# PIONEER FOR $CO_2$-EFFICIENT MOBILITY

*Annual Report 2012*

# COMPANY PROFILE

With its product portfolio, the SHW Group benefits from the megatrend towards $CO_2$ reduction. The growing global demand for mobility is counteracted by regulatory requirements for a significant reduction of $CO_2$ emissions by motor vehicles.

SHW started developing relevant products early on, and today has a broad product portfolio of highly-efficient components for motor and engine applications as well as brake discs, which increase the efficiency of the combustion engine and its auxiliary units or bring down the vehicle weight.

We help our customers to fulfil the requirements of today and tomorrow – as a pioneer for attainment of the strict $CO_2$ targets.

# KEY FIGURES 2012

| in K EUR | **2012** | 2011 | Change in % |
|---|---|---|---|
| Sales [1] | 325,373 | 317,294 | 2.5 % |
| EBITDA [1] | 32,412 | 29,640 | 9.4 % |
| as % of sales | 10.0% | 9.3% | |
| EBIT [1] | 22,324 | 20,895 | 6.8 % |
| as % of sales | 6.9% | 6.6% | |
| Income after tax – continued operations [1] | 14,285 | 14,904 | -4.2 % |
| Income after tax - discontinued operations [1] | 31,858 | 2,094 | |
| Net income for the year | 46,143 | 16,998 | 171.5 % |
| Earnings per share – continued operations (EUR) [2] | 2.44 | 2.57 | -5.0 % |
| Earnings per share – discontinued operations (EUR) [2] | 5.44 | 0.36 | |
| Earnings per share – continued and discontinued operations (EUR) [2] | 7.89 | 2.93 | 169.0 % |
| Adjusted EBITDA [1] | 33,937 | 31,875 | 6.5 % |
| as % of sales | 10.4% | 10.0% | |
| Adjusted EBIT [1] | 24,009 | 23,290 | 3.1 % |
| as % of sales | 7.4% | 7.3% | |
| Equity | 94,340 | 55,127 | 71.1 % |
| Equity ratio | 52.4% | 31.7% | |
| Net cash as of 31 December | 19,629 | -8,621 | |
| Number of employees (average) [1][3] | 1,022 | 950 | 7.6 % |

[1] Prior year values were adjusted due to presentation of previously proportionally consolidated STT as “discontinued operations”.
[2] 2012: based on an average of 5,851,100 shares; 2011: based on an average of 5,798,195 shares.
[3] Excluding trainees and temporary workers.

## PIONEER FOR $CO_2$-EFFICIENT MOBILITY

The SHW Group is one of the leading automobile suppliers offering products that contribute substantially to a reduction in fuel consumption and consequently also $CO_2$ emissions.

Our two business segments of Pumps and Engine Components and Brake Discs supply well-known automotive manufacturers, manufacturers of commercial, agricultural and construction vehicles and other automotive suppliers. Our profitable growth and stable financial profile are based on excellence in technology and innovation that our customers appreciate.

We currently employ slightly more than 1,000 people at our four sites in Germany. In the fiscal year 2013, we will start production of oil pumps in Brazil. We will also develop business activities in the USA and China systematically.

# BUSINESS SEGMENTS

*The Group's business is divided into the Pumps and Engine Components business segment and Brake Discs business segment.*

### PUMPS AND ENGINE COMPONENTS

In the Pumps and Engine Components business segment, the SHW Group produces vehicles components for various fields of application. Among the products for passenger vehicles count variable oil pumps, electric pumps for start-stop systems and other $CO_2$-relevant engine components. The SHW Group's product range also includes pumps for Truck & Off-Highway applications; further crucial components for engines and gearboxes are also produced.

SALES

**238**

€ million
+5,7 % compared to previous year

ADJUSTED EBIT

**27.8**

€ million
-5,7 % compared to previous year

EMPLOYEES

**643**

as of 31 December 2012
+8,2 % compared to previous year

### BRAKE DISCS

In the Brake Disc business segment, the SHW Group develops and produces monobloc ventilated brake discs made from cast iron as well as lightweight brake discs made from a combination of an iron friction ring and aluminium pot. Brake discs for the original equipment and spare parts business are manufactured in the company foundry. In 2012, the majority of the casted brake disc blanks were delivered directly to the automotive manufacturers still in an unprocessed state. The remaining brake disc castings were processed into ready-to-install brake discs.

SALES

**87**

€ million
-5,2 % compared to previous year

ADJUSTED EBIT

**6.9**

€ million
+94,5 % compared to previous year

EMPLOYEES

**366**

as of 31 December 2012
+5,8 % compared to previous year

# MISSION & VISION

*The focus of our business activities lies in the development and manufacture of products that contribute to a reduction in fuel consumption and consequently $CO_2$ emissions within the automotive sector.*

### MISSION

- Shape the megatrend towards $CO_2$ reduction by developing pioneering vehicle components
- Manufacture consumption-optimised vehicle components in outstanding quality
- Be the partner of choice for our customers
- Generate profitable growth and free cash flow

### VISION

- Global leader in the field of pumps and engine components for passenger cars
- Leading provider of $CO_2$-optimised vehicle components for alternative drive technologies
- Extensive transfer of knowledge from the passenger car division to Truck & Off-Highway division
- A reliable and valued partner for all stakeholders, who creates sustainable value

# INNOVATIONS IN THE LAST YEARS

*The SHW Group is an innovation leader in the field of highly-efficient vehicle components. This is proven by the Company through the launch of ever-new product innovations onto the market.*

2005
Transmission oil pump for dual clutch

2006
Map-controlled engine oil pump

2006
Oil-vacuum pump

2007
Vane pump in engines

2010
Electrical pump for hybrids

2011
Camshaft phaser for diesel

PIONEER FOR
$CO_2$-EFFICIENT MOBILITY


# CONTENT

# FOREWORD

## DEAR LADIES AND GENTLEMAN, DEAR SHAREHOLDERS,

We look back on the 2012 financial year as one that was both eventful and successful for SHW AG in numerous respects.

In the year under review, SHW reported Group sales totalling € 325 million. On a comparative basis with the previous year, this corresponds to a 2.5 percent increase in sales. The business with gearbox oil pumps for start-stop systems reported particularly favourable growth, which contributed decisively to the 5.7 percent rise in sales within the Pumps and Engine Components business segment. We were able to realize this growth in a market environment that was marked by a sharp drop in European vehicle production.

The comparable Group operating result before interest, taxes, depreciation and amortisation (EBITDA adjusted) could be increased by 6.5 percent to € 33.9 million. The EBITDA margin rose from 10.0 percent to 10.4 percent accordingly. The Brake Discs business segment contributed significantly to this. This business segment was able to almost double its contribution to EBITDA to € 6.9 million through a noticeably improved product mix towards high-value brake discs as well as enhanced productivity. Overall, we slightly exceeded the targets – sales between € 318 million and € 325 million, and the EBITDA margin around previous year's level of 10 percent – we set ourselves.

With the sale of our 50 percent stake in the Canadian oil pumps manufacturer STT Technologies Inc. in October 2012 we terminated our joint venture. This transaction contributed decisively to the increase in the Group's net income for the year to € 46.1 million (previous year: € 17.0 million). The resulting improvement in the equity ratio to 52.4 percent and a net cash position of € 19.6 million at the balance sheet date underline the Company's high financial solidity.

Dear Shareholders, due to the business development and solid balance sheet structure of your company, Management and Supervisory Board propose to issue a total dividend of € 4.00 per share to the Shareholders Meeting, to be held on 14 May 2013 in Heidenheim. This amount includes a one-time special dividend of € 3.00 per share to enable you to share in the proceeds of the sale of the 50 percent stake in the Canadian STT Technologies Inc. Our dividend policy will remain results-oriented; hence rising earnings will not only yield further financial scope for growth, but also the respective pay-outs.

At year-end 2012, the price of the SHW share exceeded the previous year's level by 56.5 percent. Your investment in SHW AG shares thus fared much better in 2012 than the comparable indices.

"Pioneer for $CO_2$-efficient mobility" is the slogan for this year's financial report. With the $CO_2$-optimised pumps, engine components and brake discs we develop and produce, we provide a substantial contribution to enabling our customers to achieve the targets for $CO_2$ emissions for new passenger vehicles prescribed by the legislators.

We will continue to pursue our corporate strategy that is based on profitable growth with wholly-owned subsidiaries. Hence, we will commence production of oil pumps at our new site in Brazil in the course of the year. We will specifically develop the North American market. After opening a sales office in the Detroit metropolitan area, the Company plans to set up its own production capacities in the USA as a next step. In China we have laid the foundations for the start of our business activities. To strengthen our core business, we have the additional option of making acquisitions in the mid double-digit million Euro range.

Based on further new product launches as well as our customer structure, we are confident of being able to maintain the growth course in the 2013 financial year, even under consistently demanding framework conditions. This growth is largely driven by demand for our variable oil pumps and start-stop pumps. The multitude of new major orders acquired in 2011 and 2012 gives us a high degree of visibility for the years to come.

› From left to right: Oliver Albrecht, Dr.-Ing. Wolfgang Krause und Andreas Rydzewski.

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.

Dear shareholders, we can assure you that we will continue to do our utmost to sustainably increase the value of SHW AG, and would be delighted if you would continue to go along on this path with us.

Aalen, 6 March 2013

The SHW AG Management Board

**Dr.-Ing. Wolfgang Krause**
*Chairman*

**Oliver Albrecht**

**Andreas Rydzewski**

***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.*


› SHW pumps and engine components reduce fuel consumption and save money.

# $CO_2$ REDUCTION AS A GROWTH DRIVER

***We pave the way for new $CO_2$-optimised engine and gearbox generations.***

## STRINGENT $CO_2$ REGULATIONS ENSURE STRUCTURED GROWTH

SHW benefits from the megatrend towards $CO_2$ reduction with its product portfolio. With our $CO_2$-relevant products, we succeeded to stay on our growth course in 2012 – despite a marked decline in European vehicle production.

The need for mobility, and therefore also the demand for automobiles, is growing worldwide. At the same time, automakers have to comply with strict standards for a significant reduction in $CO_2$ emissions. Hence the European Commission has determined that $CO_2$ emissions must be reduced by a further 30 percent by 2020. Moreover, in the USA, the Obama administration is calling for fuel consumption to be halved by 2025.

These regulatory requirements help SHW achieve further growth. We have concentrated on the development of $CO_2$-reducing vehicle components at the right time. The result is a product portfolio that is notably complies with the technologies for $CO_2$ reduction. Thus variable and map-controlled oil pumps only work to the extent in which they are actually required, reducing fuel consumption as a consequence. Our electric gearbox oil pumps for the start-stop function additionally help saving fuel as well. Moreover, components such as camshaft phasers contribute to a precise reduction in $CO_2$ emissions. Made of aluminium gives an additional weight reduction, whereby fuel consumption again will be reduced.

Growing demand for more efficient engines and alternative drive concepts support our profitable growth in the future, too.


› Qualified and motivated personnel are key to the long-term success of our company.

## A SHORT INTERVIEW WITH THE CHIEF EXECUTIVE OFFICER

› ***Dr.-Ing. Wolfgang Krause***
*Chief Executive Officer*

***SHW is one of the leading automobile suppliers with products that contribute substantially to a reduction in fuel consumption and consequently also $CO_2$ emissions. The Chief Executive Officer of SHW AG, Dr.-Ing. Wolfgang Krause explains the current key developments.***

### Dr. Krause, what are the distinguishing features of SHW products?

***Wolfgang Krause:*** With our three core products – variable engine oil pumps, electric gearbox oil pumps for start-stop, and camshaft phasers – fuel consumption and $CO_2$ emissions of passenger cars can be reduced by more than 10 percent. Thereby our products play a key role when it comes to our customers attaining the $CO_2$ targets set for 2020 by the European Commission. Or, to put it another way. We pave the way for new $CO_2$-optimised engine and gearbox generations!

### And what sets you apart from the competition?

***Wolfgang Krause:*** In the past ten years, our clear focus on product development has made us a pioneer in the development of $CO_2$-relevant engines and gearbox components. Hence we have successfully brought a new development onto the market almost every year. Through the close cooperation with our predominantly long-standing customers, we are involved early on in the development of new, more efficient and lower emission engine generations. Overall, it can be said that SHW is always one step ahead – and our customers appreciate this!

### Where do you see the greatest potential for growth for SHW in the coming years?

***Wolfgang Krause:*** On the one hand, we expect to continue growing considerably stronger than the market with our existing customers in Europe. Moreover, we want to roll out our successful business model in the Pumps and Engine Components business segment globally. Hence we will commence production of oil pumps in Brazil over the course of the year. One further focus lies in the development of the North America and Chinese markets.

› State-of-the-art production facilities ensure our competitive edge.

# INNOVATION LEADER AND TRENDSETTER

*We stand for innovative product and process solutions.*

## ALWAYS ONE STEP AHEAD

Automotive manufacturers will face considerable challenges in the coming years in light of the required reduction of $CO_2$ emissions stipulated by the legislators for their vehicle fleets. These framework conditions are a key driver for the development activities in our two business segments of Pumps and Engine Components and Brake Discs.

We are today the innovation leader in consumption-optimising engine and gearbox components, and one of the technology leaders in the field of brake discs for medium-sized and luxury class vehicles and sports cars. We want to maintain and further develop this strong market position.

Hence we work continuously to further optimise pumps for engine and gearbox applications and further reduce the weight of our brake discs.

Throughout all developments, the focus remains on the individual needs of our customer. Our development engineers and sales staff therefore work extremely closely with our customers. The impetus for new developments comes from us or from our customers.

We always have the latest trends in the fields of engine, gearbox and brake disc development in sight. Because our aim is to pave the way for our customers to achieve their $CO_2$ target values.


› Our employees afford the neccessary expertise in both the materials and the processes.

A SHORT INTERVIEW WITH THE
BOARD MEMBER BRAKE DISCS

› ***Andreas Rydzewski***
*Member of the Board*

***SHW is an innovation leader and trendsetter in its market. Successful development work and outstanding material and process expertise – also in the field of brake discs – form the basis for this. The member of the Management Board responsible for the Brake Discs business segment at SHW AG, Andreas Rydzewski, talks shop.***

### Mr Rydzewski, what are the distinguishing features of SHW brake discs?

***Andreas Rydzewski:*** It is important to know that all automotive manufacturers are facing a problem with the weight of their vehicles these days. Hence all single components of a motor vehicle will be analysed towards their weight savings potential – that applies for brake discs as well. Our composite brake discs – we were the first company starting series production back in 1994 – made from an iron friction ring and aluminium pot can reduce a vehicle's weight by up to 8 kg. That is an important success factor!

### But you also market monobloc ventilated brake discs?

***Andreas Rydzewski:*** That's right. The lion's share of sales of the Brake Discs business segment is currently still attributable to monobloc ventilated brake discs. These processed brake discs also stand out for their high quality. Once again we were the first to come onto the market with new technologies in this field. Yet the trend is clearly towards the increased use of composite brake discs in the future, hence their share of our total sales will increase. This shift to higher-value brake discs will have a corresponding positive effect on profitability!

### And what comes next for the Brake Discs business segment at SHW?

***Andreas Rydzewski:*** That can be outlined relatively clear: as a leading technology partner, we want to supply our customers with innovative products also in the future, and further expand the close partnerships with virtually all automotive manufacturers which have grown over the years. Hence we will invest around € 10 million in new processing lines at our site in Neuhausen ob Eck in the coming years to build up our capacities for composite brake discs in particular. These capital expenditures form the basis for us being an innovation leader and trendsetter in our attractive growth markets in the future!

› Our innovative product solutions are also used in trucks, agricultural and construction vehicles.

# ATTRACTIVE GROWTH PROSPECTS

***We will maintain our growth course based on our clearly-defined corporate strategy.***

## OUR GROWTH STRATEGY IS ESSENTIALLY BASED ON THREE POINTS:

**1. Focus on innovative product solutions**
We want to concentrate in the future as well on our core competences, and to be a leading technology partner for the different drive concepts. We are also working on producing cost-effective, ready-to-install composite brake discs for series production.

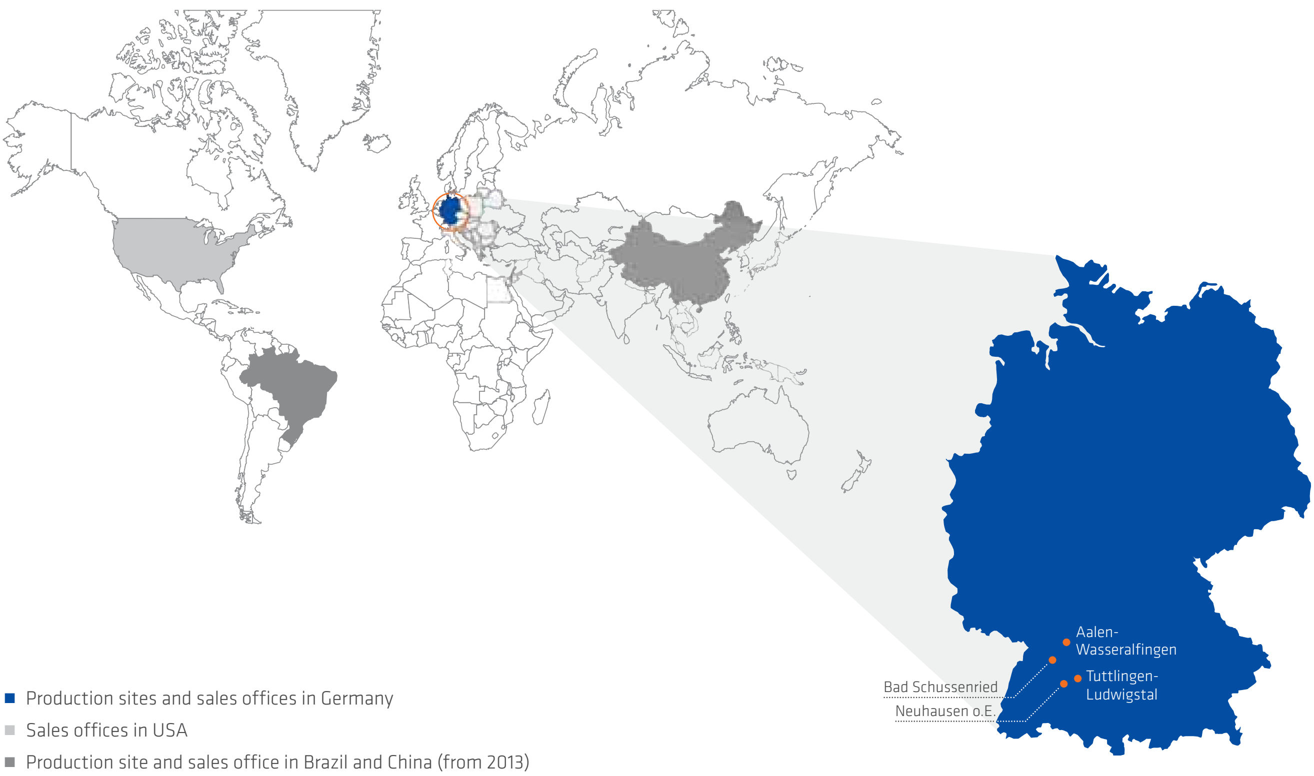
**2. Focus on new markets**
The scalability of the pumps business enables us – at a relatively low risk – to expand into new markets in which our customers already have production facilities today or plan to build new ones in the future. We already enjoy a high market penetration in our core market Europe. We see special growth opportunities in North and South America and China in particular.

We will implement our internationalisation strategy exclusively with 100 percent subsidiaries. Hence we will commence production of oil pumps in Brazil over the course of the year. In the USA, we have opened a sales office near Detroit to significantly intensify the existing contacts with the three major American automotive manufacturers in particular. The set-up of own production capabilities is planned as a next step. In China we want to target the market opportunities.

**3. Focus on acquisitions**
Due to the cash inflow from the sale of our Canadian participation STT Technologies Inc. and the new syndicated loan, we have sufficient financial resources available to finance acquisitions in a mid double-digit million euro range. Small to medium-sized enterprises with technologically challenging products, which form part of the company's core business today or are directly linked to the current core business, will be considered as target companies.


› Quality management has top priority for us.

## SITES OF SHW AG




- Production sites and sales offices in Germany
- Sales offices in USA
- Production site and sales office in Brazil and China (from 2013)


› Our locations – here: Neuhausen ob Eck – afford extremely good infrastructure.

# FINANCIAL STABILITY AND PROFITABLE GROWTH

*Our growth strategy has a solid financial basis.*

## ROCE ABOVE AVERAGE

In the 2012 reporting year, SHW was once again able to come up with good business figures. At € 325 million, Group sales reached the upper end of the target range; the adjusted EBITDA increased disproportionately to almost € 34 million. The adjusted EBITDA margin improved accordingly from 10.0 percent to 10.4 percent.

The operative success story of the previous years could thereby be updated: The multitude of new product launches and the customer structure have contributed to this so that SHW was able to disconnect itself from the negative market development – vehicle production in Europe shrank by 6.9 percent in 2012 – and to once again increase both its sales and results. With a return on capital employed (ROCE) of about 25 percent, we continue to set ourselves clearly apart from the competition. This solid financial basis also allowed us to continue investing in the future, and to increase spending in research and development by a further just under 9 percent.

We will consistently pursue our profitable growth course. SHW is excellently positioned to continue creating value added.

› Our new logistic centre in Bad Schussenried helps us to further optimise our supply capabilities.

A SHORT INTERVIEW WITH THE
CHIEF FINANCIAL OFFICER

› ***Oliver Albrecht***
*Chief Financial Officer*

***Besides its high technological competence, SHW stands for a particularly good financial profile. With an equity ratio of 52 percent, the company has an extremely solid financial and capital structure. Chief Financial Officer at SHW AG, Oliver Albrecht, shares background information and perspectives.***

**Mr Albrecht, SHW recently sold its stake in Canadian STT Technologies Inc. What impact did this have on your company?**

*Oliver Albrecht:* The sale of our 50 percent stake in STT Technologies Inc., Canada, actually brought us sales proceeds equivalent to around € 43 million. We want to reinvest the lion's share of this sum into organic growth of our business activities. In particular, this includes the progression of important passenger vehicle markets such as North and South America as well as China. In North America, we wish to considerably expand the existing Truck & Off-Highway business.

