosures". The amendments address the disclosure requirements in connection with the transfer of financial assets and the risks remaining with the entity accounting for such. The amendment became effective as at 1 July 2011 though it was only endorsed by the EU on 23 November 2011. No effects are anticipated on the asset, financial and earnings situation or cash flow of the Group.
- IFRS 9, "Financial Instruments", was issued in November 2009. This standard is the first step in the process to replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 fundamentally amends current provisions for classifying and measuring financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until financial years beginning on or after 1 January 2015 but is available for early adoption. However, the standard has not yet been endorsed by the EU.

The Group is yet to assess the full impact of IFRS 9. However, initial indications are that it may affect the Group's accounting for its available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading.

The impact on the Group's consolidated financial statements is currently being analysed.

- IAS 12 (amended), "Income Taxes". The amendment to IAS 12 introduces a simplification regulation when dealing with temporary tax differences in relation to use of the IAS 40 fair value model. Accordingly, it is rebuttably presumed that recovering the carrying amount of the underlying asset through sale is decisive in measuring deferred taxes on fair value property.

The amendment became effective as at 1 January 2012 though it has not yet been endorsed by the EU.

No major changes to the Group's consolidated financial statements are expected.

- IFRS 1 (amended), "Severe Hyperinflation and the Elimination of First-time Adoption of International Financial Reporting Standards". The IFRS amendment replaces the reference to the fixed changeover date of "1 January 2004" with "Date of transition to IFRS". The amendment also provides guidance on how an entity should resume presenting financial statements in accordance with IFRS after a period when the entity was unable to comply with IFRS because it had a functional currency that was subject to severe hyperinflation.

The amendment has no impact on the Group.

- IAS 1 (amended), "Presentation of Financial Statements – Presentation of Individual Items of Other Comprehensive Income" (June 2011). IAS 1 introduces an amendment to the grouping of items in other comprehensive income. Accordingly, only the positions that can be reclassified in the net result for the period are to be presented separately from the positions, which are not reclassified. This enables the recipients of the Group's consolidated financial statements a better understanding of the effects of the individual positions of other comprehensive incomes on the future period results.

The amendment merely leads to adjustments to the presentation of the Group's consolidated financial statements.

- **IFRS 9 und IFRS 7 (amended), "Mandatory Effective Date and Transition Disclosures".** This moves mandatory application of IFRS 9 to periods beginning on or after 1 January 2015. In addition, IFRS 9 (revised 2011) formulates exemption provisions according to which a company converting to IFRS 9 declares additional information in the notes instead of adjusting the previous year's consolidated financial statements.

The Group does not anticipate any impact on the Group's consolidated financial statements.

- **IFRS 10, "Consolidated Financial Statements",** builds on existing principles. IFRS 10 focuses on the introduction of a uniform consolidation model for all companies that is geared towards control of the subsidiary by the parent company. Furthermore, the standard provides additional guidance to help ascertain whether control is present – particularly in difficult cases. The Group has not yet assessed the full effects of IFRS 10, and will apply IFRS 10 in the financial year beginning on or after 1 January 2013 at the latest.
- **IFRS 11, "Joint Arrangements".** IFRS 11 was issued in May 2011 and will be effective for financial years beginning on or after 1 January 2013. The new standard replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". IFRS 11 rescinds the right to vote on the use of proportional consolidation in joint ventures. In future, these companies will be integrated singularly into the Group's consolidated financial statements at-equity.

In view of this, the SHW Group is expecting a more significant impact on the Group's consolidated financial statements, as until now, the proportionally consolidated joint venture, STT Technologies Inc., can only be accounted at-equity.

- **IFRS 12, "Disclosures of Interests in Other Entities",** combines the revised disclosure requirements of IAS 27, IFRS 10, IAS 31, IFRS 11 and IAS 28 into a single standard. The Group has not yet assessed the full effects of IFRS 10, and will apply IFRS 12 in the financial year beginning on or after 1 January 2013 at the latest.

- **IFRS 13, "Fair Value Measurement",** aims to improve valuation consistency and reduce complexity. It outlines how fair value is to be defined, how the valuation is to be ascertained, and which disclosures are to be made. The provisions, which incorporate an alignment of IFRS and US GAAP, do not extend the scope of fair value accounting, but instead illustrate how the fair value is to be used in cases in which this is already required or permissible by standards. The Group will apply IFRS 13 in the financial year beginning after 1 January 2012. There are no further standards or interpretations, which are not yet mandatory to adopt and would have a significant impact on the Group.

- **IAS 27 (revised)** requires the effects of all transactions with non-controlling interests to be recorded in equity insofar as there is no change in control and these transactions do not result in goodwill or gains and losses. The standard also gives detailed instructions for accounting when control is lost. Any remaining interest in the entity is measured at fair value, and the resulting gain or loss recognised as such. The revised standard has no impact on the current period as none of the non-controlling interests have a deficit balance, there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.

- **IAS 28, "Investments in Associates and Joint Ventures"** (revised May 2011). The revised standard IAS 28 was issued in May 2011 and will be effective for the first time in the financial year beginning on or after 1 January 2013. The adoption of IFRS 11 and IFRS 12 has extended the scope of IAS 28 to include the application of equity methods to joint ventures as well as to associated companies.

This amendment has no impact on the Group's consolidated financial statements.

- **IAS 19, "Employee Benefits",** was amended in June 2011 and will be effective for the first time in the financial year beginning on or after 1 January 2013. The effects on the Group are outlined below: the corridor approach is being abolished and all actuarial profits and losses are to be recorded in comprehensive income as they are accrued; past service costs recorded immediately; and interest expenditures and expected income from plan assets identified at their net value allowing for the underlying interest rate of the performance-orientated obligation. The Group must still ascertain the full effects of the amendments.

- IFRIC 20, "Stripping Costs in the Production Phase of a Surface Mine". This IFRIC is to be applied for the first time for financial years beginning on or after 1 January 2013. This IFRIC will have no effect on the asset, financial and profit situation at SHW.
- IAS 32 (amended), "Asset and Financial Liability Offsetting". The requirements for offsetting formulated in IAS 32 were retained and simply substantiated with further application guidance. On the one hand, the standard setter stresses expressly that there must be also an unconditional and legally enforceable claim to offset in the event of insolvency of a participating party. On the other hand, criteria are quoted, for example, under which the gross fulfilment of financial asset and financial liability nevertheless lead to offsetting. The supplemented guidelines are to be applied retrospectively to financial years beginning on or after 1 January 2014.

The Group is still analysing the effects on future consolidated financial statements.

- IFRS 7 (amended), "Disclosures – Asset and Financial Liability Offsetting". The disclosure requirements relating to certain off-setting agreements which have been introduced to IFRS 7 are new, however. The disclosure requirement applies regardless of whether the offsetting agreement has actually led to offsetting of the financial assets and debts in question. Alongside a qualitative description of the offset claim, several quantitative disclosures are to be made regarding this.

A summary of the disclosures can be carried out either according to the type of financial instrument or transaction. The amendments to IFRS 7 are to be applied retrospectively to financial years beginning on or after 1 January 2013.

The Group is still analysing the effects on the consolidated financial statements.

Accounting and valuation principles

Currency translation

The consolidated financial statements are prepared in euros, which is the Group's functional and presentation currency. Each Group company determines its own functional currency. The financial statement items of the respective companies are measured using this functional currency. Foreign currency transactions are translated initially at the applicable spot rate for the functional currency and the foreign currency on the transaction date. Monetary assets and liabilities in foreign currency are translated into the functional currency using the closing rate. Any currency differences are recorded in the income statement. Non-monetary items measured at the historical acquisition or production costs 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.

The assets and liabilities of foreign subsidiaries and joint ventures using a functional currency other than the euro, are translated at the closing date rate at the end of the financial year, while the income statement items are translated at the average exchange rate for the period. Any differences resulting from these conversions are recognised in equity under "Other reserves" ("Foreign currency translation"), with no effect on the income statement. At the time of disposal, the amount recorded in "Other reserves" is posted to profit or loss.

Intangible assets

Intangible assets not acquired during a company acquisition are capitalised at cost. The acquisition costs of intangible assets acquired through a business combination are recognised at fair value as of the acquisition date. Intangible assets are subsequently recognised at cost less accumulated amortisation and accumulated impairment losses. A distinction is made between intangible assets with finite and indefinite useful lives. The SHW Group currently does not have any intangible assets with indefinite useful lives, excluding goodwill.

Intangible assets with finite useful lives are amortised using the straight-line method over their useful economic lives of between four and nine years, and are tested for possible impairment insofar as evidence suggests that the intangible assets may be impaired. The useful lives and amortisation methods are reviewed at the end of each financial year and adapted accordingly.

Research costs are recognised in the period incurred. Project development costs are therefore only recognised as intangible assets if the Group can demonstrate the technical feasibility of completing the intangible assets in such a way that it will be available for internal use or sale, and prove its intention to complete the intangible asset and use or sell it. The Group must also demonstrate how the asset will generate future economic benefits, the availability of resources to complete the asset, and the ability to reliably measure expenditure during development. The development costs include directly attributable costs, as well as overheads determined pro rata. Sales expenses and general administration expenses are not included.

Customer base

The fair value of the customer base at the time of business combination was determined using the discounted cash flow method. The asset is amortised over four to five years using the straight-line method in accordance with the underlying valuation method. Any evidence of a possible impairment will be investigated and impairment losses recorded where necessary.