**Are acquisitions also a consideration for SHW?**

*Oliver Albrecht:* We have a clearly defined acquisition strategy, and are able to cover acquisitions in a mid double-digit million euro range. In addition, we have set clear criteria which have to be fulfilled by an acquisition target; this definitely includes "value enhancement for SHW".

**In financial terms, what else did you achieve in 2012?**

*Oliver Albrecht:* At the balance sheet date, SHW had net liquid assets totalling € 19.6 million available. We concluded a new syndicated loan with a volume of € 60 million and therefore replaced the existing credit agreement ahead of time. The new syndicated loan has a term of five years and was agreed without any sureties. The latter can undoubtedly also be attributed to our good financial performance and high creditworthiness in recent years. At around 25 percent, our return on capital employed (ROCE) continued to considerably exceed the industry average in fiscal year 2012. Overall, it can be said that our planned growth course stands on a solid financial footing.

# REPORT OF THE SUPERVISORY BOARD

## GENERAL

In the 2012 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 ongoing basis.

The Management Board informs the Supervisory Board regularly, without delay and comprehensively in writing or verbally, of all matters of relevance to the Company pertaining to strategy, planning, business development, risk situation, risk management and compliance, and also includes the Supervisory Board 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 business development, planning, and corporate 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 promptly informed of current business developments and important business transactions in each case.

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 circulation procedure. Furthermore, when necessary, the Supervisory Board meets without the Management Board.

## MEETINGS OF THE SUPERVISORY BOARD AND KEY TOPICS

In the year under review, four ordinary and three extraordinary meetings of the Supervisory Board plenum took place. All Supervisory Board members took part in over half the meetings. In one case in fiscal year 2012, a Supervisory Board decision was reached outside of a plenary meeting.

During the meetings in 2012, the Supervisory Board was comprehensively informed by means of verbal and written reports of all central questions of business development, corporate strategy, risk situation, risk management, and the financing structure of SHW AG and the SHW Group. Among other things, the Management Board explained current sales and earnings trends of the SHW Group both inland and abroad, and went into detail on business developments within the particular business segments considering the competitive environment. Key topics in the year under review were:

- At the meeting on 9 March 2012, the Supervisory Board approved the annual and consolidated financial statements and the combined management report of SHW AG, each as at 31 December 2011. Furthermore, the Supervisory Board also examined the Management Board's proposal for the appropriation of profits, and reached a decision on the proposed resolutions for the agenda for the ordinary annual general meeting on 15 May 2012 and the Supervisory Board's report for the fiscal year 2012. Moreover, it reached a decision on the approval of transactions subject to consent and to exculpate the management of SHW AG subsidiaries. Finally, the Supervisory Board dealt with issues relating to corporate governance and risk management and the assessment of the efficiency of the Supervisory Board.

- At the meeting on 15 May 2012, the Supervisory Board mainly dealt with the business development until March 2012 as well as with financing alternatives.

- The subject of the Supervisory Board meeting held on 18 September 2012 was the current business development, the corporate strategy and the status of the SAP project (company-wide introduction of SAP software) in particular. Moreover, the Supervisory Board dealt with the annual Declaration of Conformity, which was updated in December.

- At the meeting on 28 November 2012, the Supervisory Board passed the 2013 budget and multi-year plan for 2014 to 2016.

- At the extraordinary Supervisory Board meeting on 18 July 2012, the Supervisory Board mainly dealt with issues relating to the refinancing of the company.

- At the extraordinary Supervisory Board meetings of 5 September 2012 and 24 September 2012, the Supervisory Board dealt with the disposal of the joint venture stake in STT Technologies Inc., Canada.

## COMMITTEE WORK

In order to perform its duties efficiently, the Supervisory Board has installed two committees in the reporting year 2012, as in the previous year: 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 also decides, where not reserved by law for the overall Supervisory Board, in place of the Supervisory Board on the conclusion, alteration and termination of employment contracts with Management Board members and other legal transactions with respect to Management Board members and related parties, to whom the company is represented by the Supervisory Board in accordance with § 112 of the AktG (Aktiengesetz – 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 place of the overall Supervisory Board on the approval of matters and measures 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 four times. In addition, thirteen decisions were reached by written circulation procedure.

- The ***Audit Committee*** prepares the decisions of the Supervisory Board concerning the annual and consolidated financial statements and agreements with the auditors, in particular the audit assignment, audit focus, and fee. It also deals with 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, the Audit Committee also discusses the semi-annual and quarterly financial reports with the Management Board before they are published. In the year under review, the Audit Committee met seven times.

- 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 is available in the Corporate Governance Statement and the Corporate Governance Report, which can be found in a uniform document at **http://www.shw.de/cms/en/investor_relations/corporate_governance/cg_report_declaration_cg** on the Company website.

## AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

The annual and consolidated financial statements of SHW AG and the combined management and group management report for fiscal year 2012 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, intrinsic value of goodwill, fraud, harm to assets and irregularities, and the completeness of the consolidated 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 management and group management report 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 € 30 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 management and group management 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 profits and concurs with this proposal, in particular in consideration of the annual 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 fiscal year 2012, and submitted its report to the Supervisory Board. The inspection by the auditors found no issues. The auditor found no issues, and made the following unqualified opinion:

"After our compulsory examination and evaluation we confirm that

- the information given in the report is correct,
- the payments by the company for the transactions listed in the report were not inappropriately high,
- 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 2012, the Management Board and Supervisory Board made a joint Declaration of Conformity in accordance with § 161 of the AktG (Aktiengesetz – German Stock Corporation Act). This was supplemented with the Declaration of Conformity of December 2012 supplemented and revised.

These declarations have been made permanently available at **http://www.shw.de/cms/en/investor_relations/corporate_governance/cgcodex/** on the Company website. SHW AG complies with the recommendations of the German Corporate Governance Code to a large extent. The Declaration of Conformity of December 2012, including explanations of the few deviations from the recommendations of the German Corporate Governance Code, is also included in the Declaration of Corporate Governance pursuant to §§ 289a of the HGB (Handelsgesetzbuch – German Commercial Code), which can be found in a combined document together with the Corporate Governance Report at **http://www.shw.de/cms/en/investor_relations/corporate_governance/cg_report_declaration_cg** on the Company website. Further explanations regarding corporate governance within the SHW Group can also be obtained in this document.

## COMPOSITION OF MANAGEMENT BOARD AND SUPERVISORY BOARD

In the 2012 reporting year, there were no changes to 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 made the successful business development of SHW AG possible.

Aalen, March 2013

For the Supervisory Board

***Anton Schneider***
*Chairman*

# SHW SHARES

## STOCK MARKETS BENEFIT FROM EXPANSIONARY CENTRAL BANK POLICIES

The predominantly positive development of the stock markets in 2012 was largely due to the expansionary policies of the European Central Bank, Federal Reserve and Bank of China. The announcement to buy unlimited bonds from crisis countries, further quantitative easing and the reduction in interest rates, were the key driving forces for the stock markets. The imminent threat of Greece's withdrawal from the eurozone, concerns about the stability of the Spanish banking sector, disappointing economic data in the eurozone as a result of the sovereign debt crisis, slowing growth in China, and weaker corporate figures could only halt the upward trend temporarily.

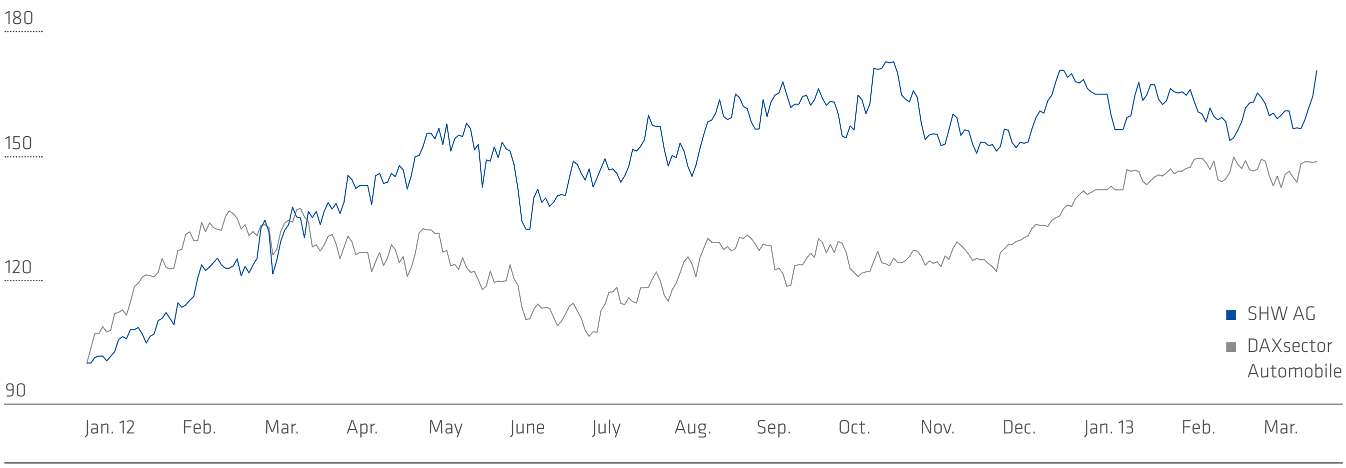
The positive mood was reflected in the development of the most important international and national share indices accordingly. The American leading index, Dow Jones, ended the year up 7.3 percent at 13,104 points. The Japanese Nikkei index benefited from the weaker yen and rose 22.9 percent to 10,395 points. In Europe, the Euro Stoxx 50 grew by around 14 percent, closing on 31 December 2012 at 2,636 points. The German leading index, DAX, gained significantly by 29.1 percent in the period from January to December 2012, ending the trading year at 7,612 points. In the positive market conditions, the SDAX index was able to add just over 830 points to its value, closing at 5,249 points.

Companies included in the relevant benchmark index DAXsector Automobile Performance benefited considerably from the dynamic development of global vehicle production (+5.8 percent compared to the previous year). The index increased by around 42 percent to 976 points.

## SHW SHARES EXCEED INDUSTRY INDEX SIGNIFICANTLY

SHW shares also benefited from the positive sentiment for automotive and supplier stocks, and increased in the year-end comparison by 56.5 percent to € 28.96 with a significant rise in sales. Here, the issue price of € 26 was first exceeded again in April 2012. Compared to the DAXsector Automobile Performance index, SHW shares faired significantly better in the period from January to December 2012. SHW shares are currently trading at € 31.60 (11 March 2013) around the all-time high of € 32.

SHW SHARE IN BENCHMARK COMPARISON (INDEXED)



## SHW A FORMAL CANDIDATE FOR INCLUSION IN THE SDAX

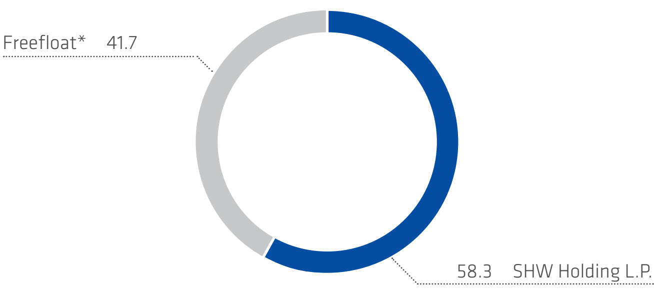
Due to the positive share price performance and increased trading volumes in recent months, SHW has been one of the formal candidates for inclusion in the SDAX since May 2012. A security is a formal candidate for inclusion in the SDAX if it meets the 110/110 criteria on the MDAX/SDAX selection list of Deutsche Börse AG relevant for the index adjustment (free float market capitalisation/ liquidity ranking accumulated over the last 12 months). As at 31 December 2012, SHW placed 105th in the free float market capitalisation ranking (previous year: 117) and 83rd in the liquidity ranking (previous year: 127).

## SHAREHOLDER STRUCTURE VIRTUALLY UNCHANGED

The shareholder structure has remained virtually unchanged compared to the previous year-end. The largest shareholder with a share of 58.3 percent is still SHW Holding L.P. Upon expiry of the 12-month lock-up period on 6 July 2012, shares held by active and former managers of SHW AG are no longer classified as fixed shareholdings, as defined by Deutsche Börse AG. As a consequence, the free float increased from 40.2 percent to 41.7 percent. There are currently two shareholders within the free float, namely the Capital Group Companies Inc. (USA) and the Linz Textil Holding AG (Austria), which are above the reporting threshold of 3 percent.

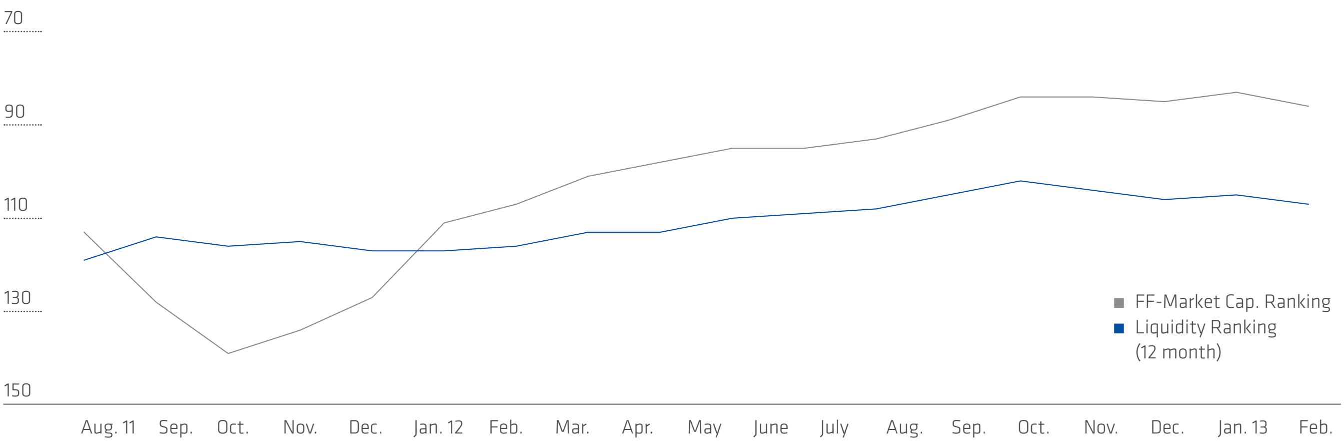
SHAREHOLDER STRUCTURE (AS AT FEBRUARY 2012)

in %




*) Free float as defined by Deutsche Börse. Of which: Capital Research and Management Company (3.93 %); Linz Textil Holding AG (3.03 %)

DEVELOPMENT OF FREE FLOAT MARKET CAPITALIZATION / LIQUIDITY RANKING




Source: Deutsche Börse AG

## RESEARCH COVERAGE SIGNIFICANTLY EXPANDED

In the previous year, SHW succeeded in significantly expanding the research coverage. After the consortium banks Commerzbank and Exane BNP Paribas, four further banks and research companies included SHW shares in their research universe, namely Bankhaus Lampe, Deutsche Bank, LBBW and Westend Brokers. At the current point in time, on further bank has manifested its intention to initiate coverage in the current year.

RESEARCH COVERAGE (AS AT: FEBRUARY 2013)

| Institute | Analyst | Recommendation | Target Price |
|---|---|---|---|
| Bankhaus Lampe | Christian Ludwig | Hold | 31 EUR |
| Commerzbank | Daniel Schwarz / Sascha Gommel | Buy | 37 EUR |
| Deutsche Bank | Jochen Gehrke / Tim Rokossa | Buy | 34 EUR |
| Exane BNP Paribas | Gerhard Orgonas | Neutral | 32 EUR |
| LBBW | Stefan Maichl | Hold | 30 EUR |
| Westend Brokers | Albrecht Denning-hoff | Neutral | 29 EUR |

## CONTINUED FOCUS ON PLANNED INVESTOR RELATIONS WORK

The Company will continue to further extend investor relations work in 2013 – particularly on an international level. As a Company with a clear focus on $CO_2$ reduction, we will continue to increasingly approach investors who focus on sustainability in their investments. We will largely cover the ever-increasing interest in SHW shares through participation in investor conferences and road shows both nationally and internationally. In addition, we offer interested investors the opportunity to gain a direct impression of the innovative strength and manufacturing expertise of the Company on site. Through our membership in Baden-Württemberg Small Caps (BWSC), 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.

Contact Person Investor Relations:

Michael Schickling
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Fax: +49 7361 502-674
E-Mail: michael.schickling@shw.de

## KEY FIGURES OF THE SHW SHARE FOR 2012

| | |
|---|---|
| High[1] (in €) | 32.000 |
| Low[1] (in €) | 18.500 |
| Opening price on 03 January 2012 (in €) | 18.500 |
| Closing price on 28 December 2012 (in €) | 28.955 |
| Share price performance in FY 2012 (in %) | 56.5 |
| Market capitalisation as of 03 January 2012 (€ m) | 108.2 |
| Market capitalisation as of 28 December 2012 (€ m) | 169.4 |
| Average daily turnover (€ m)[2] | 0.331 |
| Average daily turnover (number of shares)[2] | 12,226 |
| Dividende per share (in €)[3] | 1.00 |
| Special dividend per share (in €)[3] | 3.00 |
| Earnings per share – continuing operations (in €) | 2.44 |
| Earnings per share – discontinuing operations (in €) | 5.44 |

[1] Xetra Closing price
[2] All German stock exchanges
[3] Proposal to Shareholders Meeting on 14 May 2013

## KEY FACTS

| | |
|---|---|
| WKN | A1JBPV |
| ISIN | DE000A1JBPV9 |
| Bloomberg-Code (Xetra) | SW1.GY |
| Reuters-Code (Xetra) | SW1.DE |
| Transparency Level | Regulated Market (Prime Standard) |
| Number of shares as of 31 December 2012 | 5.85 million |
| Designated Sponsor | Commerzbank AG |

# CONSOLIDATED GROUP MANAGEMENT REPORT AND SHW AG MANAGEMENT REPORT

# BUSINESS AND GENERAL CONDITIONS

## GROUP STRUCTURE AND BUSINESS ACTIVITIES

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-Wasseralfingen, an intermediate holding company which, in turn, holds all shares of SHW Automotive GmbH with its registered office in Aalen-Wasseralfingen. In addition, SHW AG directly or indirectly holds all shares of the international subsidiaries SHW do Brasil Ltda. with its registered office in São Paulo, Brazil and of SHW Automotive CZ, s.r.o., with its registered office in Brno, Czech Republic. SHW Automotive GmbH holds all shares of its Chinese subsidiary SHW Automotive Pumps (Shanghai) Co., Ltd. as well as SHW Industries GmbH.

The operations of the SHW Group are conducted by SHW Automotive GmbH and its subsidiaries.

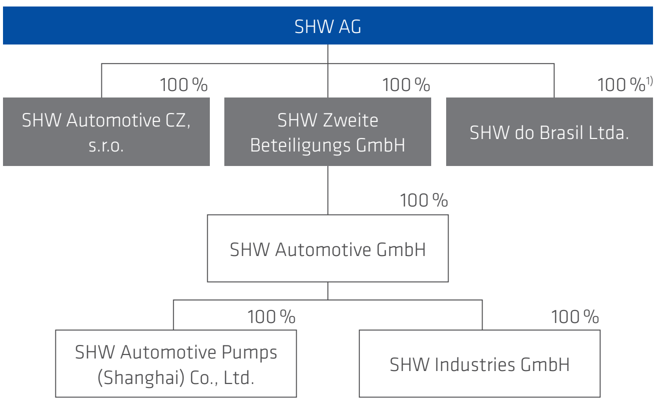
### FOCUSED COMPANY WITH TWO BUSINESS SEGMENTS

The SHW Group is a supplier for well-known automobile manufacturers, manufacturers of commercial, agricultural and construction vehicles and other automotive suppliers.

The Group's business is divided into the Pumps and Engine Components business segment and the Brake Discs business segment. The SHW Group's business activity primarily focuses on developing and manufacturing products that contribute to reducing fuel consumption, and therefore $CO_2$ emissions, in the automotive sector.

| PUMPS AND ENGINE COMPONENTS | | | BRAKE DISCS |
| --- | --- | --- | --- |
| Bad Schussenried | | Aalen-Wasseralfingen | Tuttlingen-Ludwigstal<br>Neuhausen ob Eck |
| **Passenger vehicles** | **Truck & 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 | | | |

#### OVERVIEW OF GROUP SUBSIDIARIES




[1] The shares are held in part directly and in part indirectly through SHW Zweite Beteiligungs GmbH.

### LEADING EUROPEAN MANUFACTURER OF PUMPS AND ENGINE COMPONENTS

The Pumps and Engine Components business segment is the SHW Group's largest operational segment, with production facilities in Bad Schussenried and Aalen-Wasseralfingen. In Bad Schussenried, the Passenger Car division manufactures oil pumps for engines and gearboxes, vacuum pumps, water pumps, balancer shaft units and camshaft phasers for motor vehicles.

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

In addition, the Group manufactures engine components in the Powder Metallurgy division at its Aalen-Wasseralfingen 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 FIELD OF BRAKE DISCS FOR HIGH-PERFORMANCE VEHICLES

The SHW Group is technological leader in the production 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.

## MANAGEMENT AND CONTROL

SHW AG has its registered office in Aalen and is as a German company subject to the German Stock Corporation Act accordingly. The Management Board, Supervisory Board and Shareholders' Meeting are the bodies of the Company. SHW AG has a dual management system of Management Board and Supervisory Board – management and control are strictly separate accordingly.

The Management Board manages Company business on its own responsibility with the goal of sustainably increasing the Enterprise value and in the Company's interests, i.e. taking the interests of shareholders, employees, and other stakeholders in the Company into consideration. In accordance with the Articles of Association, the Management Board consists of one or more persons. At present, the Management Board consists of three directors. In accordance with the rules of internal procedure of the Management Board, each member is responsible for his or her area of responsibility. However, the members have a joint responsibility for management of the Group. As part of this overall responsibility, the three directors must work together in their respectively specified area of responsibility in a cooperative and trustful way for the good of the Company.