Goodwill

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

Goodwill is subject to an impairment test once a year or when circumstances warrant this, and is adjusted where necessary. For the purpose of testing impairment, goodwill is allocated as of the acquisition date to cash-generating units in the Group that are expected to benefit from the synergies of the business combination, 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 carrying amount of the unit, the impairment loss should first be applied to the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata, in accordance with the carrying amount of each asset in the unit. Any impairment loss recognised for goodwill may not be reversed in a subsequent period.

Tangible assets (property, plant and equipment)

Tangible assets are valued at acquisition or production cost less accumulated scheduled depreciation and accumulated impairment losses. The production costs of tangible assets produced by the company itself comprise the direct and overhead costs of production directly attributable to the asset, including depreciation.

Tangible assets are depreciated using the straight-line method over their expected useful lives. The carrying amount of tangible assets is tested for impairment whenever there is any indication that the carrying amount of an asset may exceed its recoverable amount.

Scheduled depreciation is based on the following useful lives:

Buildings	20 to 40 years
Land improvements/facilities	8 to 20 years
Technical equipment and machines	5 to 15 years
Factory and office equipment (furniture and fixtures)	3 to 14 years

Residual values, useful lives and depreciation methods are reviewed at the end of each financial year and adjusted accordingly. A tangible asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains or losses from the derecognising the asset are recorded through profit or loss.

Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of tangible and intangible assets to determine whether there is any indication of impairments. If there is any indication of impairment, the recoverable amount of the asset is estimated to determine the extent of any impairment loss. If the recoverable amount of an individual asset cannot be determined because it does not generate cash inflows that are essentially independent from those of other assets or other groups of assets, the recoverable amount of the asset's cash-generating unit is estimated. If there is a reasonable and consistent basis for allocating the assets, the joint assets are allocated to the respective cash-generating units. Otherwise the assets are allocated to the smallest group of cash-generating units for which there is a reasonable and consistent basis of allocation.

The recoverable amount is the higher of the fair value less costs to sell and value in use. When determining the value in use, the future estimated cash flows are discounted to their present value using a pre-tax interest rate.

This pre-tax interest rate takes into account the current market estimates of the time value of money as well as the risks inherent in the asset that are not included in the initial cash flow estimate. An appropriate valuation model is used to determine the fair value less costs to sell.

When the estimated recoverable amount of an asset (or cash-generating unit) falls below its carrying amount, the carrying amount of the asset (or a cash-generating unit) is written down to the recoverable amount. The impairment loss is immediately recorded as an expense. If the impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is written up to the revised estimate of the recoverable amount through profit or loss.

The increase in the carrying amount shall not exceed the carrying amount that would have been determined if no impairment loss had been recognised for the asset (or cash-generating unit) 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 as defined by IAS 39 are broken down into financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Financial liabilities are classified as liabilities at amortised cost or as financial liabilities at fair value through profit or loss.

Initial recognition of financial assets and liabilities is at fair value. For financial assets, which are not measured at fair value through profit or loss, any transaction costs that are directly attributable to the acquisition of the financial asset are included in the valuation.

The SHW Group determines the classification of its financial assets upon initial recognition and, where allowed and appropriate, re-evaluates this designation at the end of each financial year.

Financial instruments are recognised as soon as the SHW Group becomes contracting party to the financial instrument. The settlement date is used for the initial recognition of financial assets and their subsequent derecognition when market-standard asset purchases or sales are based on a contractual framework, whose terms provide for delivery of the asset within a period that is typically defined by the regulations or conventions of the respective market, i.e. the date on which the asset is delivered to or by the SHW Group.

Financial assets at fair value through profit or loss

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments, which are not quoted in an active market. After initial recognition, loans and receivables are carried at amortised cost using the effective interest method less any impairment. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale and are not classified in any of the preceding categories. After initial recognition, they are measured at fair value. Unrealised gains and losses are recognised directly in equity. If such a financial asset is derecognised or impaired, any cumulative gain or loss previously recognised directly in equity is transferred to profit or loss. Equity instruments which do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, financial instruments of this category are valued at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are de-recognised as well as through the amortisation process.

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near future. Derivatives, including separated embedded derivatives, are also classified as held for trading. Gains or losses on liabilities held for trading are recognised in profit and loss with the exception of derivatives designated as effective hedging instruments.

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

The SHW Group tests financial assets or groups of financial assets for impairment at every balance sheet date.

If there is objective evidence of impairment of financial assets in the balance sheet carried at amortised cost, the amount of loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted using the original effective interest rate of 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 generally have a 30- to 90-day term, are recognised at the original invoice amount less any allowance for bad debts. Using an allowance account, a bad debt allowance is made if there is material, objective evidence that the Group will not be able to collect the receivable in full. Receivables are de-recognised as soon as they become uncollectible.

If an available-for-sale asset is impaired, an amount is transferred from equity to profit or loss equal to the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value. Any reversals of impairment losses on equity instruments classified as available for sale are not posted in the income statement. Reversals of impairment losses on debt instruments classified as available for sale are recognised in the income statement if the increase in fair value of the instrument is the result of an event occurring after the impairment loss was recognised in the income statement.

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

Disclosure of financial assets and financial liabilities

Financial assets and financial liabilities are reported separately in the balance sheet, i.e. distinct from non-financial assets and non-financial liabilities.

Cash and cash equivalents

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

Inventories

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

Inventories are recognised if the net realizable value has fallen on closing date due to a drop in prices. Appropriate write-downs are recognised for risks resulting from excessive storage periods or reduced saleability.

Pension accruals and similar obligations

In Germany, the SHW Group has two defined benefit plans which essentially have the same terms and conditions. They are measured using the projected unit credit method taking account of 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 company pension obligations for financial years ending after the date of publication.

Actuarial gains and losses are recorded as income or expense when the net cumulative unrecognised actuarial gains and losses at the end of the prior reporting period exceed 10 percent of the higher of the defined benefit obligation or the fair value of plan assets at that date (the "corridor approach"). These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plans.

Past service costs are recognised on a straight-line basis over the average period until the benefits become vested. Past service cost is recognised immediately if the benefits become vested immediately following the introduction of, or changes to, a benefit plan.

The expense of accruing pension provisions is reported under financial expenses. The remaining components of the net pension expenses are disclosed in the income statement under the respective functions.

In the case of the defined-contribution pension plans, the SHW Group has no additional obligation other than payment of contributions, pension insurance contributions and social contributions to the special purpose funds. The contributions are recorded as an expense and allocated to the respective functions.

Other long-term employee benefits are also measured using the projected unit credit method.

Other accruals

As the best estimate of all identifiable risks and contingent liabilities, other accruals are recognised at the amount required to determine the present current obligation at the balance sheet date. Accruals are recognised when there is a legal or constructive obligation as a result of a past event that make an outflow of resources embodying economic benefits likely and when a reliable estimate can be made of the amount of the obligation. Accruals are discounted at a pre-tax interest rate if the rate of interest rate effect is of material significance. Short-term accruals are expected to be used within the next financial year.

Current tax assets and liabilities

Current tax assets and liabilities for current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The calculation is based on the tax rates and tax laws applicable as of the balance sheet date.

Deferred taxes

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

The carrying amount of the deferred tax assets is reviewed on each balance sheet date and reduced to the extent it is no longer likely that there will be sufficient profit against which the deferred tax assets can be offset at least partially. Unrecognised deferred tax assets are reviewed on each balance sheet date and recognised to the extent that it has become likely that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets are disclosed in a separate item under non-current assets, while deferred tax liabilities are contained in a separate item under long-term liabilities and accruals.

Deferred tax assets and liabilities are measured using the liability method at the tax rates that are expected to apply to the year when the asset is realised or liability settled, based on tax rates (and tax laws) that have been enacted by the balance sheet date or are expected to be enacted shortly.

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

Leasing

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

If substantially all the opportunities and risks incident to ownership of the asset lie with SHW, the lease is treated as a finance lease. Upon conclusion of the lease, the leased asset is measured 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 stated in the balance sheet as a financial lease obligation. The lease payments are broken down into an interest component and a repayment component, with the interest expenses being recorded through profit or loss.

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

Share-based payments

The obligation arising from share-based payment programmes is calculated according to IFRS 2. Cash-settled payment programmes are recognised as an accrual and measured at fair value on each balance sheet date. The expense is recorded in the income statement under the heading of "Personnel expenses". Share-based payment programmes settled with equity instruments are measured at their fair value at the time when they were granted. The fair value of the obligation is recognised in personnel expenses over the vesting period pro rata.

Selected members of SHW Group's management level indirectly hold shares in Schwäbische Hüttenwerke Zweite Beteiligungs GmbH via SHW Management Beteiligungs GmbH & Co. KG. SHW Management Beteiligungs GmbH & Co. KG holds 6 percent of the shares in Schwäbische Hüttenwerke Zweite Beteiligungs GmbH. As part of the initial public offering, company participation was structured in such a way that the managers were directly involved with the SHW AG. Following an initial public offering, management retains 1.5 percent of shares (see Note (9) on "Equity").

Derivative financial instruments and hedges

A derivative financial instrument is a financial instrument whose value changes in response to the change in certain reference factors, that normally requires no or only a minor initial acquisition expenses, and that is settled at a future date. Currently, the SHW Group has implemented two interest hedging transactions in the form of an interest swap.

Derivative financial instruments are carried at fair value on the date the contract is concluded and revalued at fair value in the subsequent periods. Fair value is determined using standardised valuation techniques. If their fair value is positive, derivative financial instruments are recognised as financial assets. If their fair value is negative, they are recognised as financial liabilities. Any gains or losses arising from changes to fair value of derivatives that do not qualify for hedge accounting are transferred directly to the profit or loss.

The relationship between the hedged item and the hedge instrument is documented at the inception of a hedge relationship, including the company strategy underlying the hedge relationship. Moreover, regular documentation is kept, both at the inception of the hedge and during its term, of how effective the hedge is at offsetting changes in fair value or cash flows attributable to the hedged risk.

For derivative financial instruments used in a hedge, the changes in market value in the financial year are recognised in accordance with the nature of the hedge. In a cash flow hedge, changes in market value are disclosed directly in equity under "Other reserves" ("Changes in the fair value of hedge instruments"), taking account of deferred taxes. The ineffective portion is recognised directly in profit or loss under net financial results.

If the criteria for a cash flow hedge are no longer met, the amounts recorded under "Other reserves" are released to profit or loss over the residual term of the hedging instrument.

Income and expenses

Income from the sale of goods and merchandise is recognised when the opportunities and risks of ownership of the goods have passed to the buyer. This is generally the case upon delivery of the goods and merchandise. Sales is measured at the fair value of the consideration received or receivable, less any discount allowed, customer bonuses and rebates.

To a minor extent, the Company also performs services for companies previously affiliated with the Company. The sales are recorded as the services are rendered and are reported under "Other operating income".

Dividends and interest income are recognised as they arise. For dividends this is the point in time when a right to receive payment is established.

Operating expenses are recorded upon use of the service; other sales-related expenses are recorded at the time of incursion. Accruals for warranties are made at the time of sale of the products. Interest and other borrowing costs are recorded as incurred as long as the borrowing costs do not relate to qualifying assets in accordance with IAS 23 and if the opportunities and risks of ownership of the sold goods have passed to the buyer.

Public sector grants

Grants from the public sector are recognised at their fair value if it can be assumed with major certainty that the grant will be given and that the Group fulfils the necessary conditions for receipt of the grant.

Public sector 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 corresponding expenses for which they were given in compensation, as per IAS 20.29 et seqq.

Public sector grants for capital investments are deducted from the related assets.

Key estimates

Preparation of the annual financial statements requires that assumptions or estimates be made for some items for measurement in the balance sheet, disclosure of contingent liabilities, and recognition of income and expenses. Actual values may deviate from these estimates.

Key long-term assumptions, and significant sources of uncertainty concerning estimates as of the reporting date that involve a considerable risk of substantial adjustment to the carrying amounts of assets or liabilities in the next financial year, are presented below.

Impairment of goodwill

The SHW Group tests goodwill for impairment at least once a year or if there is any indication of impairment. This involves an estimate of the recoverable amount of the cash-generating units (CGUs) to which the goodwill is allocated. In order to calculate the recoverable amount of the CGU, the Group must estimate the fair value, less the cost of sale, based on the EBIT forecasts and, moreover, select an interest rate in order to calculate the present value of cash flows. Further details can be found in Note (1) "Intangible assets and tangible assets".

Development costs

Development costs are capitalised in accordance with the accounting and valuation method presented. First-time capitalisation of the costs is based on the management's best estimate that the technical and economical feasibility has been demonstrated. Generally, this is the case if a product development project has achieved a certain maturity within an existing project management model. Determining the amounts to be capitalised requires assumptions and estimates to be made of the expected future cash flows from the assets, discount rates to be applied and the expected period of future cash flows.

Pensions and similar obligations

The cost of defined benefit plans and other post-employment benefits is determined using actuarial valuations. 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. Accruals for pensions and similar obligations totalled €22,983 thousand as of 31 December 2011 (previous year: €23,318 thousand). Further details can be found in Note (10), "Pension accruals and similar obligations".

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available in future so that the loss carry-forwards can actually be used. A considerable degree of discretionary judgment is required from management to determine the amount of deferred tax assets that can be recognised, based on the expected timing and level of income to be taxed in the future together with future tax planning strategies. Further details can be found in Note (20), "Income taxes".

Critical accounting estimates and assumptions

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

This particularly applies for the following types of conduct:

- Calculation of the fair value of assets and liabilities acquired as part of a business combination as well as the period of useful life of these assets is 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.
- In setting up accruals for warranties, the main parameters (quota for the expected utilisation and average amount) are to be defined by management.
- Financial assets are to be broken down into the categories of "held-to-maturity financial investments", "loans and receivables", "available-for-sale financial assets" and "financial assets at fair value through profit or loss".

Segment reporting

The business segments are reported to the main decision-maker in a manner corresponding to that of the internal reporting. The latter is responsible for decisions regarding the allocation of resources to the business segments and for examining their operating performance. The Company's Management Board was identified as the main decision-maker.

Notes on the balance sheet

(1) Statement of changes in intangible assets and tangible assets

K EUR	As of 1 Jan 2011	Purchase and production costs			
		Additions	Withdrawals	Book transfers	Currency differences
Intangible Assets					
Customer base	51,360	0	0	0	10
Goodwill	7,055	0	0	0	0
Assets generated internally	3,309	2,756	0	0	0
Other intangible assets	4,678	1,687	0	0	4
	66,402	4,443	0	0	14
Tangible assets					
Land, land rights and buildings	26,145	328	0	562	0
Technical equipment and machines	79,787	7,110	-4,087	3,519	23
Other equipment, operating and office equipment	11,220	1,692	-14	0	3
Payments on account and assets under construction	2,048	9,690	0	-4,081	1
	119,200	18,820	-4,101	0	27
Total	185,602	23,263	-4,101	0	41

K EUR	As of 1 Jan 2010	Purchase and production costs			
		Additions	Withdrawals	Book transfers	Currency differences
Intangible Assets					
Customer base	50,922	0	0	0	438
Goodwill	7,055	0	0	0	0
Assets generated internally	1,573	1,736	0	0	0
Other intangible assets	3,493	1,041	-32	0	176
	63,043	2,777	-32	0	614
Tangible assets					
Land, land rights and buildings	26,145	0	0	0	0
Technical equipment and machines	70,708	5,012	-29	2,005	2,091
Other equipment, operating and office equipment	10,100	968	-30	19	163
Payments on account and assets under construction	3,122	1,488	-595	-2,024	57
	110,075	7,468	-654	0	2,311
Total	173,118	10,245	-686	0	2,925

	As of 31 Dec 2011	Accumulated Write-offs	Net carrying amounts 31 Dec 2011	Net carrying amounts 1 Jan 2011	Write-offs for the financial year
	51,370	51,370	0	0	0
	7,055	0	7,055	7,055	0
	6,065	239	5,826	3,260	190
	6,369	3,643	2,726	1,217	179
	70,859	55,252	15,607	11,532	369
	27,035	5,965	21,070	21,103	923
	86,352	61,478	24,874	21,786	7,552
	12,901	8,143	4,758	4,369	1,246
	7,658	0	7,658	2,048	0
	133,946	75,586	58,360	49,306	9,721
	204,805	130,838	73,967	60,838	10,090

	As of 31 Dec 2010	Accumulated Write-offs	Net carrying amounts 31 Dec 2010	Net carrying amounts 1 Jan 2010	Write-offs for the financial year
	51,360	51,360	0	536	522
	7,055	0	7,055	7,055	0
	3,309	49	3,260	1,573	49
	4,678	3,461	1,217	543	336
	66,402	54,870	11,532	9,707	907
	26,145	5,042	21,103	22,010	907
	79,787	58,001	21,786	22,112	7,509
	11,220	6,851	4,369	4,555	1,199
	2,048	0	2,048	3,122	0
	119,200	69,894	49,306	51,799	9,615
	185,602	124,764	60,838	61,506	10,522

Tangible and intangible assets do not contain any qualifying assets in accordance with IAS 23.

Intangible assets except for goodwill have a finite useful life.

In the 2009 financial year, the Group signed a sale-and-lease-back agreement for production equipment amounting to € 5,954 thousand. This transaction is shown as a disposal under assets under construction. The agreement term is 60 months, and the Group has a purchase option upon expiration thereof. In the 2010 financial year, several leasing agreements were concluded for machines to a value of € 2 million. These are classified as operating leases under IAS 17, with terms of between 48 and 60 months.

The scheduled depreciation of tangible assets (property, plant and equipment) is included in the functional costs, in particular in the cost of sales. Non-scheduled depreciation is disclosed in "Other operating expenses". There was no non-scheduled depreciation/ amortisation in the 2010 and 2011 financial years.

Goodwill

The goodwill acquired from business combinations was allocated to the following three cash-generating units (CGUs) for impairment testing:

- 1) "Pumps" CGU
- 2) "Engine Components" CGU
- 3) "Brake Discs" CGU

The segments in principle correspond to the CGU that forms a common segment, with the exception of the CGUs Pumps and Engine Components.