The Management Board is responsible for the strategic orientation of the Company and consults with the Supervisory Board on this. The Management Board of SHW AG must inform the Supervisory Board regularly – apart from legal reporting obligations – about all matters pertaining to planning, business development, risks and risk management, and compliance.

The Supervisory Board of SHW AG advises and oversees the Management Board in management of the Company. It is not permitted to carry out a management function. However, the rules of internal procedure of the Management Board provide that the Management Board may not carry out certain transactions and measures (e.g. significant changes to the corporate structure, acquisitions, opening up of new markets) without the consent of the SHW AG Supervisory Board.

In accordance with the Articles of Association, the SHW AG Supervisory Board consists of six members, all of whom are elected by the Shareholders' Meeting. The Supervisory Board meets at least twice every half calendar year. The Supervisory Board of SHW AG has formed an Executive Committee and Audit Committee to enhance efficiency and handle complex issues.

## DECLARATION ON CORPORATE GOVERNANCE PURSUANT TO § 289A OF THE HGB (HANDELSGESETZBUCH – GERMAN COMMERCIAL CODE) AND THE CORPORATE GOVERNANCE REPORT PURSUANT TO CLAUSE 3.10 OF THE GERMAN CORPORATE GOVERNANCE CODEX

The declaration on corporate governance pursuant to § 289a of the HGB (Handelsgesetzbuch – German Commercial Code), which in particular comprises the Declaration of Conformity according to § 161 of the AktG (Aktiengesetz – German Stock Corporation Act), information on the general corporate governance practices, and a description of the functioning of the Management Board and Supervisory Board in addition to the composition and functioning of their committees, as well as the Corporate Governance Report pursuant to clause 3.10 of the German Corporate Governance Codex, which reports on other corporate governance issues at SHW, can be found in a uniform document at **http://www.shw.de/cms/en/investor_relations/corporate_governance/cg_report_declaration_cg** on the SHW website.

# REMUNERATION REPORT

The following remuneration report is an integral part of the combined management and 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

### Remuneration system

In compliance with the requirements of the Aktiengesetz (German 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 considering the duties of the individual Management Board members, their personal performance, the economic situation, the success and future prospects of SHW AG.

The Annual General Meeting of SHW AG on May 15, 2012, representing 77.93 percent of share capital approved the effective remuneration system for the members of Company's Management Board with 99.95 percent of valid votes cast.

### 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 fiscal 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 progression of SHW Group's EBITDA and 30 percent of it depends on the progression of net financial debt of SHW Group. Relevant comparative value for assessing whether the objectives have been achieved are the EBITDA and net financial debt targets for SHW Group in the annual budget approved by the Supervisory Board for the relevant fiscal year. The annual bonus to be paid for a fiscal 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. Moreover, the determined amount is reduced if the financial targets contained in the credit and external financing agreements of SHW Group (so-called covenants) are not met in the relevant fiscal year. 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 benchmark index DAXsector Automobile Performance in the running fiscal year and the following year (two year basis) and in the running fiscal year and the two following years (three year basis), respectively. The relevant price is calculated as a 90 day average price at the end of the respective year; the basis for 2011 was 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 losses 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.

### Pension commitments

A contractual pension agreement only exists 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:

TOTAL REMUNERATION OF THE MANAGEMENT BOARD FOR THE 2012 FINANCIAL YEAR

| K EUR | Non-performance-related remuneration elements | | Performance-related remuneration elements | | Annual remuneration |
|---|---|---|---|---|---|
| Name | Annual fixed remuneration | Supplementary benefits | Annual bonus | Sustainability bonus [1), 2)] | Total |
| Dr.-Ing. Wolfgang Krause | 276 | 16 | 48 | 99 | 439 |
| Andreas Rydzewski | 201 | 14 | 29 | 60 | 304 |
| Oliver Albrecht | 201 | 15 | 29 | 60 | 305 |
| **Total** | **678** | **45** | **106** | **219** | **1,048** |

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

2) The sustainability bonus payable for the 2011 financial year with the two-year measurement basis is due two months after the end of 2012 and totals € 56 thousand for Dr. Wolfgang Krause, € 34 thousand for Mr Andreas Rydzewski and € 29 thousand for Mr Oliver Albrecht.

The pension annuity begins with the termination of function as a member of the Management Board upon 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 is 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 € 34 thousand are in place for the pension commitments described above. The cash value of this pension commitment is € 68 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 undertake 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 of termination, 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. 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 the 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 fixed annual remuneration amounting to € 20 thousand. The Chairman of the Supervisory Board receives twice this sum (€ 40 thousand); the Vice Chairman, one and a half times the amount (€ 30 thousand). 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 thousand) 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 instead of the otherwise payable remuneration for their activities as members of the Supervisory Board of Schwäbische Hüttenwerke Automotive GmbH an attendance fee for Supervisory Board meetings of Schwäbische Hüttenwerke Automotive GmbH. The attendance fee totals € 500 for regular members of the Supervisory Board; the Chairman of the Supervisory Board receives twice and the Vice Chairman one and a half times this amount.

TOTAL REMUNERATION FOR THE SUPERVISORY BOARD IN THE FINANCIAL YEAR 2012

| EUR | Annual fixed remuneration[1] |
|---|---|
| **Anton Schneider**<br>Chairman of the Supervisory Board<br>Chairman of the Executive Committee | 40 |
| **Dr. Martin Beck**<br>Deputy Chairman of the Supervisory Board | 30 |
| Dr. Hans Albrecht | 20 |
| **Christian Brand**<br>Chairman of the Audit Committee | 20 |
| Edgar Kühn | 20 |
| Ernst Rieber | 20 |
| **Total** | **150** |

[1] Excluding amounts reimbursed as expenses or VAT payable on remuneration.

## MARKET AND COMPETITION

In the area of Passenger Car pumps, SHW is one of the leading manufacturers in Europe. The market share is around 25 percent. The main competitors are KSPG (Germany), Magna Powertrain (Canada), Mahle (Germany), TCG Unitech (Austria) and GPM (Germany). In addition, a few automakers such as Mercedes and VW still have their own pump manufacturing facilities. The Truck & Off-Highway pumps division mainly competes with KSPG (Germany), GPM (Germany), Concentric (Sweden), Rickmeier (Germany) and Kracht (Germany). Within the Powder Metallurgy division, GKN (UK), Miba (Austria), PMG (Germany) and Schunk Sintermetalltechnik (Germany) are the main competitors.

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

## LEGAL AND ECONOMIC FACTORS

Due to global climate change and the scarcity of fossil fuels, the European Union committed itself in 2009 to reduce greenhouses gas emissions by at least 20 percent compared to 1990 by 2020 within the scope of an EC regulation.

As motor vehicles with internal combustion engines contribute considerably to emissions from greenhouse gases, a focus was placed on reducing $CO_2$ emissions in road traffic. The corresponding regulation provides for an average $CO_2$ target value of 130 g $CO_2$/km for newly registered passenger cars by 2015 and for an average $CO_2$ target value of 95 g $CO_2$/km by 2020. Another regulation provides for target values for light commercial vehicles of 175 g $CO_2$/km by 2017 and 147 g $CO_2$/km by 2020.

Based on the above-mentioned requirements, there is a strong need for vehicle manufacturers to reduce the $CO_2$ emissions of their motor vehicles. On the one hand, optimisation measures on vehicles with internal combustion engines can reduce $CO_2$ emissions.

These include:

- Engine measures – downsizing and efficiency improvement
- Efficiency improvement of the auxiliaries
- Weight reduction

On the other hand, the use of new drive concepts such as hybrid or electric drive is taken into consideration.

The following overview shows the average specific $CO_2$ emissions for the vehicle fleets of various car manufacturers in Europe in 2011 in comparison to the targets for 2015 and 2020.

Accordingly, PSA, Toyota and FIAT have already achieved their individual targets for 2015. Others are still further away from achieving their targets.

In the meantime all important markets have introduced binding $CO_2$ targets for passenger cars worldwide, and the corresponding targets are visibly converging. In the USA, a regulation was recently adopted for 2025, which should roughly halve the $CO_2$ emissions there compared to those in 2010.

## COMPANY STRATEGY AND CORPORATE MANAGEMENT, OBJECTIVES

### COMPANY STRATEGY

Our mission 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:

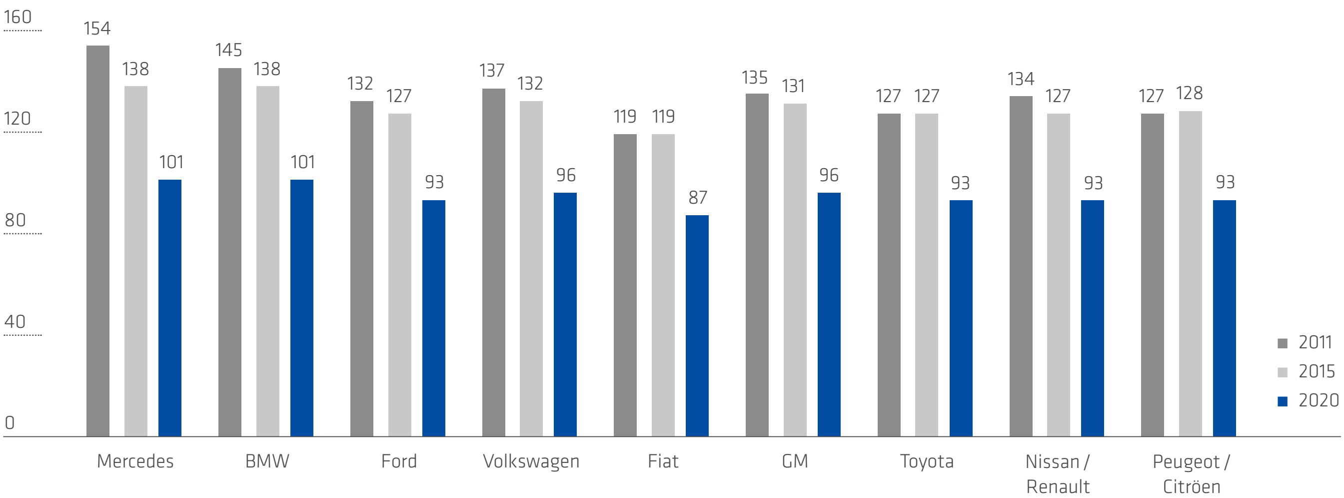
**Focus on innovative product solutions**

In the Pumps and Engine Components business segment, the Company has contributed to a significant reduction in $CO_2$ 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 drive concepts.

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

$CO_2$ EMISSIONS BY OEM

in g/km




Source: ICCT

### Focus on the expansion of core business in Brazil, China and North America

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 the growth markets of Brazil and China, and to re-develop the North American market with a subsidiary.

The permission to establish SHW Automotive Pumps (Shanghai) Co., Ltd. granted last year lays the foundations for the start of business activities in China. At the same time, Chinese suppliers are becoming ever more important as part of the SHW sourcing strategy. A further contract with a Chinese manufacturer of aluminium die-cast cases was successfully concluded at the end of 2012.

In Brazil, we have a 100 percent subsidiary with SHW do Brasil Ltda. The latter received a first order from an American automotive manufacturer to produce a variable oil pump. Series production is to begin during 2013. Further projects are in the offer phase.

North America is another target market which, with approx. 15.4 million light vehicles manufactured (2012), places third in global ranking after the European Union (15.8 million vehicles) and the developing countries of the Asia-Pacific region (24.4 million vehicles). Given the size of the market and the growth potential, SHW has decided to launch its re-entry into the North-American market immediately after selling its stake in the Canadian STT Technologies Inc. Hence a sales office was already opened in the Detroit metropolitan area in the fiscal year 2012. As a next step, we are planning to set up our own production facilities in the USA. In addition, existing business in Truck & Off-Highway is to be significantly intensified.

### Focus on acquisitions

Based on its stable financial means, SHW wants to actively shape the ongoing consolidation process in the field of engines and gearbox components, and to expand its market position in selected business segments and regions. As a listed company, SHW also has access to various equity instruments for possible acquisitions.

The focus is on companies with technologically demanding products, which form part of the company's core business today or are directly linked to the current core business and can easily be integrated into the existing corporate organisation.

### Focus on optimising business processes

To improve the earnings situation strongly, the Company continually monitors internal processes and production procedures. Among the key measures count further automation of the foundry at the Tuttlingen-Ludwigstal site, linking of the production lines in the Powder Metallurgy division at the Aalen-Wasseralfingen plant, and construction of a logistics centre in Bad Schussenried, which is scheduled to begin operations in spring 2013.

### Focus on securing financial flexibility

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

- Securing a lastingly strong capital structure
- Results-oriented dividend policy – dividend payouts of 30 to 40 percent of the sustainable net income in compliance with legal restrictions and taking the SHW Group's financial needs into account
- Securing of the appropriate liquidity – current credit facility of € 60 million

## COMPANY-INTERNAL CONTROL SYSTEM

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 | 2012 | 2011 |
|---|---|---|
| Goodwill | 7,055 | 7,055 |
| Other intangible assets | 12,314 | 8,552 |
| Tangible assets | 58,269 | 58,360 |
| Deferred tax assets | 2,472 | 3,401 |
| Other non-current financial assets | 1,395 | 823 |
| Inventories | 44,073 | 37,741 |
| Trade receivables | 32,960 | 45,059 |
| Other current financial assets | 0 | 748 |
| Other assets | 1,807 | 1,345 |
| Asset items of capital employed | 160,345 | 163,084 |
| Deferred tax liabilities | -3,119 | -3,194 |
| Other non-current accruals | -2,948 | -2,948 |
| Other non-current financial liabilities | -100 | -130 |
| Trade payables | -40,695 | -42,166 |
| Other current financial liabilities | -4,221 | -11,511 |
| Income tax liabilities | -1,016 | -950 |
| Other current accruals | -5,170 | -8,858 |
| Other liabilities | -5,745 | -6,560 |
| **Liability items of capital employed** | **-63,014** | **-76,353** |
| **Capital Employed** | **97,331** | **86,731** |
| **Adjusted EBIT** | **24,009** | **26,171** |
| ROCE | 24.7 % | 30.2 % |

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, established 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.

## FINANCIAL TARGETS

The corporate behaviour of the SHW Group is based on the sustainable increase of Company value and profitable growth. Key targets include the medium and long-term increase in sales, Group earnings before interest, taxes, and amortisation of intangible assets and depreciation of tangible assets (EBITDA), and net income for the year as well as the improvement of the free cash flow.

## NON-FINANCIAL TARGETS

Besides the financial targets, the SHW Group's management approach includes a number of non-financial targets. The main factors critical to success are:

- Customer satisfaction
- Quality of the products
- Qualified and motivated personnel
- Environmental awareness

Customer satisfaction plays a key role in the company's lasting success. SHW's employees support customers as best possible and offer tailored solutions. The aim is to maintain and further enhance the high customer satisfaction.

Consistently high quality of products and the associated services is a condition for high customer satisfaction. Our quality management ensures that our pumps and engine components and brake discs are delivered to the customer defect-free. The aim is to maintain and further enhance the high level of quality.

The employees contribute significantly to the economic success of the SHW Group. Their identification with the Company – reflected in the high average period of service – and their commitment form the basis for the future corporate success. Employee potential is required and encouraged by a high degree of personal responsibility.

Besides our product portfolio's focus on $CO_2$-optimising vehicle components, we pay particular attention to resource-efficient production processes. The aim is to keep both the energy consumption and $CO_2$ emissions disproportionate to the increase in sales.

## RESEARCH AND DEVELOPMENT

### INNOVATION LEADER CONSUMPTION-OPTIMISED VEHICLE COMPONENTS

The $CO_2$ limit values for new cars applicable in the future in the European Union, USA and China present car manufacturers with considerable challenges. These are focusing on engine measures to reduce fuel consumption, in particular by downsizing and improving the efficiency of combustion engines and their auxiliaries. The reduction of vehicle weight is another approach. In addition, the use of alternative drive concepts is of importance.

The SHW Group is an innovative leader for consumption-optimised engine and gearbox pumps as well as lightweight brake discs. In the Pumps and Engine Components business segment, the Company has been trendsetter for $CO_2$-relevant components for the past ten years. Specifically, the SHW Group has succeeded in continually optimising oil pumps for engine and gearbox applications.

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.

The Company delivered the first electric gearbox oil pump for the first European hybrid vehicle in 2008. Today, a further development of this pump is widely used in the start-stop function of vehicles with automatic gearboxes. The Powder Metallurgy division, closely linked to the Pumps business segment in the value chain, is the only manufacturer in Europe to have built up a mass production for highly wear-resistant sintered aluminium components. It was therefore possible in 2004 to develop an aluminium camshaft phaser and to

SHW INNOVATIONS SINCE 2000

| 2000 | 2002 | 2004 | 2005 | 2006 |
|---|---|---|---|---|
| Balancer shaft unit with oil pump › | Variable engine oil pump › | Aluminium camshaft phaser › | Transmission oil pump for dual clutch › | Variable external gear pump |
| **2006** | **2006** | **2007** | **2010** | **2011 / 2012** |
| Oil-vacuum pump › | Map-controlled engine oil pump › | Vane pump in engines › | Electrical pump for hybrids › | Camshaft phaser for diesel |

use this in a new engine series in cooperation with a German car manufacturer and system supplier. The components manufactured in this process are characterised by their particularly low weight.

The Brake Discs business segment has also produced a number of important innovations. Thus SHW has been able to bring the first ventilated brake disc to marketability. This was followed by the first composite brake disc with steel pins developed in cooperation with BMW Motorsport for the M5. The advantage of these brake discs is that by using aluminium for the brake disc pot, the vehicle's overall weight can be reduced by up to 8 kg. This means a reduction in the unsprung masses of a vehicle which improves the response characteristics of the spring and damper unit and has a positive impact on the vehicle's driving dynamics. A further weight reduction is achieved through the so-called wave design, which is already in series production for some vehicle types.

## INTELLECTUAL PROPERTY SECURED FOR THE LONG-TERM

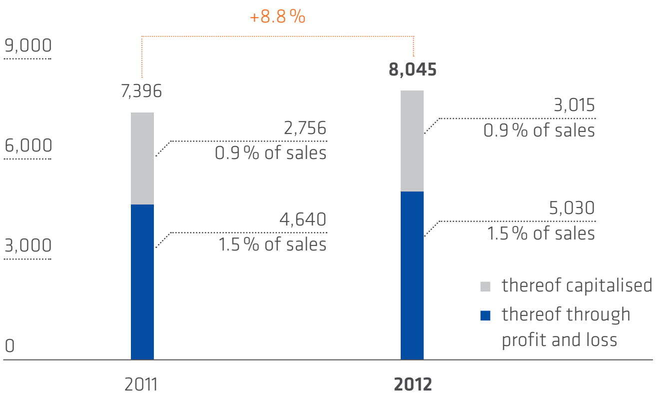
The SHW Group protects its expertise and intellectual property relating to pumps and other engine components, brake discs, alloys and sintered metals through numerous industrial property rights such as patents, utility models and registered designs or applications for such rights. These are mainly registered in Germany and various countries of the European Union, and partially 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.

## R&D RATE INCREASES TO 2.5 PERCENT

During the fiscal year 2012, spending on research and development increased by 8.8 percent to € 8.0 million (previous year: € 7.4 million). This increase is mainly due to specific development orders from customers. The R&D rate – defined as R&D expenses in relation to Group sales – increased from 2.3 percent to 2.5 percent.

RESEARCH & DEVELOPMENT COSTS

in K EUR




The focus within the Pumps and Engine Components business segment lay on developing variable oil pumps, start-stop pumps, oil / vacuum pumps, balancer shafts and camshaft phasers. In addition, the surface compaction method for increasing the strength of powder metallurgical products was further expanded for new projects. In the Brake Discs business segment, focus was on the further development of lightweight brake discs.

## FOCUS ON INNOVATIONS FOR REDUCING $CO_2$ EMISSIONS

The aim of Research and Development is to develop products which enable our customers to achieve their goals in reducing fuel consumption and $CO_2$ emissions. These include the development of concepts for switchable car coolant pumps.

Another focus of our development activities is transferring expertise developed in the Passenger Car division for use in Truck & Off-Highway applications (truck, agricultural and construction machinery, stationary engines and wind turbines). In addition, SHW is working intensively on new applications 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.

# OVERVIEW OF THE BUSINESS DEVELOPMENT

## MACROECONOMIC FRAMEWORK CONDITIONS

### Sovereign debt crisis still weigh on the global economy

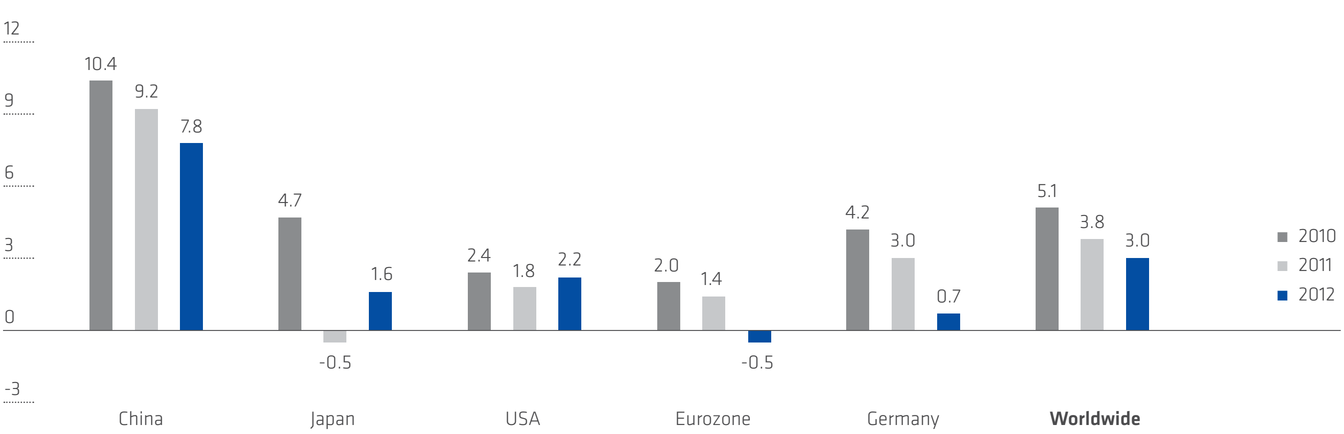
Against the backdrop of a continuing sovereign debt crisis in the eurozone, the global economy's growth dynamics slowed further during 2012. However, the risk of a break-up of the European Monetary Union might largely be averted with the ECB's decision in September 2012 to purchase bonds from crisis countries.

Growth rates and patterns for 2012 differ greatly according to the country or region: Positive trends have mainly been set in the threshold countries, with China continuing to be one of the global driving forces behind economic growth, despite a significant slowdown of growth rates. In Japan, there has been a certain return to normality in economic activity following last year's production losses resulting from the earthquake. The US economy continued to grow somewhat more strongly compared to the previous year, whereby the economic stimulus – supported by the extremely expansive monetary policy of the American central bank – mainly came from private consumption and rising capital investments.

In the eurozone, growth has been severely affected by further worsening of the sovereign debt crisis, centring around the imminent threat of Greece's withdrawal from the eurozone. Despite significant downward tendencies during the year, the German economy nevertheless achieved a comparatively substantial growth rate of 0.7 percent throughout 2012. In contrast, the southern peripheral countries – Greece, Spain, Portugal and Italy – fell partially into a deep recession within the context of a highly restrictive fiscal policy.

GDP GROWTH BY REGION

in %




Source: Global Insight, Commerzbank Research

## INDUSTRY-SPECIFIC FRAMEWORK CONDITIONS

### Automobile production continues to grow

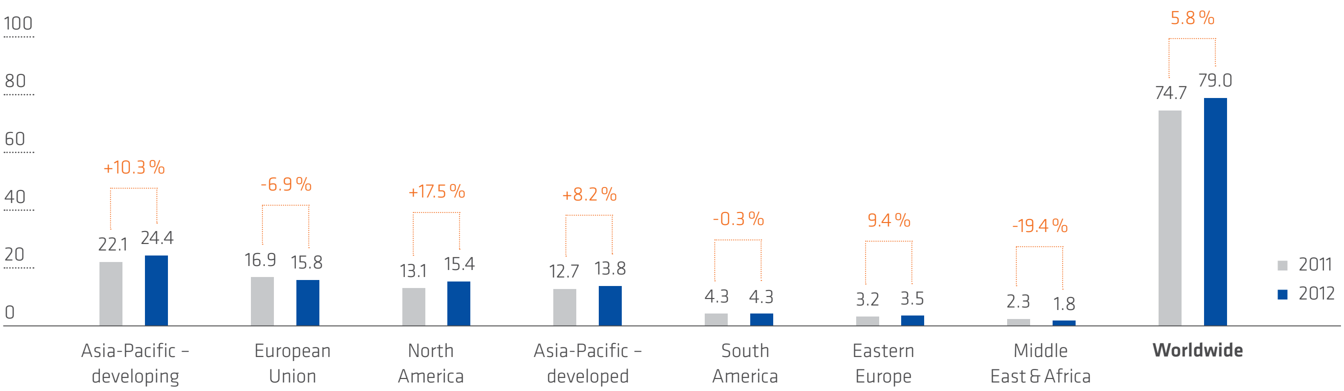
Contrary to the slowdown in global economic growth, the growth dynamics of the global production figures of so-called light vehicles (less than 6 t) continued to accelerate in 2012.

However, development within the various regions varied considerably. In the North America region, production figures rose by 17.5 percent to 15.4 million units. The lion's share of the latter was very robust growth in the USA where, against the backdrop of a brightening economic situation, around 10.1 million vehicles (+ 19.5 percent compared to the previous year) rolled off the assembly lines. The 8.2 percent increase in production figures in the developed countries of the Asia-Pacific region is largely due to the Australian and Japanese markets as well as a significant increase in exports to North America. After a fall in production in the previous year due to earthquakes, the number of light vehicles produced in Japan – supported by government incentive programmes – increased by 15.4 percent to 9.1 million vehicles. In the developing countries of the Asia-Pacific region, the dynamic growth continued with a plus of 10.3 percent to 24.4 million vehicles. Around half of the additional production volume was apportioned to China, where 16.4 million vehicles (+ 6.1 percent compared to the previous year) were manufactured.

In the European Union, the worsening sovereign debt crisis and declining export growth has left clear skid marks in vehicle production – caused by installation of production capacities in countries such as China, the USA and Brazil. In total, 1.1 million or - 6.9 percent fewer vehicles were manufactured in 2011. This development was especially pronounced in France (- 14.3 percent) and Spain (- 19.8 percent). With 5.6 million vehicles, it was not possible to achieve the previous year's production level of 5.8 million vehicles in Germany, which is the most important manufacturing base in the European Union.

LIGHT VEHICLE-PRODUCTION 2011–2012

in million units




Source: PwC Autofacts January 2013

**SHW significantly better than the European vehicle market**

Due to numerous new product launches and its customer structure, SHW was able to disconnect itself from the negative market development – vehicle production in Europe lay at -6.9 percent.

The three largest SHW customers – Volkswagen, BMW and Daimler – grew production figures against the market trend. In addition, SHW was able to significantly expand its business with Ford Europe despite considerably lower production figures.

## SIGNIFICANT EVENTS AFFECTING BUSINESS PERFORMANCE

The earnings, net assets and financial position of the SHW Group influenced by the sale of the 50 percent stake in the Canadian STT Technologies Inc.

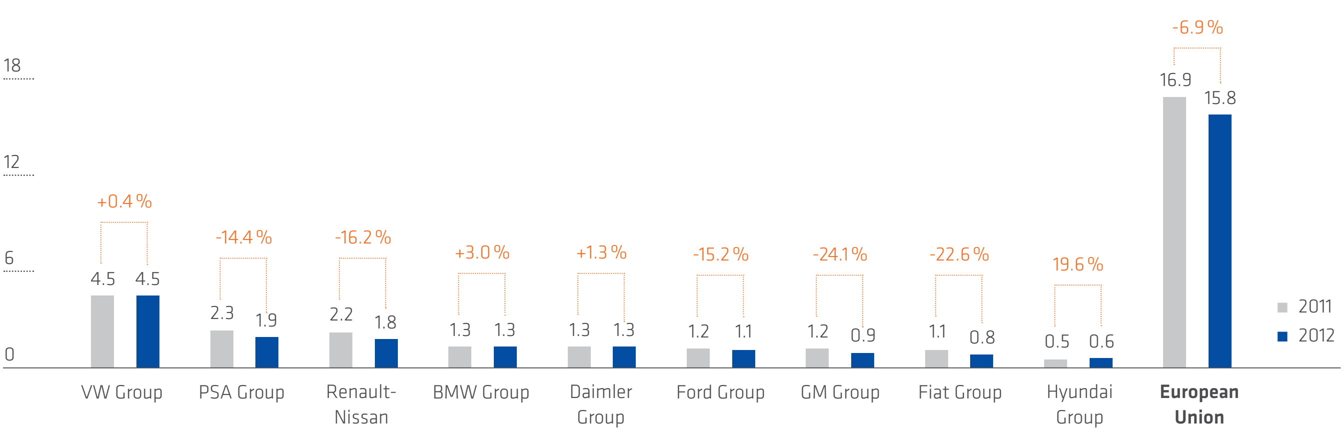
On September 28, 2012 SHW announced its decision to sell its 50 percent stake to the joint venture partner. The contract was concluded with legal effect as of October 26, 2012. According to IFRS 5, STT is recorded as discontinued operation in the annual report. Previous years' figures have been adjusted accordingly. Further details can be found in the Appendix.

## GENERAL STATEMENT BY THE MANAGEMENT BOARD ON THE BUSINESS PERFORMANCE

The Management Board of SHW AG assesses the business trend in 2012 as positive. Due to new product launches and the customer structure, SHW was able to uncouple itself from the negative market development in Europe in 2012 and to improve both Group sales and adjusted Group earnings before interest, taxes, depreciation and amortisation (EBITDA). The targets for Group sales and the corresponding EBITDA margin for the changed group of consolidated companies, which were set up in the interim report as at 30 September 2012, were exceeded slightly. The Group net income reached record levels as a consequence of the sale of the 50 percent stake in the Canadian STT Technologies Inc. At the same time, SHW's financial profile improved again significantly as a result of this transaction.

LIGHT VEHICLE-PRODUCTION BY OEM

in million units




Source: PwC Autofacts January 2013

# EARNINGS, NET ASSETS AND FINANCIAL POSITION OF THE SHW GROUP

## EARNINGS POSITION

### SLIGHT INCREASE IN GROUP SALES: +2.5 PERCENT COMPARED TO THE PREVIOUS YEAR

Due to new product launches and the customer structure, SHW was able to disconnect itself from the negative market development in 2012 – vehicle production in Europe was down – by 6.9 percent – and to improve Group sales by 2.5 percent to € 325.4 million (previous year: € 317.3 million).

### SLIGHT INCREASE IN COST OF SALES RATIO

The cost of sales increased in fiscal year 2012 from € 276.7 million to € 286.4 million compared to the previous year. The slight increase in the cost of sales ratio from 87.2 percent to 88 percent was mainly due to a change in the product mix, higher labour costs and payroll, and higher costs for hired labour.

Compared to the previous year, selling expenses increased slightly by € 0.3 million to € 4.2 million in fiscal year 2012. The selling expenses ratio rose at the same time from 1.2 percent to 1.3 percent.

In fiscal year 2012, general administration expenses fell by € 0.2 million compared to the previous year to € 7.4 million due to reduced personnel and IT costs. The administrative expenses ratio dipped slightly by 0.1 percent to 2.3 percent.

In fiscal year 2012, the other operating income dipped € 0.7 million below the level in the previous year. The large items here are release of accruals and liabilities as well as goods provided for a sub-contractor, which are offset against equal expenses.

KEY FIGURES – SHW GROUP

| K EUR | 2012 | 2011 | Change in % |
|---|---|---|---|
| Sales[1] | 325,373 | 317,294 | 2.5 % |
| EBITDA[1] | 32,412 | 29,640 | 9.4 % |
| as % of sales | 10.0 % | 9.3 % | |
| EBIT[1] | 22,324 | 20,895 | 6.8 % |
| as % of sales | 6.9 % | 6.6 % | |
| Income after tax – continued operations[1] | 14,285 | 14,904 | -4.2 % |
| Income after tax – discontinued operations[1] | 31,858 | 2,094 | |
| Net income for the year | 46,143 | 16,998 | 171.5 % |
| Adjusted EBITDA[1] | 33,937 | 31,875 | 6.5 % |
| as % of sales | 10.4 % | 10.0 % | |
| Adjusted EBIT[1] | 24,009 | 23,290 | 3.1 % |
| as % of sales | 7.4 % | 7.3 % | |
| Equity | 94,340 | 55,127,00 | 71.1 % |
| Equity ratio | 52.4 % | 31.7 % | |
| Net cash | 19,629 | -8,621 | |

[1] Prior year values were adjusted due to presentation of previously proportionally consolidated STT as "discontinued operations"

The other operating expenses fell by € 3.3 million in fiscal year 2012 to € 5.3 million (previous year: € 8.6 million). This decrease was due to the shortfall of IPO costs, which amounted to € 2.2 million in 2011, as well as to lower deliveries of goods for a sub-contractor.

### MARKED RISE IN RESEARCH AND DEVELOPMENT SPENDING

In fiscal year 2012, research and development costs increased by 8.4 percent to € 5.0 million (previous year: € 4.6 million). In addition, € 3.0 million (previous year: € 2.8 million) in development costs were capitalised. A total of 2.5 percent of sales (previous year: 2.3 percent) were invested in research and development. The focus within the

Pumps and Engine Components business segment lay on developing 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.

## € 22.3 MILLION INCREASE IN THE OPERATING RESULT

Group earnings before interest and taxes (EBIT) improved during fiscal year 2012 by € 1.4 million or 6.8 percent compared to the previous year to € 22.3 million (previous year: € 20.9 million). The corresponding EBIT margin improved to 6.9 percent (previous year: 6.6 percent).The reasons for the improvement on the Group level are the significantly better result for the Brake Discs business segment as well as lower general administration costs.

RECONCILIATION STATEMENT: SHW GROUP

| K EUR | 2012 | 2011 |
|---|---|---|
| **Sales** | **325,373** | **317,294** |
| **Operating result (EBIT)** | **22,324** | **20,895** |
| Total PPA[1] | 160 | 160 |
| PPA[1] customer base | – | – |
| PPA[1] patents / licenses | – | – |
| PPA[1] fixed assets | 160 | 160 |
| IPO expenses | – | 2,235 |
| Costs from production start-up | 1,525 | – |
| Total adjustments | 1,685 | 2,395 |
| **Adjusted EBIT** | **24,009** | **23,290** |
| as % of sales | 7.4 % | 7.3 % |
| Other write-offs | 9,928 | 8,585 |
| **Adjusted EBITDA** | **33,937** | **31,875** |
| as % of sales | 10.4 % | 10.0 % |

[1] Depreciation arising from purchase price allocation

## € 0.7 MILLION (3.1 PERCENT) INCREASE IN ADJUSTED EBIT

The adjusted Group earnings before interest and taxes (EBIT adjusted) increased in the period from January until December 2012 by € 0.7 million or 3.1 percent compared to the previous year to € 24.0 million (previous year: € 23.3 million) and equate to a virtually unchanged EBIT margin of 7.4 percent (previous year: 7.3 percent).

## € 2.1 MILLION (6.5 PERCENT) INCREASE IN THE ADJUSTED EBITDA

Adjusted earnings before interest, taxes, depreciation and amortisation (adjusted EBITDA) increased by 6.5 percent or € 2.0 million to € 33.9 million (previous year: € 31.9 million).

## SPECIAL EFFECTS IN FISCAL YEAR 2012 AND PREVIOUS YEAR

In the reporting period, the delayed delivery and launch of an assembly line in the context of a production start-up incurred one-off costs totalling € 1.5 million. These costs also include a provision on inventories. 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 level during 2012 amounted to a total of € 1.7 million.

Expenses incurred in preparation for the IPO during fiscal year 2011 totalled € 2.2 million and are listed under “Other / Consolidation”. € 1.4 million were 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 consolidated for the first by SHW AG as a result of a 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 level during 2011 amounted to a total of € 2.4 million.

### ADJUSTED FINANCIAL RESULT IMPROVED

The net financial result in fiscal year 2012 led to expenses totalling € 2.0 million compared to € 0.2 million in the previous year. In 2011, this figure still included € 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. Adjustment by this special income gave rise to a € 0.2 million improvement in the financial result.

### INCREASED TAX RATIO

In 2012, income taxes amounted to € 6.0 million (previous year: € 5.8 million). The SHW Group's tax ratio for fiscal year 2012 was 29.6 percent, compared to 28.0 percent in the previous year. However, this figure included tax expenses of € 0.1 million arising from the special income totalling € 2.0 million.

### NET INCOME FOR THE YEAR INCREASES BY € 29.1 MILLION TO € 46.1 MILLION

Overall, the Group's net income for the year of € 46.1 million was 171.5 percent or € 29.1 million higher than the result for the comparative period in the previous year (€ 17.0 million). This includes the result from discontinued operations of € 31.9 million (previous year: € 2.1 million). For fiscal year 2012, the latter is made up of a capital gain totalling € 27.8 million after taxes and a € 4.1 million contribution to the operating income after taxes (previous year: € 2.1 million).

Earnings per share from continuing and discontinued operations increased from € 2.93 to € 7.89. Earnings per share from continuing operations decreased from € 2.57 to € 2.44. In 2012, the weighted average number of shares for calculating earnings per share amounted to 5,851,100. During the same period in 2011, the number of shares for calculating earnings per share amounted to 5,798,195.

## BUSINESS SEGMENTS

### PUMPS AND ENGINE COMPONENTS

#### 5.7 percent increase in sales

In the Pumps and Engine Components business segment, sales increased in fiscal year 2012 by 5.7 percent compared to the previous year to € 237.9 million (previous year: € 225.1 million).

KEY FIGURES – PUMPS AND ENGINES COMPONENTS

| K EUR | 2012 | 2011 | Change in % |
|---|---|---|---|
| Sales[1] | 237,908 | 225,059 | 5.7 % |
| EBITDA[1] | 26,252 | 29,441 | -10.8 % |
| as % of sales | 11.0 % | 13.1 % | |
| EBIT[1] | 19,662 | 23,784 | -17.3 % |
| as % of sales | 8,3 % | 10,6 % | |
| Adjusted EBITDA[1] | 27,777 | 29,441 | -5.7 % |
| as % of sales | 11.7 % | 13.1 % | |
| Adjusted EBIT[1] | 21,227 | 23,824 | -10.9 % |
| as % of sales | 8.9 % | 10.6 % | |

[1] Prior year values were adjusted due to presentation of previously proportionally consolidated STT as "discontinued operations".

#### Demand for start-stop pumps drives sales in the Passenger Car division

Within the Pumps and Engine Components business segment, the Passenger Car division generated a 10.2 percent increase in sales to € 182.2 million (previous year: € 165.3 million). The Truck & Off-Highway division suffered as a result of the significantly deterioration in the market environment for commercial vehicles, achieving sales of € 27.5 million (previous year: € 31.7 million). Within the Powder Metallurgy division, sales improved by 0.9 percent on last year's figure of € 28.0 million to € 28.3 million.

RECONCILIATION STATEMENT: PUMPS AND ENGINE COMPONENTS

| K EUR | 2012 | 2011 |
|---|---|---|
| **Sales** | **237,908** | **225,059** |
| **Operating result (EBIT)** | **19,662** | **23,784** |
| Total PPA[1] | 40 | 40 |
| PPA[1] customer base | – | – |
| PPA[1] patents / licenses | – | – |
| PPA[1] fixed assets | 40 | 40 |
| Costs from production start-up | 1,525 | – |
| Total adjustments | 1,565 | 40 |
| **Adjusted EBIT** | **21,227** | **23,824** |
| as % of sales | 8.9 | 10.6 |
| Other write-offs | 6,550 | 5,617 |
| **Adjusted EBITDA** | **27,777** | **29,441** |
| as % of sales | 11.7 | 13.1 |

[1] Depreciation arising from purchase price allocation

### Operating income (EBIT) negatively impacted by start-up costs

In fiscal year 2012, the Pumps and Engine Components business segment reported a drop of € 4.1 million or 17.3 percent to € 19.7 million in earnings before interest and taxes (EBIT) compared to the previous year (previous year: € 23.8 million). Return on sales fell to 8.3 percent (previous year: 10.6 percent). This was mainly due to higher start-up costs, increasing depreciation and lower earnings contributions from the higher-margin Truck & Off-Highway division because of declining sales.

### Adjusted EBIT with € 21.2 million below previous year's level

In 2012, the adjusted earnings before interest and taxes (adjusted EBIT) for the Pumps and Engine Components business segment decreased by € 2.6 million (10.9 percent) to € 21.2 million compared to the previous year (previous year: € 23.8 million). The EBIT margin totalled 8.9 percent (previous year: 10.6 percent).

### Adjusted EBITDA also slightly under pressure

Adjusted segment earnings before interest, taxes, depreciation and amortisation (adjusted EBITDA) dropped 5.7 percent from € 29.4 million to € 27.8 million. The corresponding EBIT margin totalled 11.7 percent (previous year: 13.1 percent).

### Special effect in 2012

For fiscal year 2012, one-off effects of € 1.5 million arose from the delayed delivery and launch of an assembly line in the context of a production start-up.

## BRAKE DISCS

### 5.2 percent decrease in sales

During fiscal year 2012, sales earned by the Brake Discs business segment dropped by 5.2 percent compared to the previous year to € 87.5 million (previous year: € 92.2 million).

KEY FIGURES – BRAKE DISCS

| K EUR | 2012 | 2011 | Change in % |
|---|---|---|---|
| Sales | 87,465 | 92,235 | -5.2 % |
| EBITDA | 6,927 | 3,562 | 94.5 % |
| as % of sales | 7.9 % | 3.9 % | |
| EBIT | 3,621 | 665 | 444.5 % |
| as % of sales | 4.1 % | 0.7 % | |
| Adjusted EBITDA | 6,927 | 3,562 | 94.5 % |
| as % of sales | 7.9 % | 3.9 % | |
| Adjusted EBIT | 3,741 | 785 | 376.6 % |
| as % of sales | 4.3 % | 0.9 % | |

Sales of composite brake discs rose from approximately 147,400 to 169,200 units. This corresponds with an increase of 14.8 percent. Sales of processed brake discs fell by a total of 4.9 per cent to 1.7 million units (previous year: 1.8 million units) due to declining orders from several OEMs in the fourth quarter. Sales of unprocessed brake discs fell by 16.6 percent to € 2.0 million units in the same period (previous year: 2.4 million units). Given the significant improvement in the product mix towards high-value composite brake discs, sales revenues declined at a lower rate than output.

### Significantly increased EBIT margin

In fiscal year 2012, the Brake Discs business segment reported a clear improvement in earnings before interest and taxes (EBIT) compared to the previous year – from € 3.0 million to € 3.7 million. Return on sales rose to 4.1 percent (previous year: 0.7 percent). In addition to the markedly improved product mix, the business segment benefited from productivity gains.

### Adjusted EBIT improves by € 3.0 million

In 2012, the adjusted earnings before interest and taxes (adjusted EBIT) improved by a good € 3.0 million compared to the previous year to € 3.7 million. This increase resulted in an EBIT margin of 4.3 percent (previous year: 0.9 percent).

RECONCILIATION STATEMENT: BRAKE DISCS

| K EUR | 2012 | 2011 |
|---|---|---|
| **Sales** | **87,465** | **92,235** |
| **Operating result (EBIT)** | **3,621** | **665** |
| Total PPA[1] | 120 | 120 |
| PPA[1] customer base | – | – |
| PPA[1] patents / licenses | – | – |
| PPA[1] fixed assets | 120 | 120 |
| Total adjustments | 120 | 120 |
| **Adjusted EBIT** | **3,741** | **785** |
| as % of sales | 4.3 % | 0.9 % |
| Other write-offs | 3,186 | 2,777 |
| **Adjusted EBITDA** | **6,927** | **3,562** |
| as % of sales | 7.9 % | 3.9 % |

[1] Depreciation arising from purchase price allocation

### Adjusted EBITDA nearly doubled

Adjusted segment earnings before interest, taxes, depreciation and amortisation (adjusted EBITDA) almost doubled in the preceding fiscal year, totalling € 6.9 million compared to the previous year's value of € 3.6 million. The corresponding EBITDA margin totalled 7.9 percent (previous year: 3.9 percent).