The recoverable amount of the three cash-generating units was calculated on the basis of the fair value thereof, less the cost of sale. This calculation was made using EBIT forecasts based on the financial plan for the years from 2012 to 2015 approved by management. Calculation of the terminal value is based on an inflation/growth rate of 1.0 percent (previous year 0.5 percent). The discount rate used for the EBIT forecasts is 10.4 percent (previous year: 10.9 percent).

This is the weighted average cost of capital (WACC) before taxes. The goodwill was allocated to the CGUs as follows:

Carrying amount of goodwill K EUR	2011	2010
Pumps and Engine Components	4,233	4,233
Brake Discs	2,822	2,822
Total	7,055	7,055

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 using the average gross margins generated in the previous year. During the planning period it has been assumed that there will be no growth. Instead, the planning is based on the expected calls on standing orders by the OEMs.

Cost increases

Averages from past experience and estimates on future developments are used for the EBIT forecasts. The fundamental assumptions made coincide with those from external sources of information (the two trade associations, "Deutscher Giessereiverband" and "Fachverband Pulvermetallurgie").

A reduction in the operating profit margin of 5.0 percent required results in an impairment loss of € 1.1 million for the "Brake Discs" CGU.

Discount rates

The discount rate was derived from a base interest rate (after tax) of 3.0 percent and a market risk premium after tax of 5.0 percent. The β factor, capital structure and borrowing cost rate were derived from a peer group of comparable companies.

The recoverable amount is compared with the corresponding carrying amount of the relevant CGU. An impairment loss is recognised if the recoverable amount is less than the carrying amount of the CGU. The annual impairment test of the recoverability of goodwill did not result in any findings of a need for a deduction for impairment. A discount rate change of +10.0 percent would result in an impairment loss of € 290 thousand for the "Brake Discs" CGU.

(2) Interests in joint ventures

The SHW Group holds a 50 percent investment in STT, a joint venture active in the field of manufacturing and distributing oil pumps on the North American market.

The share of the assets, liabilities, sales and the income and expenses of the joint venture including the purchase price allocation attributable to STT included in the consolidated financial statements are as follows:

K EUR	2011	2010
Current assets	16,904	14,777
Non-current assets	7,317	3,920
Current liabilities and accruals	10,174	6,616
Non-current liabilities and accruals	130	122
Sales	43,443	27,284
Cost of sales	-38,465	-23,784
Selling and administrative expenses	-1,461	-1,223
Other operating income and expenses	-636	-213
Financial result	53	34
Earnings before taxes	2,934	2,098
Income tax	-807	-664
Net income for the year	2,127	1,434

(3) Other non-current financial assets

K EUR	2011	2010
Cash surrender value of reinsurance	478	485
Participating investments	345	306
Other	0	161
	823	952

Other non-current financial assets include investments in equity instruments of €345 thousand (previous year: €306 thousand), which are classified as available-for-sale financial assets. They are measured at acquisition cost due to the fact that there is no quoted price for them in an active market, and their fair value cannot be reliably measured due to unforeseeable cash flows – they are holding companies.

(4) Inventories

K EUR	2011	2010
Raw materials and supplies	13,060	9,717
Work in progress and finished goods	18,727	15,895
Merchandise	4,843	3,371
Payments on account	1,111	621
	37,741	29,604

The inventories do not contain any qualifying assets in accordance with IAS 23.

The provisions for bad debts on inventories decreased in the 2011 financial year by €227 thousand to €2,233 thousand. The adjustment is recognised through profit or loss in the cost of sales. Last year, the cost of sales included proceeds of €461 thousand from the reduction in this provision for bad debts.

The cost of inventories, which is recognised in the cost of sales, amounts to €223,751 thousand (previous year: €171,413 thousand).

(5) Trade receivables

K EUR	2011	2010
Receivables from clients	45,099	35,881
Provisions for bad debts	-40	-7
	45,059	35,874

K EUR	Carrying amount	Of which: neither impaired nor overdue as at the balance sheet date	Of which: impaired and overdue as at the balance sheet date	Of which: not impaired as at the balance sheet date but overdue according to the following maturity periods:					
				Less than 30 days	Between 30 and 60 days	Between 61 and 90 days	Between 91 and 180 days	Between 181 and 360 days	More than 360 days
Trade receivables									
as of 31 Dec 2011	45,059	36,474	40	7,300	248	352	312	283	50
as of 31 Dec 2010	35,874	32,154	1	974	1,908	285	236	276	40

Trade receivables are non-interest bearing and generally have a term of 30 to 90 days.

Due to the fact that the portfolio of trade receivables does not display any impaired or past-due-date items, there are no indications as at the balance sheet date that any debtor is not able to meet his payment obligations. Trade receivables are impaired when there is objective evidence that a valuation allowance must be recorded, e.g. in the event of insolvency.

The provisions for bad debts on trade receivables are as follows:

K EUR	2011	2010
Bad debt provisions as at 1 January	7	12
Additions (impairments)	40	6
Reversals of provisions	7	-11
Bad debt provisions as at 31 December	40	7

(6) Other current financial assets

K EUR	2011	2010
Receivables from Magna Powertrain Inc., Concord, Ontario, Canada	748	3,342
Loan SHW Management Beteiligungs GmbH & Co. KG	0	2,172
Interest caps	0	10
Total	748	5,524

The current financial assets mainly include receivables from the joint venture partner Magna totalling €748 thousand (previous year: €3,342 thousand). The SHW Management Beteiligungs GmbH & Co. KG loan was repaid as part of the initial public offering.

(7) Other current assets

Under the "Other assets" heading, there is a special leasing instalment accrued amounting to €238 thousand (previous year: €357 thousand), which is released over the duration term of the lease agreement. Claims relating to other taxes amounting to €925 thousand (previous year: €928 thousand) are also included under this heading.

(8) Cash and cash equivalents

K EUR	2011	2010
Bank balances, cheques, cash on hand	10,682	20,202
	10,682	20,202

Bank balances earn interest at the variable rates for on-call deposits.

(9) Equity

The development of equity is shown in the "Consolidated statement of changes in Group equity".

As part of the initial public offering and under a notarised agreement dated February 2011, shares of SHW Management Beteiligungs GmbH & Co. KG at SHW Zweite Beteiligungs GmbH amounting to €2,166 thousand were incorporated into SHW AG in exchange for the issue of new shares. The share capital was increased by €351 thousand to €5,851 thousand. €1,815 thousand was recognised in the capital reserves.

The revenue reserves include the consolidated annual profit from previous years.

Other reserves result from currency translation.

Adjustment in accordance with IAS 8.41

In previous years, minority interests were reported as liabilities. This method of presentation was corrected in accordance with IAS 8.41 and the balance sheets to 1 January 2010 and 31 December 2010 were adjusted. This correction increased equity in minority interests by €2,166 thousand and decreased other financial liabilities accordingly. This change had no further effects on the respective result for the period.

(10) Pension accruals and similar obligations

Pension accruals and similar obligations include accruals for post-employment benefits of €22,983 thousand (previous year: €23,318 thousand) and death benefits of €109 thousand (previous year: €108 thousand).

The company pension plan is based substantially on direct defined benefit plans. As a rule, the benefits are measured in accordance with the duration of service rendered by the employee. The company pension plan does not apply for new employees starting on or after 1 January 1999; in contrast to the old plan, employees have to pay half of the contributions themselves.

The pension plans are financed by setting up pension accruals, and in some cases, reinsurance policies were concluded. The corresponding cash surrender values are shown under other non-current financial assets (see Note (3)).

The pension accruals have been measured in accordance with actuarial principles using the projected unit credit method, taking account of the future development of salaries and pensions as well as the new 2005 G reference tables ("RICHTTAFELN") published by Klaus Heubeck.

They are based on the following assumptions:

	2011	2010
Pension increase rate	2.0%	2.0%
Interest rate	5.0%	5.0%

Employees are paid a fixed sum regardless of their salary. For this reason, salary has not been factored in. Any adjustments required by changes in the law are carried out by adjusting the pension increase rate. The projected benefit obligation shows the employees' pension entitlements measured according to the situation on the balance sheet date. If the corridor limits are exceeded, this also includes any actuarial gains or losses resulting from differences between the expected risks and those that have occurred in individual cases.

The accrual for direct benefit obligations does not take account of actuarial gains within the limits set by IAS 19 (± 10 percent of the projected benefit obligation – corridor method).

The pension accrual developed as follows:

K EUR	
As at 1 January 2010	23,693
Current service costs	157
Interest costs	994
Pension payments/other	-1,459
Net actuarial gains and losses recognised in the income statement	-67
Accruals as at 31 December 2010	23,318
Current service costs	163
Interest costs	990
Pension payments/other	-1,430
Net actuarial gains and losses recognised in the income statement	-58
Accruals as at 31 December 2011	22,983

The composition of net pension cost for pension obligations is as follows:

K EUR	2011	2010
Current service costs	163	157
Interest costs	990	994
Recognised actuarial gains	-66	-67
Net pension cost	1,087	1,084

Liabilities from defined benefit plans are as follows:

K EUR	2011	2010
Individual pension obligations to active employees	319	266
Labour-management agreement on pensions	3,093	2,991
Former employees with vested rights	782	758
Pensioners/other	15,838	16,497
DBO	20,032	20,512
Unrecognised actuarial gains	2,951	2,806
Accruals as at 31 December	22,983	23,318

The defined benefit obligations (DBO) developed as follows:

K EUR	2011	2010
DBO 1 January	20,512	20,614
Current service costs	163	157
Interest costs	990	994
Pension payments	-1,430	-1,459
Actuarial gains/losses	-203	206
DBO 31 December	20,032	20,512

Development of the defined pension obligations (DBO) in recent years:

K EUR	2011	2010	2009	2008	2007
DBO 31 December	20,032	20,512	20,614	18,361	20,184
Adjustments based on experience	203	206	10	46	44

Current service costs and actuarial gains and losses recognised in the income statement are included in the cost of production, sales, administration, research and development. Interest is recognised as interest expenses. The pension payments anticipated for 2012 total € 1,470 thousand. The budgeted pension costs for 2012 amount to € 1,062 thousand, which includes actuarial gains of € 66 thousand. Adjustments based on experience to plan liabilities as at 31 December 2011 amount to € 203 thousand (previous year: € 206 thousand; 2009: € 10 thousand; 2008: € 46 thousand) and include actuarial gains of € 2,951 thousand as at 31 December 2011.