### Special effects in 2012 and 2011

Expenses resulted only from depreciation arising from the purchase price allocation totalling in a rounded € 0.1 million in 2012 and € 0.1 million in 2011.

# FINANCIAL POSITION

## MARKED IMPROVEMENT IN EQUITY RATIO TO 52.4 PERCENT

As at 31 December 2012, the Group's equity increased by € 39.2 million compared to the end of the previous year to € 94.3 million due to the sale of stake in STT. This corresponds to an equity ratio of 52.4 percent compared to 31.7 percent on 31 December 2011. Due to the cash inflow from the sale of stake, liabilities to banks could be fully paid off.

MULTI-PERIOD OVERVIEW OF FINANCIAL POSITION

| K EUR | 2012 | 2011 | Change absolute | Change in % |
|---|---|---|---|---|
| Equity | 94,340 | 55,127 | 39,213 | 71.1 % |
| Non-current liabilities and accruals | 28,787 | 40,541 | -11,754 | -29.0 % |
| thereof liabilities to banks | 0 | 11,250 | -11,250 | -100.0 % |
| Current liabilities and accruals | 56,847 | 78,098 | -21,251 | -27.2 % |
| thereof liabilities to banks | 0 | 8,053 | -8,053 | -100.0 % |
| thereof trade payables | 40,695 | 42,166 | -1,471 | -3.5 % |
| thereof other financial liabilities | 4,221 | 11,511 | -7,290 | -63.3 % |
| **Balance sheet total** | **179,974** | **173,766** | **6,208** | **3.6 %** |

In a year-on-year comparison, trade payables decreased by 3.5 percent from € 42.2 million to € 40.7 million. On a comparable basis (without STT), there was a slight increase of 3.8 percent to € 40.7 million (previous year: € 39.2 million). This increase was primarily due to a rise in merchandise purchases as a result of sales growth.

The reduction in other financial liabilities by € 7.3 million (thereof STT: € 3.9 million) to € 4.2 million is primarily attributable to the decrease in accruals for outstanding invoices.

## FREE CASH FLOW INFLUENCED BY INCREASED WORKING CAPITAL AND SALE OF STAKE

Cash flow from operating activities from continuing and discontinued operations in fiscal year 2012 amounted to € 19.8 million – € 6.1 million less than the previous year's € 25.9 million. In 2012, this includes cash from the operating activities of discontinued operations in the amount of € 2.6 million. This decrease is mainly due to the variance in working capital.

Cash flow from investment activities from continuing and discontinued operations improved from minus € 20.8 million in the previous year to € 19.9 million as a result of the cash received from the sale of stake in STT. In 2012, STT investments of € 1.9 million are included therein. The investments were made in new assembly lines, development projects and the SAP project.

Free cash flow for fiscal year 2012 therefore totalled € 39.7 million (previous year: € 5.1 million).

## REDEMPTION OF BANK LIABILITIES AFTER SALE OF SHARES

As at 31 December 2012, the SHW Group's net liquidity lay at € 19.6 million, € 28.3 million higher than on 31 December 2011 (net bank liabilities incl. STT: € 8.6 million). This improvement was primarily the result of a cash inflow totalling € 42.9 million from the sale of stake in STT as well as a cash outflow in the amount of € 5.9 million for the dividend payment to our shareholders.

CASH FLOW

| K EUR | 2012 | 2011 |
|---|---|---|
| Cash flow from operating activities from continued and discontinued operations | 19,848 | 25,866 |
| Cash flow from investment activities from continued and discontinued operations | 19,900 | -20,808 |
| **Cash flow before financing activities (free cash flow)** | **39,748** | **5,058** |
| Other | -11,498 | -294 |
| **Change in net bank debt** | **28,250** | **4,764** |

As at 31 December 2012, the SHW Group had liquid funds totalling € 19.6 million (previous year: € 10.7 million). After selling the stake in STT, bank debts could be fully repaid in the fourth quarter. In addition, the Group also renegotiated long-term financing and now disposes of a credit line in the amount of € 60 million until 30 September 2017. Half of this credit line may also be used for acquisitions. At the end of the year, € 1.9 million of this credit line had already been drawn on through sureties. The debt used is subject to variable interest rates on the basis of Euribor plus a margin. An interest hedge does not take place.

### INVESTMENTS

Due to numerous new production start-ups, € 23.0 million (including STT) was invested in tangible and intangible assets in fiscal year 2012 (previous year: € 23.3 million). On a comparable basis (without STT), it was a 14.5 percent increase from € 18.5 million to € 21.2 million. € 17.7 million was spent in the Pumps and Engine Component business segment (previous year: € 12.6 million), including investments in research and development totalling € 3.0 million (previous year: € 2.6 million). The Brake Discs business segment invested a total of € 1.7 million (previous year: € 4.1 million). € 1.5 million were used for the SAP system which was launched on 1 January 2013.

MULTI-PERIOD OVERVIEW OF NET ASSETS POSITION

| K EUR | 2012 | 2011 | Change absolute | Change in % |
|---|---|---|---|---|
| Non-current assets | 81,505 | 78,191 | 3,314 | 4.2 % |
| thereof other intangible assets | 12,314 | 8,552 | 3,762 | 44.0 % |
| thereof tangible assets | 58,269 | 58,360 | -91 | -0.2 % |
| thereof other financial assets | 1,395 | 823 | 572 | 69.5 % |
| Current assets | 98,469 | 95,575 | 2,894 | 3.0 % |
| thereof inventories | 44,073 | 37,741 | 6,332 | 16.8 % |
| thereof trade recievables | 32,960 | 45,059 | -12,099 | -26.9 % |
| thereof liqud assets | 19,629 | 10,682 | 8,947 | 83.8 % |
| **Balance sheet total** | **179,974** | **173,766** | **6,208** | **3.6 %** |

## NET ASSETS POSITION

### GROWTH REFLECTED IN A CONSIDERABLE INCREASE IN TANGIBLE ASSETS, INVENTORIES AND RECEIVABLES

At the end of fiscal year 2012, the balance sheet total increased by 3.6 percent to € 180.0 million compared to the previous year (previous year: € 173.8 million). Fixed assets remained virtually unchanged compared to the previous year. On a comparable basis (without STT), it was an increase from € 51.0 million to € 58.3 million due to the launch of new production lines. The “Other intangible assets” item increased as a result of the capitalisation of development costs and services for the SAP project. “Other financial assets” rose from € 0.8 million to € 1.4 million compared to the previous year, mainly due to the loan granted to our Brazilian subsidiary.

As at the balance sheet date, the inventories of the continuing operations increased by € 11.2 million compared to the previous year to € 44.1 million. On a comparable basis, trade receivables fell by € 5.3 million to € 33.0 million due to the longer Christmas holidays and a decline in business activity.

### NUMBER OF EMPLOYEES CONTINUES TO RISE

Due to numerous new product launches and high capacity utilisation, the positive development of employment figures in the SHW Group also continued in the fiscal year 2012. In the following, staff figures only refer to continuing operations.

In the SHW Group (without STT), the number of employees on annual average rose by 7.6 percent to 1.022 employees. The bulk of this staff build up was allotted to the two locations of the Pumps and Engine Components business segment.

At the Pumps and Engine Component business segment locations, the average number of employees rose from 561 to 627.The number of employees at the two locations of the Brake Discs business segment increased from 348 to 360.

Personnel expenses increased in 2012 by 5.1 percent compared to the previous year from € 62.0 million to € 65.1 million. In addition to the increase in employee figures, the wage agreement for the Metal and Electrical Industry Baden-Wuerttemberg is also reflected here. The total term of the agreement is 13 months from 1 April 2012 to 30 April 2013 and envisages an increase in remuneration of 4.3 percent from 1 May 2012. The personnel expenses ratio, i.e. the relationship of personnel expenses to Group sales, increased from 19.5 percent to 20.0 percent. Employee productivity, defined as sales per employee (annual average), reduced by 4.7 percent compared to the previous year from € 334,000 to € 318,000.

As at 31 December 2012, 40 apprentices in all locations (previous year: 40) were employed at SHW. The focus for new hires was on apprenticeship industrial mechanics.

In addition to direct job-related education and training, the Company also offers regular seminars for employees and apprentices, such as road safety training for car and motorbike drivers, non-smoking seminars as well as "Road safety" especially for apprentices.

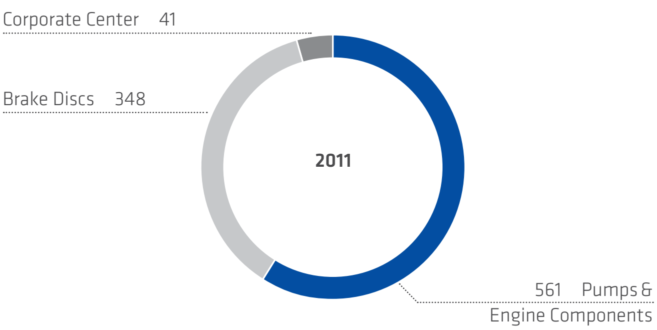
In 2012, two employees celebrated 40 years, 15 employees 25 years, and 28 employees 10 years company anniversary. This is proof for marginal fluctuation and seniority.

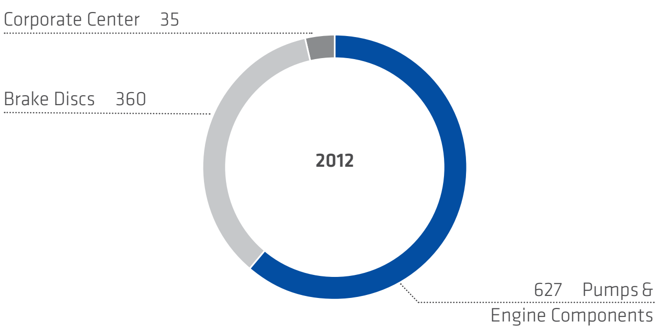
On 14 July 2012, the 50th anniversary of Powder Metallurgy (Pumps and Engine Components business segment, Wasseralfingen plant) was celebrated at the Aalen site as part of a family day, which proved very appealing.

## ASSESSMENT OF THE ECONOMIC SITUATION BY COMPANY MANAGEMENT

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, with its public listing various equity instruments are available to the Company enabling it to expand its market position in selected business areas and regions also via any possible acquisitions.

EMPLOYEES BY BUSINESS SEGMENT



# SHW AG INDIVIDUAL FINANCIAL STATEMENTS

The consolidated Group management report and the SHW AG management report for fiscal year 2012 have been compiled in accordance with § 315 Para. 3 of the HGB (Handelsgesetzbuch – German Commercial Code) 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 announced in the 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

INCOME STATEMENT

| K EUR | 2012 | 2011 |
|---|---|---|
| 1. General administration expenses | -2,481 | -1,580 |
| 2. Other operating income | 2,774 | 1,324 |
| 3. Other operating expenses | -682 | -691 |
| 4. Income from investments | 65,257 | 23,848 |
| 5. Interest result | -84 | -337 |
| **6. Result from ordinary activities** | **64,784** | **22,564** |
| 7. Extraordinary result | 0 | -1,243 |
| 8. Taxes on income and earnings | -5,569 | -4,849 |
| 9. Other taxes | -9 | -808 |
| **10. Net income for the year** | **59,206** | **15,664** |

The result from ordinary activities increased by € 42.2 million to € 64.8 million compared to the previous year. This is primarily due to the boost in income from investments from the profit transfer agreement with SHW Zweite Beteiligungs GmbH of € 65.3 million (previous year: € 21.9 million). This result furthermore includes € 0.1 million in expenses from the write-off of an investment.

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

## EXPLANATIONS OF NET ASSETS AND FINANCIAL POSITION

SHW AG BALANCE SHEET (SUMMARISED)

| K EUR | 2012 | 2011 | Change |
|---|---|---|---|
| Fixed assets | 75,415 | 74,715 | 700 |
| Current assets including prepaid expenses | 136,835 | 81,768 | 55,067 |
| **Total assets** | **212,250** | **156,483** | **55,767** |
| Equity | 133,426 | 80,072 | 53,354 |
| Accruals and liabilities | 78,824 | 76,411 | 2,413 |
| **Total capital** | **212,250** | **156,483** | **55,767** |

Fixed assets mainly include the share in SHW Zweite Beteiligungs GmbH totalling € 72.4 million (previous year: € 72.4 million). The € 0.7 million increase in fixed assets result from a long-term loan to our subsidiary in Brazil in the amount of € 0.8 million and a write-off of the investment book value of € 0.1 million.

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

SHW AG's equity rose by € 53.4 million. This increase results from the net income for fiscal year 2012. The equity ratio now adds up to 62.9 percent, compared to 51.2 percent last year.

The increase in accruals and liabilities is primarily due to an € 11.4 million increase in credits to SHW Automotive GmbH to € 76.3 million. At the same time, liabilities to banks resulting from a refinancing loan totalling € 9.0 million were fully repaid.

### 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 date on which the Company entered into such a transaction or undertook or refrained from undertaking such an act, the Company received adequate consideration for each such transaction and did not suffer any disadvantage".

## 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 many 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. Both of the aforementioned agreements have thus expired.

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) were affected by this lock-up agreement. This lock-up agreement has thus also expired.

## 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, CP 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 (Aktiengesetz – 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

The SHW AG credit agreement dated 20 March 2008 was terminated prematurely by SHW AG on 16 November 2012, and all funds were repaid. A new syndicated loan agreement dated 25 October 2012 totalling € 60.0 million was concluded under the governance of UniCredit Bank AG. The syndicate also includes Commerzbank AG, Kreissparkasse Ostalb, SEB AG and BW Bank. The new contract has a term of five years, so until 30 September 2017. As part of the aforementioned syndicate loan agreement, up to € 30.0 million can also be used for acquisitions. As at 31 December 2012, the loan proceeds amounted to € 0.0 million. The value of the working capital line as at 31 December 2012 was € 0.0 million. Moreover, the SHW Group issued sureties totalling € 1.9 million, which will be deducted from the credit line. The credit agreement can be terminated prematurely by the banks, provided a third party acquires or holds more than 50 percent of the shares or voting rights in SHW AG either directly or indirectly. For the purposes of this provision, a third party means a purchaser who is linked neither to SHW Holding L.P. nor to an affiliated company.

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.

# RISK REPORT

## BASES OF RISK MANAGEMENT

Within the scope of business activities, the SHW Group encounters many opportunities and risks, which can have both positive and negative effects on the earnings, net assets and financial situation.

With risks, we understand possible future developments or events that could lead to a negative forecast or slippage for the Company. We have structured the most important risks into three main categories in this risk report: strategic and operative risk, those relating to compliance with standards, and financial risks.

## ORGANISATION OF RISK MANAGEMENT

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

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

A Group risk manager is responsible for the centrally-managed risk 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 the business segment and plant levels, so-called risk owners – usually managers subordinate to the Management Board – are responsible for monitoring and managing individual risks.

To achieve the most effective risk management we have implemented an integrated risk management system within which risks are identified, assessed, controlled, monitored and systematically reported.

The key aim we pursue is to safeguard and further enhance Company value.

## GENERAL RISK MANAGEMENT PROCESS

The risk management process at SHW consists of four steps:

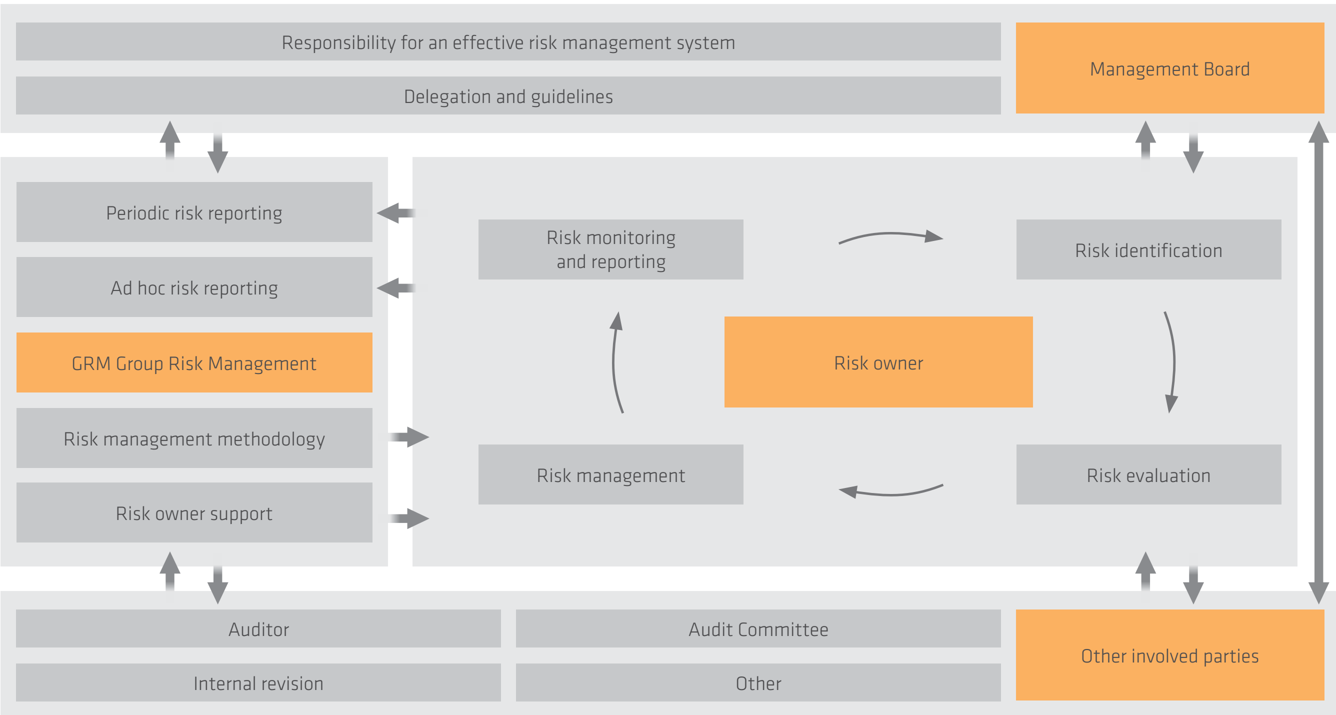
- Risk Identification & Recognition
- Risk Evaluation
- Risk Handling
- Risk Monitoring & Reporting

## 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 risks relevant to SHW and document these by means of a risk recognition form four times a year. Major changes to risks identified throughout the year are to be communicated to the Management Board via established reporting channels.

### THE RISK MANAGEMENT PROCESS



## RISK EVALUATION

Risk evaluations are also recorded by risk owners on a risk recognition form. Gross and net expected values are determined for each individual risk. The first value represents the expected financial impact on earnings before interest and tax (EBIT) before any risk-reducing measures are taken – multiplied by the anticipated probability of occurrence. The second value represents the expected financial impact following implementation of risk-reducing measures – multiplied by the anticipated probability 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:

- periodical information on the risk situation and
- ad hoc risk information

Group guidelines on risk management and controlling instruments are checked and developed at regular intervals.

## 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 sentence 1 of the German Stock Corporation Act (Aktiengesetz, AktG).

The internal control and risk management system relating to accounting should ensure that all events 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 guidelines 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 of risks cannot be guaranteed.

Within the SHW Group, accounting processes are almost entirely centralised at the headquarter 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 was prepared in Canada up until deconsolidation in October 2012, and reports consolidated financial information to the Management Board on a monthly basis. More complex issues with an impact on the financial statements are evaluated with the support of external advisers, as necessary. 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, 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. 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.

## STRATEGIC AND OPERATIONAL RISKS

### ECONOMIC AND INDUSTRY RISKS

The SHW Group's business development as an automotive supplier is directly and vitally dependent on the production of new vehicles. The global production of light vehicles (less than 6 t) increased further in 2012. This development progressed very differently in the most important production regions (see "Industry-specific framework conditions", page 35). In the European Union, the worsening sovereign debt crisis and declining export growth have left clear skid marks in vehicle production. The industry experts of PwC Autofacts currently expect sustainable growth in global light vehicle production in 2013 and the following years (see "Outlook for the global economy and industry", page 58). The highest growth rates are expected for the developing countries of the Asia-Pacific region (incl. China) and South America.

Following the sale of the 50 percent stake in Canadian STT Technologies Inc., the SHW Group is now more dependent on vehicle production within Europe and the export activities of its customers towards North America and China than before. In particular, renewed culmination of the sovereign debt crisis could have a negative impact on consumers' buying behaviour and consequently affect the SHW Group's growth prospects. In addition, various automotive manufacturers are planning to greatly expand their production capacities – especially in countries like China, Brazil and the USA. In both cases, there would be a risk of suboptimal utilisation of SHW production capacities installed at the German sites.

To reduce this risk, the Company is planning to expand its core business with pumps and engine components in Brazil, the USA and China. At the new Brazilian plant, the series production of oil pumps is to begin in the current business year. In addition, the measures to rapidly re-enter the North American market are being pushed. After opening a sales office in the Detroit metropolitan area, the Company plans to set up its own production site in the USA as a next step. Establishment of a 100 percent subsidiary in China has laid the foundations for market entry and the subsequent expansion of production capacities.

The SHW Group is nevertheless 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.

To conclude, it can be said that according to the current figures, a significant drop in passenger vehicle sales in Europe and corresponding slump in production figures is rather unlikely in 2013.

## RISKS FROM ALTERNATIVE DRIVE TECHNOLOGIES

SHW customers are facing increasingly demanding $CO_2$ limit values for their vehicle fleets. The development is characterised by a move towards more powerful and at the same time more fuel-efficient and environmentally compatible engines and hybrid and electric vehicles. The future success of SHW therefore primarily depends on the Company's ability to develop and launch new and improved $CO_2$-relevant vehicle components for all drive technologies in time.

The SHW Group was one of the first to recognise the future significance of hybrid vehicles and delivered the electric gearbox oil pump for the first European hybrid vehicle in 2008. Today this technology is widely used in the start-stop function for vehicles with automatic gearboxes. In addition, SHW is working intensively on pump applications for electric vehicles.