(11) Other accruals

K EUR	As at 31 Dec 2010	Utilisa- tion	Reversals of pro- visions	Addi- tions	As at 31 Dec 2011
Warranties	2,579	-430	-350	441	2,240
Other business- related obligations	5,898	-4,691	-480	4,405	5,132
Obligations to employees	3,464	-513	0	366	3,317
Other accruals	126	-6	0	1,034	1,154
	12,067	-5,640	-830	6,246	11,843
Of which non- current accruals	2,917	-306	-830	373	2,984

Other non-current accruals

Other non-current accruals of €2,984 thousand (previous year: €2,917 thousand) mainly consist of the accruals for long-service bonuses of €1,283 thousand (previous year: €1,310 thousand), and the phased early retirement scheme of €1,572 thousand (previous year: €1,485 thousand), which are contained in the obligations to employees.

Warranties

An accrual was created for warranty obligations from the products sold during the last three years. Measurement of the accrual is based on past experience of repairs and returns. In existing warranty cases, measurement is based on the expected result of negotiations.

Other business-related obligations

Other business-related obligations mainly contain anticipated losses of €803 thousand (previous year: €692 thousand), disputed credit amounts of €859 thousand (previous year: €1,357 thousand), STT's obligations relating to credit amounts to be refunded to customers of €1,423 thousand (previous year: €1,154 thousand), and outstanding costs for services already rendered of €2,047 thousand (previous year: €2,695 thousand).

Obligation to employees

Obligations to employees essentially include accruals for the "ERA" framework tariff agreement of €459 thousand (previous year: €518 thousand) as well as accruals for long-service bonuses of €1,283 thousand (previous year: €1,309 thousand) and for the phased early retirement scheme of €1,572 thousand (previous year: €1,485 thousand). The accrual for the framework tariff agreement primarily includes the obligations from the collectively bargained agreement by the employees to waive their wages until the new regulation has been introduced.

(12) Liabilities

K EUR	2011	2010
Non-current liabilities to banks	11,250	22,500
Other non-current financial liabilities	130	158
Non-current liabilities	11,380	22,658
Current liabilities to banks	8,053	11,087
Trade payables	42,166	36,729
Other current financial liabilities		
Liabilities from outstanding (incoming) invoices	10,381	4,324
Liabilities Magna Powertrain	663	1,407
Sundry other current financial liabilities	467	427
	11,511	6,158
Income tax liabilities	950	857
Other liabilities		
Personnel-related liabilities	6,300	5,227
Sundry other current liabilities	260	613
	6,560	5,840
Current liabilities	69,240	60,671
Total	80,620	83,329

With effect from 20 March 2008, the Company signed a loan and collateral pooling agreement with the UniCredit Bank AG (formerly known as the Bayerische HypoVereinsbank AG) as consortium leader. Under the terms of these agreements, the Group has mainly collateralised land secured with real estate lien and transferred trade receivables. Contingency exists corresponding to the amount of credit taken up (€19,303 thousand) as at balance sheet date (previous year: €33,587 thousand). The interest rate is variable and depends on compliance with the covenants. The key covenants are: The leverage ratio and fixed charge cover of the SHW Group. Both covenants were met as at 31 December 2011.

The syndicated loan is divided into various tranches, which are subject to the following terms and conditions:

K EUR	Interest rate 2011	Interest rate 2010	Term	Residual debt 31 Dec 2011	Residual debt 31 Dec 2010
Refinancing credit line 1+2	Euribor +0.60%	Euribor +0.60%	12/2013	19,303	33,587
Working capital credit facility	Euribor +0.60%	Euribor +0.60%	12/2013	0	0
				19,303	33,587

There is a repayment plan for the syndicated loan, but unscheduled repayments are also possible.

The figure disclosed in the balance sheet under "Current liabilities to banks" is reported net of borrowing costs of € 197 thousand (previous year: € 163 thousand) incurred in connection with the loan. Of the loans, an amount of € 8,053 thousand is to be re-paid in 2012 (previous year: € 11,250 thousand). This is reported under "Current liabilities to banks". The borrowing costs are recognised in the income statement over the duration term, taking the loan balance and unscheduled repayments into account. In the 2011 financial year, interest and borrowing costs of € 818 thousand (previous year: € 854 thousand) from this loan were recognised as an expense.

The payment liabilities for material purchases are secured by retention of title customary in the industry.

Other current financial liabilities mainly include liabilities for expenses where the underlying services were received in 2011, but the invoice was not written until the 2012 financial year.

Personnel-related liabilities primarily include liabilities for management bonuses of € 772 thousand (previous year: € 1,134), vacation of € 1,201 (previous year: € 857 thousand), wage tax of € 579 thousand (previous year: € 540 thousand), overtime and working hours carried forward of € 1,674 (previous year: € 1,130) as well as employer's liability insurance of € 444 (previous year: € 287).

(13) Segment reporting

Since 2009, segment reporting has been based on the management approach. Operating segments are determined on the basis of internal reports as per IFRS 8 used regularly by the Chief Operation Decision Maker to decide on the distribution of resources and estimate profitability. The profitability of individual segments is established on the basis of the operating result (EBIT). The EBIT of the segments is determined in accordance with IFRS, as is the operating result of the Group. The assets and liabilities of each segment are also established on the basis of IFRS. Financial expenses, financial income and income tax are managed at the Group level. The Pumps and Engine Components business segment manufactures oil and water pumps as well as sintered metallurgy products for the automobile industry. The Brake Discs business segment produces unprocessed and processed brake discs for the automobile industry. Transactions between the business 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 based in the various countries. The following summary reports the sales and results of the various business segments.

Business segments

	Pumps and Engine Components		Brake Discs		Other Elimination/ Consolidation Group		Group	
K EUR	2011	2010	2011	2010	2011	2010	2011	2010
External sales	268,340	211,591	92,235	78,683	–	–	360,575	290,274
Sales between the segments	162	112	–	–	-162	-112	–	–
Segment sales	268,502	211,703	92,235	78,683	-162	-112	360,575	290,274
Segment result	26,664	22,225	665	271	-3,553	-2,310	23,776	20,186
Financial result	–	–	–	–	-150	-1,964	-150	-1,964
Earnings before tax	26,664	22,225	665	271	-3,703	-4,274	23,626	18,222
Systematic segment depreciation	7,002	7,318	2,897	3,005	191	199	10,090	10,522
Segment capital investments	17,428	7,757	4,109	1,382	1,726	1,106	23,263	10,245
Segment assets	115,576	95,415	44,053	41,475	14,137	21,778	173,766	158,668
Major segment expenses	– ¹⁾	– ²⁾	– ¹⁾	– ²⁾	2,235 ¹⁾	1,410 ²⁾	2,235 ¹⁾	1,410 ²⁾
Number of customers representing sales >10% of total sales	3	2	2	2	–	–	–	–
VW Group	84,133	77,865	53,496	47,051	–	–	137,629	124,916
BMW Group	29,366	23,220	8,164	7,899	–	–	37,530	31,119
General Motors Group	36,922	–	–	–	–	–	36,922	–

¹⁾ IPO expenses, without effect on taxes.

²⁾ Cost of works agreement, without effect on taxes.

Geographical segments

	Germany		Rest of Europe		America		Other		Total	
K EUR	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
External sales	188,060	151,448	123,869	107,092	45,337	28,748	3,309	2,986	360,575	290,274
Other segment information										
Non-current segment assets	66,650	56,918	–	–	7,317	3,920	–	–	73,967	60,838

Notes on the income statement

(14) Selling expenses

Selling expenses are expenses incurred in the sales function. This mainly relates to expenses incurred by the sales, advertising and marketing departments as well as all the overheads that can be allocated to these functions or activities. Direct selling expenses include freight charges, commission and dispatch costs.

(15) General administration expenses

Administration expenses include all administrative costs, which cannot be allocated to other functions. This includes costs attributable to general administration, management or other higher-ranking departments.

(16) Research and development costs

Research and development costs include personnel and non-personnel costs (e.g. the depreciation on machinery used in research and development). Additional capitalised research and development costs totalled €2.8 million (previous year: €1.7 million).

(17) Other operating income

Among other items, other operating income includes €141 thousand for services rendered (previous year: €200 thousand), €1,208 thousand for the reversal of accruals and liabilities (previous year: €515 thousand), €1 thousand for income received relating to customer bad debt and recognised bad debt subsequently recovered (previous year: €133 thousand), and €35 for income from the disposal of fixed assets (previous year: €28 thousand). Income from the reversal of accruals and liabilities mainly relates to the reversal of the specific warranty accruals. As in the previous year, goods provided for a subcontractor amounting to €3,561 thousand (previous year: €2,680 thousand) are also recorded here and were set off against equal expenses.

(18) Other operating expenses

Among other items, other operating expenses include €263 thousand for expenses not allocable to functional costs and valuation adjustments of current assets (previous year: €0), €0 for amortisation of the customer base (previous year: €522 thousand) and €634 thousand for special payments to employees (previous year: €918 thousand), €0 for costs of works agreements totalling (previous year: €1,410 thousand) as well as €17 thousand for restructuring costs (previous year: €212 thousand).

Operating expenses also include expenses related to the initial public offering as well as a real estate transfer tax provision. Total expenses amount to €2,235 thousand. To improve the presentation of the operating result, these expenses have been included under "Other operating expenses". As in the previous year, goods provided for a subcontractor amounting to €3,561 thousand (previous year: €2,680 thousand) are also recorded here and were offset against equal income.

On 26 November 2006, the Group concluded a works agreement according to which employees who were with the company on the date of the takeover and on the date of the sale will be paid a total of 4 percent of the net proceeds in the event of a sale or partial sale of SHW by Nordwind Capital. This works agreement is limited to the German Group companies. A total cost of €1,410 thousand was recorded for this obligation.

(19) Financial result

The financial result is made up as follows:

K EUR	2011	2010
Financial income	2,201	306
Financial expenses		
Interest and similar expenses	-1,361	-1,276
Interest portion in the addition to pension accruals	-990	-994
	-2,351	-2,270
Financial result	-150	-1,964

Financial income mainly results from the interest on non-current assets and the interest income from fixed-term investments as well as from the sale of SHW Management Beteiligungs GmbH & Co. KG shares amounting to €1,975 thousand.

Other interest and similar expenses primarily include interest and borrowing costs from the syndicated loan determined using the effective interest rate method (see Note (12), "Liabilities") of €818 thousand (previous year: €854 thousand).

The following table shows the net result of financial instruments broken down by measurement category:

K EUR	Net result		Of which expense/ income from the value adjustment	
	2011	2010	2011	2010
Loans and receivables (LaR) ¹⁾	210	311		5
Available-for-sale assets (AFS) ¹⁾	-19	-105	-19	-105
Financial liabilities measured at amortised cost (FLAC) ¹⁾	-1,283	-1,196		0
Total	-1,092	-990	-19	-100

¹⁾ AFS: Available for Sale
LaR: Loans and Receivables
FLAC: Financial Liabilities measured at Amortised Cost

(20) Income tax

K EUR	2011	2010
Current taxes	-5,264	-4,641
Deferred taxes		
Deferred taxes recognised on temporary differences and reversals thereof	-1,364	-66
Total	-6,628	-4,707

A deferred tax expense amounting to €3 thousand results from the measurement of hedging instruments recorded directly in equity. In the previous year, deferred tax expenses of €12 thousand were recorded directly in equity.

Reconciliation of the income taxes in the income statement and the product of EBIT and the applicable tax rate of the Group:

K EUR	2011	2010
Earnings before tax	23,626	18,222
Expected income tax	6,663	5,139
Tax-free income, non-deductible expenses	-216	100
Taxes from previous years	118	-350
Reduction in assessed value	-12	-13
Additions (pursuant to § 8 of the German Trade Tax Act, Gewerbesteuergezet, GewStG)	49	55
Expense/income change in tax rate	-15	-9
Different tax rate at STT	-50	0
Other	91	-215
Income tax (effective tax rate: 28.1 percent, previous year: 25.8 percent)	6,628	4,707

In 2011 the corporate income tax calculated in Germany resulted from applying a corporation profits tax rate of 15 percent plus the solidarity surcharge of 5.5 percent of the corporate income tax – 15.8 percent in total – to earnings before tax. Trade tax amounts to 12.3 percent with an average multiplier of 345 percent. The total tax burden therefore amounts to 28.1 percent.

The actual tax rate of STT is 26.5 percent, comprising federal tax of 16.5 percent and provincial state tax of 10.0 percent. Together with STT Mexico, a weighted tax rate results in 26.5 percent. The tax rate in the previous year was 29 percent comprising federal tax of 18 percent and provincial state tax of 11 percent.

Deferred taxes are based on differences in recognition and measurement in the tax balance sheet; the local actual tax rates of 28.1 percent and 26.5 percent are used for Germany and Canada/Mexico respectively.

No deferred taxes were calculated on outside basis differences amounting to €1,865 thousand.

Deferred income tax at balance sheet date is as follows:

K EUR	Consolidated balance sheet 2011	Consolidated balance sheet 2010
Deferred income tax liabilities		
Other intangible assets	1,643	881
Tangible assets (property, plant and equipment)	1,253	979
Current assets	133	87
Current liabilities and accruals	159	58
Non-current liabilities and accruals	6	0
	3,194	2,005
Deferred income tax assets		
Non-current assets	0	95
Inventories	212	308
Current assets	0	122
Pension accruals and similar obligations	2,402	2,658
Other non-current liabilities and accruals	0	325
Other current liabilities and accruals	787	65
	3,401	3,573

The deferred tax income (+) and expense (-) relating to the changes in values directly recorded in equity are as follows:

K EUR	Before tax	Tax income/ expense	After tax
2011			
Currency translation differences	187	0	187
Revaluation reserve	0	0	0
Change in the market values of hedging instruments	-10	3	-7
	177	3	180
2010			
Currency translation differences	1,384	0	1,384
Revaluation reserve	0	0	0
Change in the market values of hedging instruments	43	-12	31
	1,427	-12	1,415

(21) Other notes on the income statement

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

Cost of materials

K EUR	2011	2010
Cost of raw materials and supplies and of purchased merchandised	-223,751	-171,413
Cost of purchased services	-6,596	-5,672
Total cost of materials	-230,347	-177,085

Depreciation/amortisation

Amortisation and depreciation of intangible and tangible assets amounted to € 10,090 thousand (previous year: € 10,522 thousand).

Personnel expenses

K EUR	2011	2010
Wages and salaries	-57,857	-52,374
Social security charges and pension costs	-11,269	-9,892
Total personnel expenses	-69,126	-62,266

Pension and other benefit costs contain the addition of €90 thousand (previous year: € 76 thousand) to the pension accruals (without the interest portion). The cost of statutory pension insurance totals € 4,616 thousand (previous year: € 4,181 thousand). € 4,181 thousand). The grants given by the Federal Employment Office as compensation for the fact that the workforce was working short-time amounted to € 0 thousand (previous year: € 44 thousand); the related share of social security amounts to € 0 thousand (previous year: € 18 thousand). The netted balance is stated in the income statement.

Annual average number of employees in Germany:

K EUR	2011	2010
Wage earners	773	753
Salaried employees	173	168
	946	921

An average of 176 wage earners (previous year: 140) and 58 salaried staff (previous year: 52) were employed at our Canadian joint venture STT.

Other information

(22) Contingent liabilities

There were no contingent liabilities in the 2011 and 2010 financial years.

(23) Financial instruments

The Group hedges externally against its interest risk using transactions with banks at customary market conditions. Management is informed of interest items at regular intervals. A cost-benefit analysis, carried out yearly since 2008, has led to the decision to no longer secure the existing currency risks at STT with the use of forward foreign exchange contracts.

On 2 October 2008 the Group concluded two interest caps with a nominal value of €25,500 thousand and a duration from 31 December 2008 until 31 December 2013, the effect of which was terminated on 11 August 2011. These served to secure the syndicated loan of 20 March 2008. In August 2011, the Group concluded two forward interest swaps with a term from 30 December 2011 until 30 December 2013. They were measured at market value and are recognised as expenses in the income statement. The market values on 31 December were € -116 thousand and € -134 thousand. Because of the IFRS 7 amendments to be adopted as of the 2009 financial year, assets and liabilities stated 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 the measurement and can be broken down as follows:

- a) (Unadjusted) prices that are quoted in active markets for identical assets or liabilities (Level 1);
- b) Inputs that are either directly (as prices) or indirectly observable (derived from prices) for the asset or liability, whereby the inputs do not constitute quoted prices pursuant to Level 1 (Level 2);
- c) Inputs applied to the asset or liability, which are not based on observable market data (non-observable inputs) (Level 3).

As at 31 December 2011 only caps and reinsurance are measured at fair value. They are measured on the basis of observable market data, which is why they are classified as Level 2. Interest in SHW do Brasil Ltda. and in SHW Automotive CZ, s.r.o. is measured as amortised costs, as they are not dealt with on an active market. They are therefore classified as Level 3.