## RISKS FROM INDUSTRY CONSOLIDATION AND COMPETITION

The SHW Group faces risks from the continued industry consolidation in the field of engine and gearbox components. Thus, besides the complete takeover of STT Technologies Inc., Magna Powertrain also took over the German ixetic GmbH in fiscal year 2012, a manufacturer of hydraulic and gear pumps. Ongoing intensive competition in the most important vehicle market for SHW, Europe, can jeopardise profitable growth.

To reduce this risk, SHW strives to broaden its regional footprint and product range. Acquisitions will also be considered within this.

## RISKS FROM ENTERING NEW MARKETS

SHW is planning to drive the internationalisation of its business activities with 100 percent subsidiaries. Such companies already exist in China and Brazil; in the USA, SHW is planning to set up its own production facilities. Other competitors have already been able to establish themselves in these markets in recent years.

SHW expects to be confronted with various risks as a consequence. On the one hand, there is the risk that the Company will not or only insufficiently be considered for new projects. On the other, start-up costs can deviate from the budgeted figures both in terms of the time and amount.

To limit the according risks, investments in tangible asset are only made and appropriate qualified personnel only employed once a concrete order has been received.

## RISKS FROM NEW PRODUCT LAUNCHES

SHW is exposed to risks in connection with new product launches. The danger exists that delays, quality issues or increased start-up costs may occur, or budgeted production costs be exceeded.

To keep these risks under control, the departments involved at SHW (particularly Production, Purchasing, Sales, Quality Control and Development) and the relevant departments on the customer and supplier sides cooperate and coordinate closely during the start-up phase.

## CUSTOMER RISKS

Customer risks arise due to SHW's dependency on major customers (key accounts), who are able to leverage their bargaining power. This could lead to significant pressure on margins. These risks not only arise from the relative size of our most important customers, but also the relatively limited opportunities to have an impact on their business.

During the last fiscal year, the SHW Group achieved more than 10 percent of Group sales with three customers. In the previous year, on the basis of the comparable Group sales it was three customers too. The proportion of sales attributable to SHW's largest customer rose from 38.2 percent to 43.4 percent. To reduce these risks, SHW strives to achieve a balanced sales distribution by customer. Besides the acquisition of new customers, the development of new markets (North and South America, China) and fields of application as well as acquisitions are on the agenda.

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.

## RISKS THROUGH INCREASING PURCHASE COSTS

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.

After material costs, personnel costs represent the second largest cost item within the SHW Group. Should the income increases in the context of the upcoming collective bargaining significantly exceed the productivity gains, this could weaken the relative competitiveness of SHW AG and have a negative impact on the achievement of the earnings targets.

Should, contrary to expectations, the planned quantities called up by customers be considerably cut back resulting in deviations from the planned sales, this would also result in an increase in the personnel cost ratio and could have negative effects on earnings to some extent.

SHW uses the option of employing short-term and temporary workers within the scope of capacity management to be able to respond flexibly to demand peaks. 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 limit an increase in the personnel cost ratio.

## PRODUCER'S RISK

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

SHW has long-standing business relationships with the majority of its suppliers. SHW counters potential risks arising from late delivery or the loss of key suppliers with regular on-site reviews, which includes a credit assessment. At the same time, SHW maintains close relationships worldwide and business contacts with alternative suppliers for important purchased parts.

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. To further optimise the logistics chain, a new logistics centre in Bad Schussenried should start operations in spring 2013.

## IT RISKS

On 1 January 2013, SAP was introduced as the new company software at all German SHW Group sites. A renowned consultancy firm supported SHW in conception and implementation of the software. This consultancy firm will be on hand to support SHW for some time yet – until normal operations have been fully taken over.

## RISKS RELATED TO COMPLIANCE WITH STANDARDS

### RISKS IN THE CASE OF DEFECTIVE PRODUCTS

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 – taking the relevant deductibles into account. Provisions will be established if a concrete claim is predominantly likely.

### 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. At the start of 2013, the benchmark for noise emissions at the Tuttlingen-Ludwigstal site were further tightened by official 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.

## FINANCIAL RISKS

### RISKS OF DEFAULT

In the 2012 calendar year, the continued growth in the international vehicle markets led to the situation that globally positioned customers of the SHW Group improved earnings once again significantly. Conversely, the earnings situation of customers highly dependent on southern countries of the European Union deteriorated significantly. The risk of default on receivables therefore increased with these customers. If necessary, payment targets and receivables caps are adjusted and regularly monitored. On the supplier side, the economic situation did not recover further on average. Due to our multi-supplier strategy, we currently continue to consider the risk of financial support of a supplier to be low.

### CURRENCY RISKS

The SHW Group is not facing any notable currency risks at the present time, as costs and sales are predominantly billed in euros in virtually all factor and merchandise markets. The start of the production activities in Brazil in the course of fiscal year 2013 will not cause any transactions risks for the Group r, as sales and costs will be billed in local currency. Currency translation risks will then mostly arise from the exchange rate of the euro against the Brazilian real.

### FINANCING RISKS

Overall, SHW Group's financial profile is extremely solid, with an equity ratio of 52.4 percent, a net liquidity position as at 31 December 2012 of € 19.6 million, and sufficient free credit lines.

A new credit agreement with a volume of € 60 million and a term until 30 September 2017 was agreed between numerous SHW Group companies and various banks for refinancing loans. Of this, up to € 30 million can be used for corporate acquisitions. As part of the credit agreement, the SHW Group companies are obliged to comply with certain financial covenants. In fiscal year 2012, the company met the covenant targets for the economic equity ratio and the leverage ratio.

With its stock quotation, the SHW Group also has the possibility of raising funds on the capital markets if necessary. Overall, this secures the SHW Group's planned growth.

### INTEREST RISKS

Changes in market interest rates have an impact on interest payments for variable interest-bearing liabilities. Significant increases in interest rates can thus impair the profitability, liquidity and financial position of the SHW Group.

To reduce interest rate risks and safeguard financial flexibility, SHW continues to aim at financing its investments largely from cash flows from operating activities. In 2012, interest rates in the eurozone remained low. In light of the European Central Bank's interest rate policy, and the ongoing macro-economic uncertainties, we are not expecting any significant interest increases in the near future.

### IMPAIRMENT RISKS (DEPRECIATION OF GOODWILL)

Part of the SHW Group's assets consists of intangible assets, including goodwill. As of 31 December 2012, the goodwill posted in SHW's Group balance sheet was € 7.1 million. Of this sum, € 4.2 million was allocated in the Pumps and Engine Components business segment and € 2.8 million in the Brake Discs business segment. In the course of impairment testing of goodwill to 31 December 2012, the planning for 2013 to 2016 was taken as a basis and assumptions were made regarding future developments.

Although the goodwill was classified as unimpaired as of 31 December 2012, the possibility of depreciation at a later balance sheet date cannot be ruled out.

Overall, there were no further larger risks compared to fiscal year 2011.

## ASSESSMENT OF THE OVERALL RISK SITUATION

In fiscal year 2012, SHW AG was able to improve Group sales as well as the adjusted Group earnings before interest, tax, and amortisation of intangible assets and depreciation of tangible assets (EBITDA) for the year thanks to the launch of a number of new products and the customer structure. As at 31 December 2012, the Company had a net liquidity position of € 19.6 million.

Despite the positive business development in 2012, particularly the unresolved sovereign debt crisis continues to pose a latent potential risk. This results in corresponding uncertainties regarding SHW's medium-term planning. Overall it can be said that risks for the Company tend to have increased during 2012. However, risks that could threaten the continued existence of the Company are not evident at the present point in time.

# FORECAST

## OUTLOOK FOR THE GLOBAL ECONOMY AND INDUSTRY

### GLOBAL ECONOMY GRADUALLY RECOVERING

The basis for an easing of the sovereign debt crisis was laid in September 2012 when the European Central Bank decided to purchase bonds from countries hit by the crisis. This reduces the uncertainty about a collapse of the European Monetary Union, and is simultaneously a catalyst for a stabilisation of the global economy. As in previous years, forecasts vary considerably between the "developed countries" and the emerging and developing countries.

The economists at Commerzbank expect an end of the recession for the eurozone that has persisted since spring 2012 in the course of spring. On average, the economic experts expect (as at February 15, 2013) a plus of 0.3 percent, at which the economic growth in the core countries should be neutralised to the greatest possible extent through the decline of the economic performance of the southern peripheral countries of Greece, Spain, Portugal and Italy. With the continued consolidation of public finances and gradual recovery of price competitiveness, the corrective recession in these countries should come to an end and contribute to the achievement of a growth rate of 1.5 percent in the eurozone in 2014.

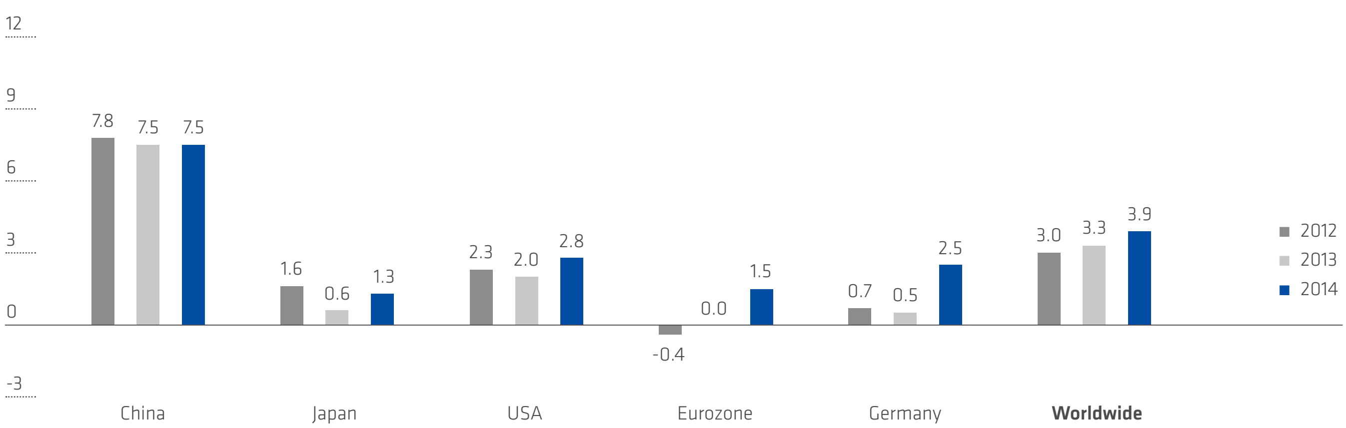
With the abatement of the sovereign debt crisis, the German economy should be able to swing into a moderate growth course again in the first half of 2013 after a weak fourth quarter in 2012. The Commerzbank analysts only expect significantly higher growth rates again in the second half of 2013, before a return to a strong upswing in 2014 – supported by the central bank's expansive monetary policy.

In the USA, the economy may also grow by 2 to 3 percent in 2013 and 2014, whereby the increase in social security contributions, tax increases for top earners and spending cuts should have a dampening effect on the economic growth in the current year. As in previous years, the Asian emerging markets (China, India, Indonesia, Malaysia, the Philippines, and Thailand) will once again show the strongest growth rates. The Commerzbank economic experts expect 7.5 percent GDP growth for China.

Despite existing risks, the economic prospects and increasing disposable income in many emerging markets should offer a solid basis for continued upswing of the global automobile industry in 2013 and 2014.

GDP GROWTH BY REGION 2012–2014

in %




Source: Global Insight, Commerzbank Research

### VEHICLE PRODUCTION TO CONTINUE GROWING DYNAMICALLY

Industry experts of PwC Autofacts expect a 5.1 percent increase in global light vehicle production (vehicles < 6 t) in 2013 and, as a consequence of the global economy's recovery, a 7.2 percent acceleration in growth in 2014. This growth will mainly be supported by increased production in the developing countries of the Asia-Pacific region, whereby China will account for the lion's share. In North America, the production figures will stabilise at a relatively high level after the rapid increase in the previous year. In the European Union, the impact of the sovereign debt crisis will again be reflected in declining production figures in 2013, though at a significantly slower rate than in 2012 (-6.9 percent). For 2014, it is expected that the production figures will increase in line with the economic recovery in the eurozone.

Automotive experts of PwC expect both 2013 and 2014 to bring a production volume of around 5.6 million units for the production facilities in Germany. Reasons for this are primarily slowing export growth along with the start-up of local manufacturing capacities in markets such as China and Russia.

Product launches and the customer structure – especially VW, BMW and Daimler, which export a significant portion of their European vehicle production to North America and Asia – will also help SHW to uncouple from general market development in 2013 and 2014. In the future, SHW intends to work the North American vehicle market with an own subsidiary. As a first step, a sales office was opened in the Detroit metropolitan area.

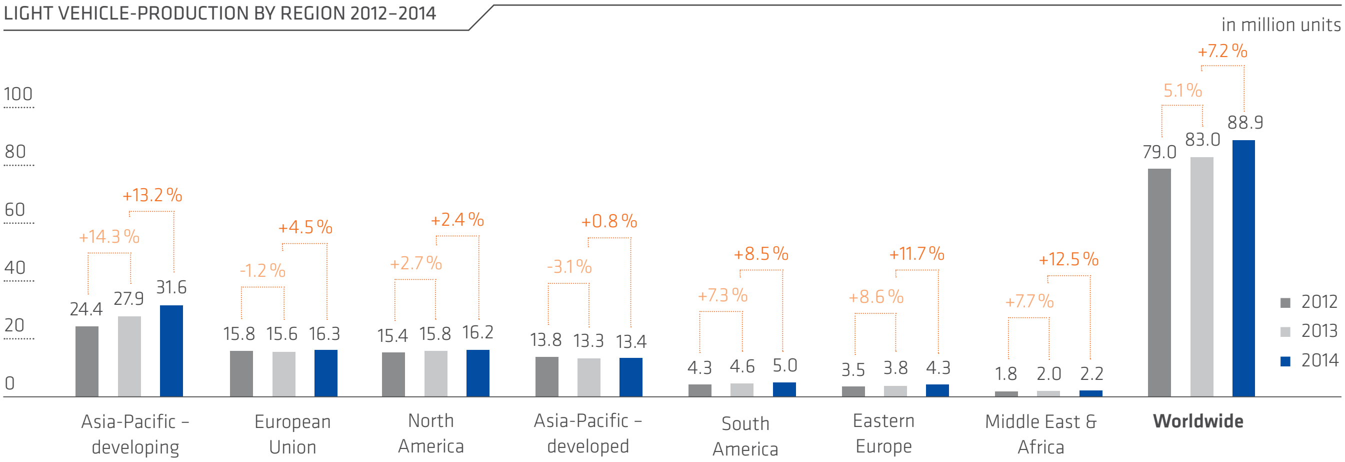
## OUTLOOK FOR THE GROUP

Despite the difficult market environment in Europe in the past fiscal year, we succeeded in attaining our sales and results targets. We consider ourselves to be well on the way to also continuing on our path of sustainable growth in the years to come.

### SINGLE DIGIT PERCENTAGE INCREASE IN SALES

Assuming a continued stable order situation at our customers, SHW AG expects Group sales of between € 325 million and € 340 million in fiscal year 2013. Due to further planned product launches and a shift in the product mix towards more complex pumps, sales in the Pumps and Engine Components business segment should lie between

LIGHT VEHICLE-PRODUCTION BY REGION 2012–2014




Source: PwC Autofacts January 2013

€ 235 million and € 250 million. In the Brake Discs business segment, we aim to increase the proportion of processed brake discs and composite brake discs and to achieve sales in the region of € 90 million.

In fiscal year 2014, we expect a single digit percentage growth, provided that our customers' order situation does not deteriorate. Besides several new launches, the planned volume growth with variable oil pumps and gearbox oil pumps should contribute decisively to the planned sales growth on the Group level.

## IMPROVED EBITDA IN THE COURSE OF PLANNED SALES GROWTH

In fiscal year 2013we expect the EBITDA on the Group and business segment levels to improve as well if the planned sales growth is achieved.

For fiscal year 2014, the Company assumes a further increase in the EBITDA on the Group and business segment levels in the course of the planned sales growth.

## 2013 INVESTMENT HIGH REACHED, DEPRECIATION TO GRADUALLY INCREASE

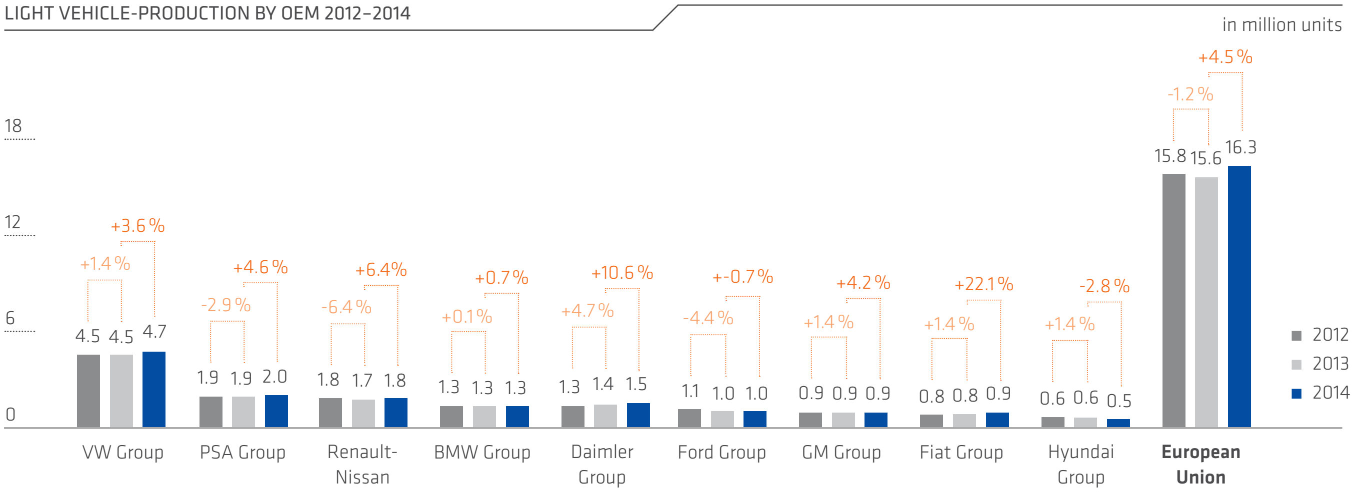
In light of product launches, we are planning an investment budget of between € 22 million and € 26 million for fiscal year 2013. In fiscal year 2014, we expect a slight decline in investments.

The large investments made in 2011 to 2013 will consequently be reflected in higher depreciation.

## 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.

LIGHT VEHICLE-PRODUCTION BY OEM 2012–2014




Source: PwC Autofacts January 2013

# OPPORTUNITIES

## BASES FOR OPPORTUNITY MANAGEMENT

With opportunities, we understand possible future developments or events that could lead to a positive forecast or slippage for the Company. Our opportunity management is mainly derived from targets and strategies for the two business segments of Pumps and Engine Components, and Brake Discs. Direct responsibility for early and regular identification and analysis of opportunities lies with operational management within the business segments. At SHW, opportunity management is an integral part of the Group's planning and controlling processes. Within this context, there is intensive discussion of the topics of market and competition, relevant cost factors, and key success factors. Concrete targets specific to the business segments are derived and determined from this.

The development and sales departments play an important role in opportunity management. They continually search for optimisation opportunities for existing pump and engine components and brake discs, as well as for new application and marketing opportunities. Opportunities often open up alongside through product innovations, which arise during the development of new, more efficient and environmentally compatible engine generations. SHW therefore strives to be involved in the vehicle manufacturer's development process at the earliest possible opportunity.

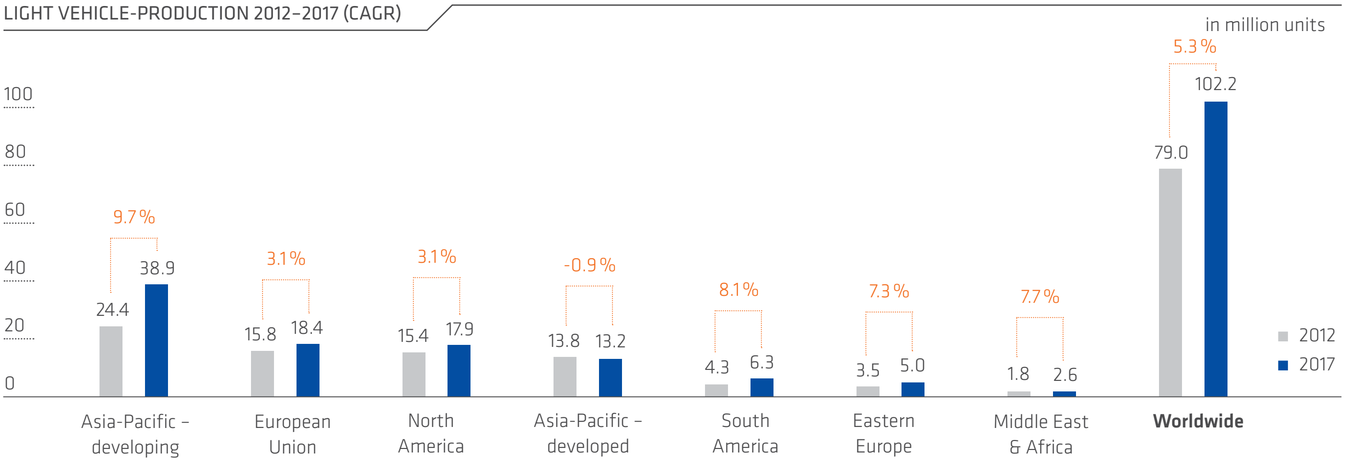
## GROUP-WIDE OPPORTUNITIES

**Considerable efforts still required to achieve the 2020 emissions target**

In recent years, passenger car manufacturers have in part made considerable progress towards attaining the target $CO_2$ limit of 130 g/km set for 2015.

However, considerable efforts are still required to achieve the emissions target set by the European Commission of 95 g/km by 2020. The automobile industry is employing various means to achieve these target values. The focus is on optimisation of the traditional combustion engine and reduction of the vehicle weight. Moreover, considerable resources are being invested in the development of hybrid and electric vehicles.

LIGHT VEHICLE-PRODUCTION 2012–2017 (CAGR)




Source: PwC Autofacts January 2013

SHW AG is making an essential contribution to reducing fuel consumption and $CO_2$ emissions with its pumps and engine components, and brake discs. $CO_2$ 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.

According to an assessment by the management consultancy AT Kearney, around 50 percent of new vehicles in Europe will be equipped with hybrid drive by 2020 – a combination of a combustion and electric engine. By 2025, up to 60 percent of new vehicles are to be delivered as so-called mild, micro or plug-in hybrids. SHW's electric gearbox oil pumps, which only operate when needed, help save fuel as they consume little electricity and thus ultimately reduce the burden on the combustion engine.

With its composite brake discs, the Brake Discs business segment also contributes to reducing $CO_2$. A weight saving of 2 kg per brake disc or 8 kg per vehicle is achieved.

In light of its innovative product portfolio and current contracts, SHW is well positioned to also continue growing more strongly than the underlying vehicle market in the future.

### OPPORTUNITIES IN THE BUSINESS SEGMENTS

According to the industry experts of PwC Autofacts, the production of light vehicles in the developing countries of the Asia-Pacific region (incl. China) and South America will increase at a compound annual growth rate (CAGR) of 9.7 percent and 8.1 percent respectively in the period from 2012 to 2017. To participate in this anticipated growth, SHW has established two 100 percent subsidiaries for the manufacture of oil pumps in China and Brazil. In addition, the Company is preparing to re-enter the North American market. Hence we recently opened a sales office in the Detroit metropolitan area. As a next step, we are planning to set up our own production facilities in the USA.

With net liquid assets of € 19.6 million (as at 31 December 2012), and the new, long-term syndicated loan, the Company is also in the position to finance acquisitions in the mid double-digit million range.

Similar to the development in engine lubricating oil pumps, there is currently a breakthrough in variable water pumps in the field of water circulation and coolant pumps. Unlike conventional pumps, which are generally designed for maximum requirements (high load and speed at high temperatures), the variable water pump always dispenses the coolant flow in exactly the amount required at the time. SHW is working on concepts for the switchable car coolant pump, and sees good opportunities to establish itself in this attractive market segment.

In the Brake Discs business segment, SHW has successfully acquired a large order for composite brake discs for upper mid-sized class vehicles of a renowned German automotive manufacturer. SHW is working intensively on being able to manufacture cost-effective, ready-to-install brake discs for series production and composite construction methods for series production. SHW sees good opportunities to win further orders for compound brake discs accordingly, and will invest about € 10 million in this field in the coming years.

## GENERAL STATEMENT ON EXPECTED DEVELOPMENTS

For the current fiscal year, the SHW AG Management Board expects a moderate sales increase coupled with an improvement of operating results. Due to the current order situation, continuous optimisation of corporate structures and processes, and financial strength, the Management Board sees further growth potential beyond the current fiscal year. The Management Board expects a positive sales and earnings development for fiscal year 2014 accordingly.

# CONSOLIDATED FINANCIAL STATEMENTS

# CONSOLIDATED BALANCE SHEET (IFRS)

## AS AT 31 DECEMBER 2012

## ASSETS

| K EUR | Notes | 31 Dec 2012 | 31 Dec 2011 |
|---|---|---|---|
| Goodwill | (1) | 7,055 | 7,055 |
| Other intangible assets | (1) | 12,314 | 8,552 |
| Tangible assets (property, plant and equipment) | (1, 2) | 58,269 | 58,360 |
| Deferred tax assets | (20) | 2,472 | 3,401 |
| Other financial assets | (3) | 1,395 | 823 |
| Non-current assets | | 81,505 | 78,191 |
| Inventories | (4) | 44,073 | 37,741 |
| Trade receivables | (5) | 32,960 | 45,059 |
| Other financial assets | (6) | 0 | 748 |
| Other assets | (7) | 1,807 | 1,345 |
| Cash and cash equivalents | (8) | 19,629 | 10,682 |
| Current assets | | 98,469 | 95,575 |
| **Balance sheet total** | | **179,974** | **173,766** |

## EQUITY AND LIABILITIES

| K EUR | Notes | 31 Dec 2012 | 31 Dec 2011 |
|---|---|---|---|
| Subscribed capital | (9) | 5,851 | 5,851 |
| Capital reserves | (9) | 14,780 | 14,780 |
| Revenue reserves | (9) | 73,709 | 33,417 |
| Other reserves | (9) | 0 | 1,079 |
| **Total equity** | | **94,340** | **55,127** |
| Pension accruals and similar obligations | (10) | 22,620 | 22,983 |
| Deferred tax liabilities | (20) | 3,119 | 3,194 |
| Other accruals | (11) | 2,948 | 2,984 |
| Other financial liabilities | (12) | 100 | 130 |
| Liabilities to banks | (12) | 0 | 11,250 |
| **Non-current liabilities and accruals** | | **28,787** | **40,541** |
| Liabilities to banks | (12) | 0 | 8,053 |
| Trade payables | (12) | 40,695 | 42,166 |
| Other financial liabilities | (12) | 4,221 | 11,511 |
| Income tax liabilities | (12) | 1,016 | 950 |
| Other accruals | (11) | 5,170 | 8,858 |
| Other liabilities | (12) | 5,745 | 6,560 |
| **Current liabilities and accruals** | | **56,847** | **78,098** |
| **Balance sheet total** | | **179,974** | **173,766** |

# CONSOLIDATED INCOME STATEMENT (IFRS)

## FOR THE FINANCIAL YEAR AS OF 31 DECEMBER 2012

| K EUR | Notes | 2012 | 2011 |
|---|---|---|---|
| Sales | (13) | 325,373 | 317,294 |
| Cost of sales | (18, 21) | -285,461 | -276,691 |
| **Gross profit** | | **39,912** | **40,603** |
| Selling expenses | (14, 18) | -4,202 | -3,911 |
| General administration expenses | (15) | -7,386 | -7,598 |
| Research and development costs | (16) | -5,030 | -4,641 |
| Other operating income | (17) | 4,292 | 5,041 |
| Other operating expenses | (18) | -5,262 | -8,599 |
| **Operating result** | | **22,324** | **20,895** |
| Financial income | (19) | 6 | 2,144 |
| Financial expenses | (19) | -2,037 | -2,347 |
| **Earnings before taxes** | | **20,293** | **20,692** |
| Deferred taxes | (20) | -856 | -977 |
| Current income tax | (20) | -5,152 | -4,811 |
| **Income after tax from continued operations** | | **14,285** | **14,904** |
| **Income after tax from discontinued operations** | | **31,858** | **2,094** |
| **Net income for the year** | | **46,143** | **16,998** |
| Earnings per share in € (continued and discontinued operations)* | | 7.89 | 2.93 |
| Earnings per share in € (continued operations)* | | 2.44 | 2.57 |

*) Based on 5,851,100 shares (5,798,195 shares)

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS)

## FOR THE FINANCIAL YEAR AS OF 31 DECEMBER 2012

| K EUR | 31 Dec 2012 | 31 Dec 2011 |
|---|---|---|
| Net income for the year | 46,143 | 16,998 |
| Currency translation differences | 0 | 187 |
| Change in the market value of hedging instruments | 0 | -10 |
| Variation (gross) | 0 | 177 |
| Deferred taxes on changes in value stated under equity | 0 | 3 |
| Change in value stated under equity | 0 | 180 |
| **Consolidated comprehensive income** | **46,143** | **17,178** |
| from continued operations | 14,285 | 14,897 |
| from discontinued operations | 31,858 | 2,281 |

# CONSOLIDATED CASH FLOW STATEMENT (IFRS)

## FOR THE FINANCIAL YEAR AS OF 31 DECEMBER 2012

| K EUR | Notes | 2012 | 2011 |
|---|---|---|---|
| 1. Net cash flow from operating activities | | | |
| Net income for the year | | 14,285 | 16,998 |
| Depreciation / amortisation on fixed asset items (+) | | 10,088 | 10,090 |
| Income tax expenses through profit or loss (+) | (20) | 5,152 | 5,264 |
| Income tax paid (–) | | -4,978 | -5,171 |
| Financing costs through profit or loss (+) | (19) | 2,037 | 2,351 |
| Interest paid (–) | | -787 | -779 |
| Financial investment income through profit or loss (–) | (19) | -6 | -2,201 |
| Interest received (+) | | 2,539 | 393 |
| thereof dividend received | | 2,533 | |
| thereof interest received | | 6 | |
| Increase (+) / decrease (–) in accruals | | -2,309 | -559 |
| Changes in deferred taxes | | 856 | 1,361 |
| Other non cash-effective expenses (+) / income (–) | | -1,190 | 438 |
| Gain (–) / loss (+) on the disposal of assets | | -2 | -2,010 |
| Increase (–) / decrease (+) in inventories, trade receivables and other current assets | | -6,863 | -11,790 |
| Increase (+) / decrease (–) in trade payables and other liabilities | | -1,554 | 11,481 |
| Net cash flow from operating activities | | 17,268 | 25,866 |
| Cash Flow from operating activities from discontinued operations | | 2,580 | 0 |
| Cash Flow from operating activities from continued and discontinued operations | | 19,848 | 25,866 |

| K EUR | Notes | 2012 | 2011 |
|---|---|---|---|
| 2. Cash flow from investment activities | | | |
| Cash received (+) from disposals of tangible assets | | 81 | 35 |
| Cash received from the disposal of long term financial assets | | 42,890 | 2,420 |
| Cash paid (–) for investments in tangible assets | | -16,432 | -18,820 |
| Cash paid (–) for investments in intangible assets | | -4,727 | -4,443 |
| Cash Flow from investment activities from continued operations | | 21,812 | 20,808 |
| Cash Flow from investment activities from discontinued operations | | -1,912 | 0 |
| Cash Flow from investment activities from continued and discontinued operations | | 19,990 | -20,808 |
| 3. Cash flow from financing activities | | | |
| Cash paid (–) for the redemption of financial liabilities | | -19,500 | -14,250 |
| Dividends paid | | -5,851 | 0 |
| Payments (–) for investments in non-current financial assets | | -810 | -339 |
| Cash Flow from financing activities from continued operations | | -26,161 | -14,589 |
| Cash Flow from financing activities from discontinued operations | | 0 | 0 |
| Cash Flow from financing activities from continued and discontinued operations | | -26,161 | -14,589 |
| 4. Cash and cash equivalents at the end of the period | | | |
| Cash-effective changes in cash and cash equivalents (sum of positions 1–3) | | 13,587 | -9,531 |
| Exchange rate-related changes in cash and cash equivalents | | 103 | 11 |
| Cash and cash equivalents at the beginning of the period | | 10,682 | 20,202 |
| Changes in cash from scope of consolidation related changes | | -4,743 | 0 |
| **Cash and cash equivalents at the end of the period** | **(8)** | **19,629** | **10,682** |

# STATEMENT OF CHANGES IN GROUP EQUITY (IFRS)

## AS OF 31 DECEMBER 2012

| K EUR | Subscribed capital (Note 9) | Capital reserves (Note 9) | Revenue reserves (Note 9) | Other reserves (Note 9) | Total equity |
|---|---|---|---|---|---|
| **Position as of 1 January 2011** | **5,500** | **12,965** | **16,419** | **899** | **35,783** |
| Capital increase | 351 | 1,815 | 0 | 0 | 2,166 |
| Foreign currency translation | 0 | 0 | 0 | 187 | 187 |
| thereof from discontinued operations | 0 | 0 | 0 | 187 | 0 |
| Changes in the market value of hedging instruments | 0 | 0 | 0 | -7 | -7 |
| Total result recognised directly in equity | 351 | 1,815 | 0 | 180 | 2,346 |
| Net income for 2011 | 0 | 0 | 16,998 | 0 | 16,998 |
| Total net result for the period | 351 | 1,815 | 16,998 | 180 | 19,344 |
| Position as of 31 December 2011 | 5,851 | 14,780 | 33,417 | 1,079 | 55,127 |
| Foreign currency translation | 0 | 0 | 0 | -1,079 | -1,079 |
| thereof from discontinued operations | 0 | 0 | 0 | -1,079 | 0 |
| Changes in the market value of hedging instruments | 0 | 0 | 0 | 0 | 0 |
| Total result recognised directly in equity | 0 | 0 | 0 | -1,079 | -1,079 |
| Net income for 2012 | 0 | 0 | 46,143 | 0 | 46,143 |
| Total net result for the period | 0 | 0 | 46,143 | -1,079 | 45,064 |
| Gezahlte Dividende | 0 | 0 | -5,851* | 0 | -5,851 |
| **Position as of 31 December 2012** | **5,851** | **14,780** | **73,709** | **0** | **94,340** |

*) 1 Euro per share

# CONSOLIDATED NOTES

# CONSOLIDATED NOTES

FOR THE FISCAL YEAR 2012

## BASIS FOR THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

SHW AG's consolidated financial statements as at 31 December 2012 were approved by the Management Board on 6 March 2013 for submission to the Supervisory Board. SHW Aktiengesellschaft with registered offices in Germany was the result of a change of legal form in 2011 and 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 2012, 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 2012 financial year 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). 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).

With the resolution of 8 February 2013, the shareholders of SHW Automotive GmbH and SHW Zweite Beteiligungs GmbH unanimously resolved to make use of the exemption rule pursuant to § 264 Para. 3 of the HGB (Handelsgesetzbuch – German Commercial Code) and to dispense with preparing a management report and notes. The resolutions were disclosed in the Federal Gazette on 22 February 2013.

## 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 50 percent stake in the STT joint venture was sold in September 2012 and no longer included in the consolidated financial statements from the end of October 2012. In 2013, we will include SHW do Brasil in the group of consolidated companies for the first time, as the company will commence operations.

A complete list of all SHW Group holdings is on file in the commercial register at Aalen local court (HRB 7-A) 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 Groupinternal 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.

## CHANGES IN ACCOUNTING AND VALUATION PRINCIPLES

### 1. NEW AND AMENDED STANDARDS AND INTERPRETATIONS ADOPTED IN 2012

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 2012:

- 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.

- 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. The new standard is not expected to have any influence on the asset, financial and earnings situation or cash flow of the Group.

- 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.

### 2. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO EXISTING STANDARDS THAT ARE NOT YET MANDATORY IN 2012 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 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 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.

- 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 effects on the Group are described on page 91.

- IFRS 9 and 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.

  The SHW Group does not anticipate any major impact on the Group's consolidated financial statements as a result.

- 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 is yet to assess the full impact of IFRS 10.

  Adoption of the standard is obligatory from 1 January 2013, but must still be endorsed by the EU.

- 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. There are no further standards or interpretations, which are not yet mandatory to adopt and would have a significant impact on the Group.

Adoption of the standard is obligatory from 1 January 2013, but must still be endorsed by the EU.

- 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.

  Adoption of the standard is obligatory from 1 January 2013, but must still be endorsed by the EU.

- 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.

- 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 offsetting 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 straightline 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 straightline 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 straightline 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 of an 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, reevaluates 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 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 derecognised 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 derecognised 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 directly 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 held in prior years 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 retained 1.5 percent of shares during the one-year lock up period (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 monthly 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 economic 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 € 22,620 thousand as at 31 December 2012 (previous year: € 22,983 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 availab-le 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

| | Purchase and production costs | | | | |
|---|---|---|---|---|---|
| K EUR | As of 1 Jan 2011 | 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** |

| | Purchase and production costs | | | | |
|---|---|---|---|---|---|
| K EUR | As of 1 Jan 2012 | Additions | Withdrawals | Book transfers | Currency differences |
| **Intangible Assets** | | | | | |
| Customer base | 51,370 | 0 | -3,920 | 0 | 119 |
| Goodwill | 7,055 | 0 | 0 | 0 | 0 |
| Assets generated internally | 6,065 | 3,015 | 0 | 0 | 0 |
| Other intangible assets | 6,369 | 1,712 | -1,599 | 0 | 45 |
| | 70,859 | 4,727 | -5,519 | 0 | 164 |
| **Tangible assets** | | | | | |
| Land, land rights and buildings | 27,035 | 184 | 0 | 130 | 0 |
| Technical equipment and machines | 86,352 | 4,044 | -24,256 | 10,116 | 704 |
| Other equipment, operating and office equipment | 12,901 | 2,137 | -1,906 | 2 | 45 |
| Payments on account and assets under construction | 7,658 | 11,979 | -2,135 | -10,248 | 27 |
| | 133,946 | 18,344 | -28,297 | 0 | 776 |
| **Total** | **204,805** | **23,071** | **-33,816** | **0** | **940** |

| 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 2012 | Accumulated Write-offs | Net carrying amounts 31 Dec 2012 | Net carrying amounts 1 Jan 2012 | Write-offs for the financial year |
|---|---|---|---|---|
| | | | | |
| 47,569 | 47,569 | 0 | 0 | 0 |
| 7,055 | 0 | 7,055 | 7,055 | 0 |
| 9,080 | 1,018 | 8,062 | 5,826 | 779 |
| 6,527 | 2,275 | 4,252 | 2,726 | 185 |
| 70,231 | 50,862 | 19,369 | 15,607 | 964 |
| | | | | |
| 27,349 | 6,895 | 20,454 | 21,070 | 930 |
| 76,960 | 51,732 | 25,228 | 24,874 | 8,480 |
| 13,179 | 7,873 | 5,306 | 4,758 | 1,418 |
| 7,281 | 0 | 7,281 | 7,658 | 0 |
| 124,769 | 66,500 | 58,269 | 58,360 | 10,828 |
| **195,000** | **117,362** | **77,638** | **73,967** | **11,792** |

The balance sheet for the 2011 financial year still contains the values for STT and can therefore only be compared to a limited extent.

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.

The sale of the stake in STT led to a € 33,075 thousand drop in the gross investment assets.

The additions to other intangible assets relate to capitalised development costs of € 3,015 thousand and capitalised costs of the SAP project of € 1,535 thousand.

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 2011 and 2012 financial years.

### Goodwill

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

- "Pumps" CGU
- "Engine components" CGU
- "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 2013 to 2016 approved by management. Calculation of the terminal value is based on an inflation/growth rate of 1.0 percent (previous year: 1.0 percent). The discount rate used for the EBIT forecasts is 10.8 percent (previous year: 10.4 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 | 2012 | 2011 |
|---|---|---|
| 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").

### Discount rates

The discount rate was derived from a base interest rate (after tax) of 2.5 percent and a market risk premium after tax of 5.5 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.

## (2) INTERESTS IN JOINT VENTURES

The assets and liabilities sold in the sale of the STT stake are made up as follows:

ASSETS

| K EUR | 27.10.2012 |
|---|---|
| Proberty, plant and equipment | 7,715 |
| Deferred tax assets | 304 |
| Trade receivables | 8,368 |
| Inventories | 5,363 |
| Cash and cash equivalents | 4,743 |
| Other current assets | 858 |
| **Total assets** | **27,351** |

EQUITY AND LIABILITIES

| K EUR | 27.10.2012 |
|---|---|
| Deferred tax liabilities | 580 |
| Other accruals | 139 |
| Non-current liabilities and accruals | 719 |
| Trade payables | 5,220 |
| Other financial liabilities | 2,256 |
| Income tax liabilities | 1,133 |
| Other current liabilities / accruals | 2,324 |
| **Total liabilities / accruals** | **11,652** |
| **Sale of net assets** | **15,699** |

## (3) OTHER NON-CURRENT FINANCIAL ASSETS

| K EUR | 2012 | 2011 |
|---|---|---|
| Cash surrender value of reinsurance | 350 | 478 |
| Participating investments | 1,045 | 345 |
| Other | 0 | 0 |
| **Total** | 1,395 | **823** |

Other non-current financial assets include € 1,045 thousand (previous year: € 345 thousand) for investments in equity instruments, which are categorised as financial investments held for sale, and long-term loans to our Brazilian subsidiary. 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 | 2012 | 2011 |
|---|---|---|
| Raw materials and supplies | 13,692 | 13,060 |
| Work in progress and finished goods | 26,026 | 18,727 |
| Merchandise | 3,783 | 4,843 |
| Payments on account | 572 | 1,111 |
| **Total** | **44,073** | **37,741** |

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

The provisions for bad debts on inventories decreased by € 91 thousand in the 2012 financial year to € 2,440 thousand. The adjustment is recognised through profit or loss in the cost of sales. Last year, the cost of sales included proceeds of € 71 thousand from the increase in this provision for bad debts.

The cost of inventories, which is recognised in the cost of sales, amounts to € 202,580 thousand (previous year: € 195,531 thousand).

## (5) TRADE RECEIVABLES

| K EUR | 2012 | 2011 |
|---|---|---|
| Receivables from clients | 32,996 | 45,099 |
| Provisions for bad debts | -36 | -40 |
| **Total** | **32,960** | **45,059** |

| 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: | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Trade receivables | | | | 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 |
| as of 31 Dec 2012 | 32,996 | 27,983 | 36 | 2,991 | 303 | 162 | 1,288 | 80 | 153 |
| as of 31 Dec 2011 | 45,059 | 36,474 | 40 | 7,300 | 248 | 352 | 312 | 283 | 50 |

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, which are included in the income state-ment in other operating expenses, developed as follows:

| K EUR | 2012 | 2011 |
|---|---|---|
| Bad debt provisions as at 1 January | 40 | 7 |
| Additions (impairments) | 5 | 40 |
| Reversals of provisions | 9 | 7 |
| **Bad debt provisions as at 31 December** | 36 | **40** |

## (6) OTHER CURRENT FINANCIAL ASSETS

| K EUR | 2012 | 2011 |
|---|---|---|
| Receivables from Magna Powertrain Inc., Concord, Ontario, Canada | 0 | 748 |
| **Total** | 0 | **748** |

In the current financial assets, receivables from the joint venture partner Magna totalling € 748 thousand were included in the previous year.

## (7) OTHER CURRENT ASSETS

"Other assets" mainly consists of a special lease instalment of € 119 thousand (previous year: € 238 thousand), which is released over the useful life of the lease. Claims relating to other taxes amounting to € 1,191 thousand (previous year: € 925 thousand) are also included under this heading.