A distinction is made between the following categories of financial instruments:

K EUR	Measurement category ¹⁾	Carrying amount as at 31 Dec 2011	Fair value as at 31 Dec 2011	Recognised at		
				Amortised cost	Fair Value through equity	Fair value through profit or loss
Assets						
Other non-current financial assets						
Participating investments	AfS	345	-	345	-	-
Asset value of the reinsurance cover	AfS	478	478	-	-	478
Trade receivables	LaR	45,059	45,059	45,059	-	-
Other receivables	LaR	-	-	-	-	-
Other current financial assets						
Loans and receivables	LaR	748	748	748	-	-
Derivatives with hedging relationship		-	-	-	-	-
Cash and cash equivalents	LaR	10,682	10,682	10,682	-	-

K EUR	Measurement category ¹⁾	Carrying amount as at 31 Dec 2010	Fair value as at 31 Dec 2010	Recognised at		
				Amortised cost	Fair Value through equity	Fair value through profit or loss
Assets						
Other non-current financial assets						
Participating investments	AfS	306	-	306	-	-
Asset value of the reinsurance cover	AfS	485	485	-	-	485
Trade receivables	LaR	35,874	35,874	35,874	-	-
Other receivables	LaR	161	161	161	-	-
Other current financial assets						
Loans and receivables	LaR	5,514	5,514	5,514	-	-
Derivatives with hedging relationship		10	10	-	10	-
Cash and cash equivalents	LaR	20,202	20,202	20,202	-	-

¹⁾ AfS: Available for Sale
LaR: Loans and Receivables

The Company does not plan to sell or derecognise any significant portions of the available-for-sale financial assets recognised as at 31 December 2011 in the near future.

K EUR	Measurement category ¹⁾	Carrying amount as at 31 Dec 2011	Fair value as at 31 Dec 2011	Recognised at		
				Amortised cost	Fair Value through equity	Fair value through profit or loss
Equity and liabilities						
Liabilities to banks	FLAC	19,303	19,303	19,303	-	-
Trade payables	FLAC	42,166	42,166	42,166	-	-
Other non-current financial liabilities						
Other non-interest-bearing liabilities	FLAC	130	130	130	-	-
Other current financial liabilities						
Other non-interest-bearing liabilities	FLAC	11,261	11,261	11,261	-	-
Derivatives	HFT	250	250	-	-	250

K EUR	Measurement category ¹⁾	Carrying amount as at 31 Dec 2010	Fair value as at 31 Dec 2010	Recognised at		
				Amortised cost	Fair Value through equity	Fair value through profit or loss
Equity and liabilities						
Liabilities to banks	FLAC	33,587	33,587	33,587	-	-
Trade payables	FLAC	36,729	36,729	36,729	-	-
Other non-current financial liabilities						
Other non-interest-bearing liabilities	FLAC	158	158	158	-	-
Other current financial liabilities						
Other non-interest-bearing liabilities	FLAC	8,324	8,324	8,324	-	-

¹⁾ AFS: Available for Sale
LaR: Loans and Receivables
FLAC: Financial Liabilities measured at Amortised Cost
HFT: Held for Trading

The following summary of the maturity bands illustrates how cash flows from liabilities (not discounted) affect the cash position of the Group as at 31 December 2011:

K EUR	2012	2013	2014	2015	2016	Total
Liabilities to banks	0	11,250	0	0	0	11,250
Trade payables	42,166	0	0	0	0	42,166
Other non-current liabilities	130	0	0	0	0	130
Current liabilities						
to banks	8,053	0	0	0	0	8,053
Other	0	0	0	0	0	0
Total	50,349	11,250	0	0	0	61,599

The situation as at 31 December 2010 can be summarised as follows:

K EUR	2011	2012	2013	2014	2015	Total
Liabilities to banks	0	11,250	11,250	0	0	22,500
Trade payables	36,729	0	0	0	0	36,729
Other non-current liabilities	158	0	0	0	0	158
Current liabilities						
to banks	11,087	0	0	0	0	11,087
Other	4,000	0	0	0	0	4,000
Total	51,974	11,250	11,250	0	0	74,474

Capital management

The primary objective of capital management is to ensure that the Group maintains a strong credit rating and healthy capital ratios in order to support its business activity. The Group manages its capital structure and adjusts it to the respective economic conditions. There is no fixed target for its net financial liabilities. The Group monitors its capital structure on the basis of its net financial liabilities and the ratios to be fulfilled as per the covenant agreements. A monthly report is prepared in this regard and discussed at the management meetings. The Group's capital is managed and controlled by means of the targeted retention of earnings, as laid down in a shareholders' resolution. Repayment of the syndicated loan from 20 March 2008 is planned as a priority in the coming two years. The following table shows the composition of the net financial liabilities on each balance sheet date.

K EUR	2011	2010
Interest-bearing loans and borrowings	19,303	33,587
Trade payables	42,166	36,729
Cash and cash equivalents	-10,682	-20,202
Net financial liabilities	50,787	50,114

Credit risk

Credit risks result from the possibility of the full or partial default of a counterparty and also exist with regard to cash investments. Provisions for trade receivables and for other receivables and assets, covering all recognisable creditworthiness risks, are set up according to standard Group rules. Accordingly, provisions are set up if there are objective indications of impairment in value, i.e. in the case of a customer being insolvent, or receivables being overdue by a certain amount of time. The Group mainly supplies major car manufacturers and automotive suppliers. Sales and trade receivables at STT are almost totally concentrated on just two customers. Credit insurance has been taken out to cover the receivables of SHW Automotive GmbH. Receivables from car manufacturers are not covered by this insurance policy. Major cases of non-collection of receivables have been recorded in recent years. The maximum risk upon default of the counterparty for receivables not covered by credit insurance and for other financial assets does not exceed the carrying amount of the respective assets of €34,452 thousand (previous year: €24,405 thousand).

Liquidity risk

Liquidity risk means the risk of not being able to meet present or future payment commitments or only being able to do so under unfavourable conditions. The Group monitors the liquidity risk with the assistance of monthly financial planning for income and expenditure for the coming months. The Group's goal is to meet its financial obligations at all times and to find an optimum balance between short-term investments and use of borrowings. This means that the Group strives for a minimum level of liquidity, which is derived from the monthly financial planning figures, whereby it should be ensured that the capital needed by the Group for current business and planned investments is sufficiently covered in the most cost-effective manner possible. Readily available cash that is not required in the short term is invested, e.g. in call-money accounts. Another of the Group's goals is to keep its working capital to a minimum. With regard to borrowing, the Group can draw on a revolving credit facility of €30 million, on which €4.0 million has so far been drawn through guarantees. We refer to our comments under Note (12), "Liabilities", for further information on the due date of liabilities.

Market price risk

The Group sees itself as being exposed mainly to foreign exchange risks and changes in interest rates. There are risks from exchange rate fluctuations arising from capital investments, financing measures, and operating activities in regions that use a different 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 task of the management of market price risks is to mitigate the impact of fluctuations in foreign exchange rates and interest rates. On the basis of a resolution reached by Group management, no new forward exchange contracts are to be entered into from 2008 onwards. Currency risks result almost exclusively from business operations of the Group's joint venture STT.

The following table shows the sensitivity of Group earnings after tax and of Group equity to a possible fluctuation in exchange rates estimated according to sound judgement:

		Change in foreign exchange rates	Effects on earnings after tax K EUR	Effects on equity K EUR
2011	CAD	-10%	-1,416	-1,416
	CAD	+10%	+1,416	+1,416
2010	CAD	-10%	624	624
	CAD	+10%	-624	-624

The Group's interest exposures are primarily related to the loan agreement dated 20 March 2008. Sensitivity to changes in interest rates has been analysed. This presents the effects that changes in market interest rates would have on interest payments, interest income and interest expenses and their impact on the Group's profit or loss.

If the market interest level had been 100 basis points higher than at 31 December 2011, earnings before tax would have been € 120 thousand lower (previous year: € 320 thousand). If the market interest level had been 100 basis points lower than at 31 December 2011, earnings before tax would have been € 415 thousand higher (previous year: € 505 thousand).

Collateral issued

Under the terms of the collateral pooling agreement signed on 20 March 2008, trade receivables are ceded, and land bearing land charges are collateralised (carrying amount of the land: € 21,071 thousand). The pledging of GmbH shares in SHW Beteiligungs GmbH (now SHW AG) to SHW Zweite Beteiligungs GmbH was reversed with the agreement of 10 May 2011.

Provided as collateral for liabilities	Carrying amount K EUR	Terms and conditions
31 Dec 2011	38,307	Trade receivables, global assignment
31 Dec 2010	26,855	Trade receivables, global assignment

(24) Other financial commitments

The financial commitments vis-à-vis third parties from investment projects that have already been commenced were of a scope customary for the industry.

K EUR	2011	2010
Obligations from rent and lease agreements:	7,600	11,048
of which due within one year	2,783	2,669
of which due in between one and five years	4,817	7,343
of which due in more than five years	0	1,036

SHW Automotive GmbH & Co. KG leases cars under a vehicle leasing arrangement as well as three warehouses, a telephone system and computer hardware. In connection with the machine lease arrangement under the terms of the sale-and-lease-back agreement, the annual lease instalments incurred amount to € 1,098 thousand (previous year: € 1,098 thousand). The agreement has a total term of 60 months. The lease expense for other machines amounts to € 256 thousand (previous year: € 170 thousand). The expense from rent and lease agreements amounted to € 235 thousand in the 2011 financial year (previous year: € 192 thousand). STT has a long-term rent contract for offices and manufacturing space. The rent expense in the 2011 financial year amounts to € 580 thousand (previous year: € 580 thousand).

(25) Year-end auditors' fees

K EUR	2011	2010
Services relating to the audit of the financial statements	175	130
Other assurance services	355	20
Tax consultancy services	57	18
Other services	91	0

(26) Total remunerations paid to the members of the management

K EUR	2011	2010
Short-term benefits (remuneration)	849	605
Long-term benefits (remuneration)	212	
Post-employment benefits	0	0
Other long-term benefits and post-employment benefits	0	3

The remuneration of former members of the management of predecessor companies and their surviving dependents amounted to € 240 thousand (previous year: € 232 thousand). Accruals totalling € 2,241 thousand (previous year: € 2,225 thousand) have been set up for pension obligations for this group.

The total remuneration paid to members of the Supervisory Board totalled € 150 thousand in the 2011 financial year.

(27) Cash flow statement

The cash flows in the cash flow statement are divided into operating, investing and financing activities. As in the previous year, the other non-cash-effective expenses included in the cash flow from operating activities in the 2011 financial year relate to foreign exchange gains and losses.

The cash and cash equivalents in the cash flow statement are the cash and cash equivalents presented in the balance sheet. As at balance sheet date, there were overdrafts amounting to €0 thousand (previous year: €0 thousand).

(28) Related-party transactions

The consolidated financial statements include all major subsidiaries and joint ventures. Other related-party transactions comprise the following:

SHW Holding L.P., Bermuda

The Group is controlled by SHW Holding L.P., Bermuda, which holds 58.3 percent of the shares. Management holds 1.5 percent of shares; the remaining shares (40.2 percent) are held as free float shares.

STT Technologies Inc., Concord, Canada

The Group holds 50 percent of the shares in this company. A limited number of trade transactions took place, and sales with STT amounted to approximately €325 thousand in the 2011 financial year (previous year: €225 thousand). As at 31 December 2011, there were trade receivables amounting to €27 thousand; the Group did not have any trade payables to STT.

ISE Group

By agreement dated 10 September 2010, ISE Automotive GmbH transferred its SAP standard software licences to SHW Automotive. ISE Automotive GmbH is a company whose shares, like the shares of the principal shareholder of the company, SHW Holding L.P., are held by funds under the control of Nordwind Capital. SHW Automotive GmbH acquired a total of 250 licences and a developer's licence for €225 thousand. The transfer was approved by SAP Deutschland AG & Co. KG.

Moreover, ISE Automotive GmbH has hosted the SAP development system for the SHW Group since March 2010 for a monthly fee of €1,600. ISE Automotive charges a daily rate of €800 for other IT support services. In the 2011 financial year the SHW Group paid €18 thousand (previous year: €13 thousand) for these benefits.

In the 2011 financial year, the Management Board of SHW AG comprised:

Dr.-Ing. Wolfgang Krause, Bad Schussenried,
Chairman of the Management Board and Managing Director of SHW Automotive GmbH responsible for the Pumps and Engine Components business segment

Andreas Rydzewski, Lauffen am Neckar,
Member of the Management Board and Managing Director of SHW Automotive GmbH responsible for the Brake Discs business segment

Oliver Albrecht, Ulm (since 14 February 2011),
CFO and Managing Director of SHW Automotive GmbH responsible for Group headquarters.

In the 2011 financial year, the members of SHW AG's Advisory Board were:

Anton Schneider, Cologne,
Chairman of the Supervisory Board
Managing Director of Nordwind Capital

Further current mandates:

- Vice-Chairman of the Supervisory Board of Linz Textil AG, Austria;
- Member of the Supervisory Board of Semperit AG Holding, Austria;
- Member of the Advisory Board of ISE Beteiligungs GmbH;
- Advisory Board of Nordwind Erste Industriebeteiligungen GmbH;
- Member of the Advisory Board and Managing Director of Nordwind Capital Zweite Industriebeteiligungen GmbH;
- Member of the Advisory Board of Nordwind Capital Vierte Industriebeteiligungen GmbH;
- Member of the Advisory Board of Nordwind Capital Sechste Industriebeteiligungen GmbH.

Dr. Martin Beck, Feldkirchen,
Vice-Chairman of the Supervisory Board
Managing Director of Nordwind Capital

Further current mandates:

- Managing director of Nordwind Capital Erste Industriebeteiligungen GmbH;
- Managing director of Nordwind Capital Zweite Industriebeteiligungen GmbH;
- Managing Director of Nordwind Capital Vierte Industriebeteiligungen GmbH;
- Managing Director of NC NewCo. GmbH, Munich;
- Managing Director of Nordwind Team Verwaltungs GmbH, Munich;
- Member of the Supervisory Board and Chairman of the Steering Committee of shareholders, MEC Holding GmbH;
- Chairman of the Advisory Board of ISE Beteiligungs GmbH;
- Chairman of the Advisory Board of ZT Management Holding GmbH;
- Chairman of the Advisory Board of Umfotec Verwaltungs GmbH;
- Chairman of the Advisory Board of PAS Management Holding GmbH;
- Member of the Advisory Board of Amoena Management Holding GmbH.

Dr. Hans Albrecht, Munich,
Vice-Chairman of the Supervisory Board
Managing Director of Nordwind Capital

Further current mandates:

- Advisory Board member and managing director of Nordwind Capital Erste Industriebeteiligungen GmbH;

- Advisory Board member of Nordwind Capital Zweite Industriebeteiligungen GmbH;
- Member of the Advisory Board and Managing Director of Nordwind Capital Vierte Industriebeteiligungen GmbH;
- Member of the Advisory Board and Managing Director of Nordwind Capital Sechste Industriebeteiligungen GmbH;
- Member of the Supervisory Board of Cargobeamer AG;
- Managing Director of the general partner of NCAH Albrecht GmbH & Co. KG;
- Managing Director of Nordwind Capital GmbH;
- Managing Director of the general partner of ONE Deutschland Beteiligungs GmbH & Co. KG, Munich;
- Member of the Supervisory Board of Trailer International GmbH, Pullach.

Christian Brand, Karlsruhe,
Chairman of the Management Board of L-Bank

Further current mandates:

- Chairman of the Management Board of Landeskreditbank Baden-Württemberg – Förderbank (L-Bank);
- Member of the Administrative Board of the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin);
- Member of the Supervisory Board of BWK GmbH Unternehmensbeteiligungsgesellschaft;
- President of the Federal Association of Public Banks in Germany (Bundesverband öffentlicher Banken Deutschlands);
- Member of the Board of Trustees (Kuratorium) of the Vereinigung Baden-Württembergische Wertpapierbörse e.V.; Member of the Executive Committee of Vereinigung Baden-Württembergische Wertpapierbörse e.V.;
- Member of the Supervisory Board of Wüstenrot & Württembergische AG;
- Member of the Supervisory Board of Wüstenrot Holding AG;
- Member of the Supervisory Board of Vorarlberger Landes- und Hypothekenbank AG;
- Member of the Administrative Board of Sächsische Aufbaubank Förderbank.

Edgar Kühn, Aalen,
Chairman of the Central Works Committee at SHW Automotive GmbH;
Chairman of the Works Committee at SHW Automotive GmbH, Werk Aalen-Wasseralfingen.

Ernst Rieber, Bad Saulgau,
Chairman of the Works Committee at SHW Automotive GmbH, Werk Bad Schussenried.

List of equity investments pursuant to § 313
Para. 2 of the German Commercial Code as at
31 December 2011

Name and registered office of the company	Share in capital (%)	Local currency (LC)	Exchange rate (EUR/LC)	Equity capital (1,000 LC)	Result (1,000 LC)
Schwäbische Hüttenwerke Zweite Beteiligungs GmbH, Aalen-Wasseralfingen	100.0	EUR	1	74,611	0
Schwäbische Hüttenwerke Automotive GmbH, Aalen-Wasseralfingen	100.0	EUR	1	91,452	0
STT Technologies Inc., Concord/Ontario, Canada	50.0	CAD	1.3221	36,798	5,853
SHW do Brasil Ltda., São Paulo, Brazil	100.0	BRL	2.4123	267	-6
SHW Automotive CZ, s.r.o. Brno, Czech Republic	100.0	CZK	25.6800	-156	-54
SHW Automotive Pumps (Shanghai) Co., Ltd., China	100.0	EUR	1	1,400 ¹⁾	0
SHW Automotive Industries GmbH, Aalen-Wasseralfingen	100.0	EUR	1	25	0

¹⁾ Subscribed capital in euros, of which €210 thousand paid in.

Aalen, 2 March 2012

Management Board of SHW AG

Dr.-Ing. Wolfgang Krause Oliver Albrecht Andreas Rydzewski
Chairman

Auditor's report

We have audited the consolidated financial statements prepared by SHW AG, Aalen, comprising the balance sheet, the income statement and statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the Group management report, which is combined with the management report of SHW AG for the business year from 1 January to 31 December 2011. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Stuttgart, 2 March 2012

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Marcus Nickel
(German Public Auditor)

ppa. Gerda Sattlegger
(German Public 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, 2 March 2012

Management Board of SHW AG



Dr.-Ing. Wolfgang Krause Oliver Albrecht Andreas Rydzewski
Chairman

Financial calendar

27 March 2012	Annual Report 2011
8 May 2012	Interim Report for the 1st quarter of 2012
15 May 2012	Annual General Meeting 2012
8 August 2012	Interim Report for the 1st half of 2012
8 November 2012	Interim Report for the 3rd quarter of 2012

Imprint

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 Hamburg, Germany

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.

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