## (8) CASH AND CASH EQUIVALENTS

| K EUR | 2012 | 2011 |
|---|---|---|
| Bank balances, cheques, cash on hand | 19,629 | 10,682 |
| **Total** | **19,629** | **10,682** |

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 capital reserves include a surcharge from the issue of shares less the transaction costs directly attributable.

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

Other reserves result from currency translation.

The Articles of Association, with the consent of the Supervisory Board, authorise the Management Board to increase the Company's share capital once or several times by 28 February 2016, up to € 2,925,550 by issuing new bearer shares in exchange for contributions in cash and/or in kind (Authorised Capital 2011). In the 2012 financial year, the Management Board did not exercise this right. 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 of the AktG (Aktiengesetz – German Stock Corporation Act). § 13 of the Articles of Association applies to the Supervisory Board's authorisation to adjust the version of the Articles of Association once the Authorised Capital 2011 level has been reached, and/or the expiry of its term.

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 the nominal sum of € 125,000,000.00 (in words: one hundred and twentyfive million euros) with or without issuing limitations on maturities and to grant and impose to the holders and creditors of bonds, conversion and warrant rights for new no par-value bearer shares of the Company with prorated 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. 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 greater 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.

## (10) PENSION ACCRUALS AND SIMILAR OBLIGATIONS

Pension accruals and similar obligations include accruals for post-employment benefits of € 22,620 thousand (previous year: € 22,983 thousand) and death benefits of € 116 thousand (previous year: € 109 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 plan assets are reported under "Other non-current financial assets" (cf. 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:

| | 2012 | 2011 |
|---|---|---|
| Pension increase rate | 2.00 % | 2.00 % |
| Interest rate | 2.75 % | 5.00 % |

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 2011 | 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 |
| Current service costs | 167 |
| Interest costs | 965 |
| Pension payments / other | -1,430 |
| Net actuarial gains and losses recognised in the income statement | -65 |
| **Accruals as at 31 December 2012** | **22,620** |

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

| K EUR | 2012 | 2011 |
|---|---|---|
| Current service costs | 167 | 163 |
| Interest costs | 965 | 990 |
| Recognised actuarial gains | -65 | -66 |
| **Net pension cost** | **1,067** | **1,087** |

Liabilities from defined benefit plans are as follows:

| K EUR | 2012 | 2011 |
|---|---|---|
| Individual pension obligations to active employees | 526 | 319 |
| Labour-management agreement on pensions | 5,528 | 3,093 |
| Former employees with vested reights | 1,130 | 782 |
| Pensions / other | 18,610 | 15,838 |
| **DBO (Defined Benefit Obligation)** | **25,794** | **20,032** |
| Unrecognised actual gains | -3,174 | 2,951 |
| **Accruals as at 31 December** | **22,620** | **22,983** |

The defined benefit obligations (DBO) developed as follows:

| K EUR | 2012 | 2011 |
|---|---|---|
| DBO 1 January | 20,032 | 20,512 |
| Current service costs | 167 | 163 |
| Interest costs | 965 | 990 |
| Pension payments | -1,430 | -1,430 |
| Actuarial gains / losses | 6,060 | -203 |
| **DBO 31 December** | **25,794** | **20,032** |

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

| K EUR | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| DBO 31.12. | 25,794 | 20,032 | 20,512 | 20,614 | 18,361 |
| Adjustments based on experience | -43 | 203 | 206 | 10 | 46 |

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 2013 total € 1,470 thousand. The budgeted pension costs for 2013 amount to € 995 thousand, which includes actuarial gains of € 0 thousand. Adjustments based on experience to plan liabilities as at 31 December 2012 amount to € 43 thousand (previous year: € 203 thousand, 2010: € 206 thousand, 2009: € 10 thousand) and include actuarial gains of € 3,174 thousand as at 31 December 2012 According to the revised standard IAS 19, the corridor method may no longer be used from 1 January 2013. The actuarial loss of € 3,174 thousand will be booked to equity.

## (11) OTHER ACCRUALS

| K EUR | As at 31 Dec 2011 | Utilisation | Reversal of provisions | Additions | As at 31 Dec 2012 |
|---|---|---|---|---|---|
| Warranties | 2,240 | -1,710 | -530 | 2,078 | 2,078 |
| Other business-related obligations | 5,132 | -4,838 | 0 | 2,794 | 3,088 |
| Obligations to employees | 3,317 | -991 | 0 | 623 | 2,949 |
| Other accruals | 1,154 | -1,053 | -101 | 3 | 3 |
| | **11,843** | **-8,592** | **-631** | **5,498** | **8,118** |
| Of which non-current accruals | 2,984 | -660 | 0 | 624 | 2,948 |

### Other non-current accruals

Other non-current accruals of € 2,948 thousand (previous year: € 2,984 thousand) mainly consist of the accruals for long-service bonuses contained in employee obligations of € 1,380 thousand (previous year: € 1,283 thousand) and the phased early retirement scheme of € 1,567 thousand (previous year: € 1,572 thousand).

### 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 € 199 thousand (previous year: € 803 thousand), disputed credit amounts of € 1,582 thousand (previous year: € 859 thousand), and outstanding costs for services already rendered of € 1,307 thousand (previous year: € 2,047 thousand).

### Obligation to employees

Obligations to employees mainly include accruals for long-service bonuses of € 1,380 thousand (previous year: € 1,283 thousand) and for the phased early retirement scheme of € 1,567 thousand (previous year: € 1,572 thousand). Last year's provision for the ERA framework tariff agreement (€ 459 thousand) was used in full in the 2012 financial year.

## (12) LIABILITIES

| K EUR | 2012 | 2011 |
|---|---|---|
| Non-current liabilities to banks | 0 | 11,250 |
| Other non-current financial liabilities | 100 | 130 |
| **Non-current liabilities** | 100 | 11,380 |
| Current liabilities to banks | 0 | 8,053 |
| Trade payables | 40,695 | 42,166 |
| Other current financial liabilities | | |
| Liabilities from outstanding (incoming) invoices | 4,087 | 10,381 |
| Liabilities Magna Powertrain | 0 | 663 |
| Sundry other current financial liabilities | 134 | 467 |
| | 4,221 | 11,511 |
| Income tax liabilities | 1,016 | 950 |
| Other liabilities | | |
| Personnel-related liabilities | 5,426 | 6,300 |
| Sundry other current liabilities | 319 | 260 |
| | 5,745 | 6,560 |
| Current liabilities | 51,677 | 69,240 |
| **Total** | **51,777** | **80,620** |

The loan and collateral pooling agreement with the UniCredit Bank AG (formerly known as the Bayerische HypoVereinsbank AG) effective from 20 March 2008 was terminated as at 16 November 2012. At the same time, a new syndicated loan agreement dated 25 October 2012 was concluded under the governance of UniCredit Bank AG. The new loan agreement for € 60 million, with a term to 30 September 2017, can be used in full as a working capital loan. The interest rate is variable and is based on Euribor plus a margin. The margin depends on compliance with the covenants. The key covenants are: Leverage ratio and equity capital ratio. Both covenants were met as at 31 December 2012. The working capital loan was not drawn on by the year-end. In addition, on 10/19 December 2012, the Group also took out a KfW promotional loan via KSK Ostalb for € 3,900 thousand. The loan will be used for the long-term financing of the new logistics center at our Bad Schussenried plant. The loan had not been drawn on at 31 December 2012 because the preconditions for payments had not yet been met.

The repaid syndicated loan was divided into various tranches, which were subject to the following terms and conditions:

| K EUR | Interest rate 2011 | Term | **Residual debt 31 Dec 2012** | Residual debt 31 Dec 2011 |
|---|---|---|---|---|
| Refinancing credit line 1 + 2 | Euribor +0.60 % | 12 / 2013 | 0 | 19,303 |
| Working capital credit facility | Euribor +0.60 % | 12 / 2013 | 0 | 0 |
| **Total** | | | **0** | **19,303** |

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 2012, but the invoice was not written until the 2013 financial year.

Personnel-related liabilities primarily include liabilities for management bonuses of € 737 thousand (previous year: € 772 thousand), vacation of € 1,130 (previous year: € 1,201 thousand), wage tax of € 650 thousand (previous year: € 579 thousand), overtime and working hours carried forward of € 1,580 (previous year: € 1,674 thousand) as well as employer's liability insurance of € 162 (previous year: € 444 thousand).

## (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 divisions 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 2012

| K EUR | Pumps and Engine Components | Brake Discs | Other Elimination / Consolidation Group | **Group** |
|---|---|---|---|---|
| External sales | 237,908 | 87,465 | 0 | 325,373 |
| Sales between the segments | 0 | 0 | 0 | 0 |
| Segment sales | 237,908 | 87,465 | 0 | 325,373 |
| Segment result | 19,662 | 3,621 | -959 | 22,324 |
| Financial result | 0 | 0 | -2,031 | -2,031 |
| Earnings before tax | 19,662 | 3,621 | -2,990 | 20,293 |
| Systematic segment depreciation | 6,590 | 3,306 | 192 | 10,088 |
| Segment capital investments | 17,690 | 1,689 | 1,780 | 21,159 |
| Segment assets | 107,673 | 42,892 | 29,409 | 179,974 |
| Major segment expenses* | 1,525* | 0 | 0 | 1,525* |
| Number of customers representing sales > 10 % of total sales | 3 | 1 | | |
| VW Group | 81,736 | 42,668 | | 124,404 |
| Daimler Group | 47,103 | 488 | | 47,591 |
| BMW Group | 32,183 | 7,933 | | 40,116 |

*) Expenses resulting from the delayed delivery and launch of an assembly line in the context of a production start-up.

BUSINESS SEGMENTS 2011

| K EUR | Pumps and Engine Components | Brake Discs | Other Elimination / Consolidation Group | Group |
|---|---|---|---|---|
| External sales | 225,059 | 92,235 | 0 | 317,294 |
| Sales between the segments | 0 | 0 | 0 | 0 |
| Segment sales | 225,059 | 92,235 | 0 | 317,294 |
| Segment result | 23,784 | 665 | -3,554 | 20,895 |
| Financial result | 0 | 0 | -203 | -203 |
| Earnings before tax | 23,784 | 665 | -3,757 | 20,692 |
| Systematic segment depreciation | 5,657 | 2,897 | 191 | 8,745 |
| Segment capital investments | 12,641 | 4,109 | 1,726 | 18,476 |
| Segment assets | 91,355 | 44,053 | 38,358 | 173,766 |
| Major segment expenses* | 0 | 0 | 2,235 | 2,235 |
| Number of customers representing sales > 10 % of total sales | 3 | 1 | | 3 |
| VW Group | 84,133 | 53,496 | | 137,629 |
| BMW Group | 29,366 | 8,164 | | 37,530 |
| Daimler Group | 31,829 | 90 | | 31,919 |

*) IPO expenses, without effect on taxes.

All values are without STT except for segment assets.

GEOGRAPHICAL SEGMENTS 2012

| K EUR | Germany | Rest of Europe | America | Other | Total |
|---|---|---|---|---|---|
| External sales | 203,436 | 116,425 | 4,785 | 727 | 325,373 |
| **Other segment information** | | | | | |
| Non-current segment assets | 77,638 | 0 | 0 | 0 | 77,638 |

GEOGRAPHICAL SEGMENTS 2011

| K EUR | Germany | Rest of Europe | America | Other | Total |
|---|---|---|---|---|---|
| External sales | 188,060 | 123,373 | 2,552 | 3,309 | 317,294 |
| **Other segment information** | | | | | |
| Non-current segment assets* | 66,650 | 0 | 7,317 | 0 | 73,967 |

*) for 2011 incl. STT

# NOTES ON THE INCOME STATEMENT

In the income statement, the previous year's figures are shown excluding STT and are therefore comparable.

## (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 € 3.0 million (previous year: € 2.8 million).

## (17) OTHER OPERATING INCOME

Among other items, other operating income includes € 328 thousand for services rendered (previous year: € 141 thousand), € 769 thousand for the reversal of accruals and liabilities (previous year: € 1,208 thousand), € 25 thousand for income received relating to customer bad debt and recognised bad debt subsequently recovered (previous year: € 1 thousand), and € 2 thousand for income from the disposal of fixed assets (previous year: € 35 thou,sand). 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 € 2,715 thousand (previous year: € 3,561 thousand) are also recorded here and were offset against equal expenses.

## (18) OTHER OPERATING EXPENSES

Among other items, other operating expenses include € 0 thousand for expenses not allocable to functional costs and valuation adjustments of current assets (previous year: € 263 thousand), € 360 thousand for bonus payments to employees (previous year: € 634 thousand), € 225 thousand for restructuring costs (previous year: € 17 thousand), as well as severance payments to employees of € 558 thousand (previous year: € 408 thousand). As in the previous year, goods provided for a subcontractor amounting to € 2,715 thousand (previous year: € 3,561 thousand) are also recorded here and were offset against equal income.

## (19) FINANCIAL RESULT

The financial result is made up as follows:

| K EUR | **2012** | 2011 |
|---|---|---|
| Financial income | 6 | 2,144 |
| Financial expenses | | |
| Interest and similar expenses | -1,072 | -1,282 |
| Interest portion in the addition to pension accruals | -965 | -1,065 |
| | -2,037 | -2,347 |
| **Financial result** | **-2,031** | **-203** |

Financial income mainly results from the interest on non-current assets and the interest income from fixed-term investments. In the previous year, this figure also included proceeds 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 € 473 thousand (previous year: € 818 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 | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| Loans and receivables (LaR) | 6 | 210 | | |
| Available-for-sale assets (AfS) | -119 | -19 | -119 | -19 |
| Financial liabilities measured at amortised cost (FLAC) | -1,926 | -1,283 | | |
| **Total** | **-2,039** | **-1,092** | **-119** | **-19** |

## (20) INCOME TAX

| K EUR | **2012** | 2011 |
|---|---|---|
| Current taxes | -5,152 | -4,811 |
| Deferred taxes | | |
| Deferred taxes recognised on temporary differences and reversals thereof | -856 | -977 |
| **Total** | **-6,008** | **-5,788** |

A deferred tax expense amounting to € 0 thousand results from the measurement of hedging instruments recorded directly in equity. In the previous year, deferred tax expenses of € 3 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 | **2012** | 2011 |
|---|---|---|
| Earnings before tax | 20.293 | 20.692 |
| Expected income tax | 5.723 | 5.835 |
| Tax-free income, non-deductible expenses | 254 | -219 |
| Taxes from previous years | -149 | 115 |
| Reduction in assessed value | -12 | -12 |
| Additions (pursuant to § 8 of the German Trade Tax Act, Gewerbesteuergesetz, GewStG) | 40 | 49 |
| Other | 152 | 20 |
| **Income tax (effective tax rate: 28.2 %, previous year: 28,1 %)** | **6.008** | **5.788** |

In 2012, the corporate income tax calculated in Germany resulted from applying a corporation profits tax rate of 15.0 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 12.4 percent with an average multiplier of 354 percent.

The total tax burden therefore amounts to 28.2 percent.

Deferred taxes are based on differences in recognition and measurement in the tax balance sheet; the local actual tax rates of 28.2 percent are used for Germany.

No deferred taxes were calculated on outside basis differences amounting to € 7,636 thousand, as SHW is able to control the timing of the release of these.

Deferred income tax at balance sheet date is as follows:

| | Consolidated balance sheet | |
|---|---|---|
| K EUR | **2012** | 2011 |
| **Deferred income tax liabilities** | | |
| Other intangible assets | 2,275 | 1,643 |
| Tangible assets (property, plant and equipment) | 561 | 1,253 |
| Current assets | 166 | 133 |
| Current liabilities and accruals | 117 | 159 |
| Non-current liabilities and accruals | 0 | 6 |
| **Total** | **3,119** | **3,194** |
| **Deferred income tax assets** | | |
| Non-current assets | 0 | 0 |
| Iventories | 196 | 212 |
| Current assets | 0 | 0 |
| Pension accruals and similar obligations | 2,179 | 2,402 |
| Other non-current liabilities and accruals | 56 | 0 |
| Other current liabilities and accruals | 41 | 787 |
| **Total** | **2,472** | **3,401** |

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 |
|---|---|---|---|
| **2012** | | | |
| Currency translation differences | -1,079 | 0 | -1,079 |
| Revaluation reserve | 0 | 0 | 0 |
| Change in the market values of hedging instruments | 0 | 0 | 0 |
| **2011** | | | |
| Currency translation differences | 187 | 0 | 187 |
| Revaluation reserve | 0 | 0 | 0 |
| Change in the market values of hedging instruments | -10 | 3 | -7 |
| **Total** | **177** | **3** | **180** |

## (21) OTHER NOTES ON THE INCOME STATEMENT

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

COST OF MATERIALS

| K EUR | **2012** | 2011 |
|---|---|---|
| Cost of raw materials and supplies and of purchased merchandised | -202,580 | -195,531 |
| Cost of purchased services | -6,833 | -6,596 |
| **Total cost of materials** | **-209,413** | **-202,127** |

### Depreciation / Amortisation

Depreciation and amortisation of intangible and tangible assets amounted to € 10,088 thousand (previous year: € 8,745 thousand).

PERSONNEL EXPENSES

| K EUR | 2012 | 2011 |
|---|---|---|
| Wages and salaries | -55,124 | -52,081 |
| Social security charges and pension costs | -10,013 | -9,881 |
| **Total personnel expenses** | **-65,137** | **-61,962** |

Pension and other benefit costs contain the addition of € 106 thousand (previous year: € 90 thousand) to the pension accruals (without the interest portion). The cost of statutory pension insurance totals € 4,861 thousand (previous year: € 4,616 thousand).

Annual average number of employees in Germany:

| K EUR | 2012 | 2011 |
|---|---|---|
| Wage earners | 830 | 773 |
| Salaried employees | 192 | 177 |
| | **1,022** | **950** |

## OTHER INFORMATION

### (22) CONTINGENT LIABILITIES

There were no contingent liabilities in the 2012 and 2011 financial years.

### (23) FINANCIAL INSTRUMENTS

The Group does not hedge against its interest risk using transactions with banks under the new syndicated loan agreement. Management is informed of interest items at regular intervals. The two interest swaps were terminated on repayment of the syndicated loan.

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:

- (Unadjusted) prices that are quoted in active markets for identical assets or liabilities (Level 1);
- 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);
- Inputs applied to the asset or liability, which are not based on observable market data (non-observable inputs) (Level 3).

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 | Carrying amount as at 31 Dec 2012 | Fair value as at 31 Dec 2012 | Recognised at | | |
|---|---|---|---|---|---|---|
| | | | | Amortised cost | Fair Value through equity | Fair value through profit or loss |
| Assets | | | | | | |
| Other non-current financial assets | | | | | | |
| Participating investments | AfS | 235 | – | 235 | – | – |
| Asset value of the reinsurance cover | AfS | 351 | 351 | – | – | 351 |
| Trade receivables | LaR | 32,960 | 32,960 | 32,960 | – | – |
| Other receivables | LaR | 810 | 810 | 810 | – | – |
| Other current financial assets | | | | | | |
| Loans and receivables | LaR | 0 | 0 | 0 | – | – |
| Derivatives with hedging relationship | | 0 | 0 | – | 0 | |
| Cash and cash equivalents | LaR | 19,629 | 19,629 | 19,629 | – | – |

The Company does not plan to sell or derecognise any significant portions of the available-for-sale financial assets recognised as at 31 December 2012 in the near future.

| K EUR | Measurement category | 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 | 0 | 0 | 0 | – | – |
| Other current financial assets | | | | | | |
| Loans and receivables | LaR | 748 | 748 | 748 | – | – |
| Derivatives with hedging relationship | | 0 | 0 | – | 0 | – |
| Cash and cash equivalents | LaR | 10,682 | 10,682 | 10,682- | – | – |

| K EUR | Measurement category | Carrying amount as at 31 Dec 2012 | Fair value as at 31 Dec 2012 | Recognised at | | |
|---|---|---|---|---|---|---|
| | | | | Amortised cost | Fair Value through equity | Fair value through profit or loss |
| Equity and liabilities | | | | | | |
| Liabilities to banks | FLAC | 0 | 0 | 0 | | |
| Trade payables | FLAC | 40,695 | 40,695 | 40,695 | – | – |
| Other non-current financial liabilities | | | | | | |
| Other non-interest-bearing liabilities | FLAC | 100 | 100 | 100 | – | |
| Other current financial liabilities | | | | | | |
| Other non-interest-bearing liabilities | FLAC | 4,221 | 4,221 | 4,221 | – | – |
| Derivatives | HfT | 0 | 0 | – | – | 0 |

| K EUR | Measurement category | 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 |

AfS: Available for Sale LaR: Loans and Receivables FLAC: Financial Liabilities measured at Amortized 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 2012:

| K EUR | Total | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|
| Liabilities to banks | 0 | 0 | 0 | 0 | 0 | 0 |
| Trade payables | 40,695 | 40,695 | 0 | 0 | 0 | 0 |
| Other non-current liabilities | 100 | 100 | 0 | 0 | 0 | 0 |
| Current liabilities to banks | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **40,795** | **40,795** | **0** | **0** | **0** | **0** |

The situation as at 31 December 2011 can be summarised as follows:

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

### 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. The following table shows the composition of the net financial liabilities on each balance sheet date.

| K EUR | 2012 | 2011 |
|---|---|---|
| Interest-bearing loans and borrowings | 0 | 19,303 |
| Trade payables | 40,695 | 42,166 |
| Cash and cash equivalents | -19,629 | -10,682 |
| **Net financial liabilities** | **21,066** | **50,787** |

### 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. 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 bad debt losses have not 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 € 26,797 thousand (previous year: € 34,452 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 € 60 million, on which € 1.9 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.

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 for the past financial year:

| | | Change in foreign ex | 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 |

The Group's interest exposures were primarily related to the loan agreement dated 20 March 2008; however this was terminated in November 2012 and repaid in full. Interest rate risk no longer applies at the year-end.

### Collateral issued

On terminating the syndicated loan agreement on 16 November 2012, the collateral pooling agreement concluded on 30 March 2008 was also terminated and all collateral was released. With notarised agreement on 19 December 2012, a land charge of € 2,000 thousand was entered in favour of KSK Ostalb. The land charge served as collateral for a KfW promotional loan of € 3,900 thousand.

| Provided as collateral for liabilities | Carrying amount K EUR | Terms and conditions |
|---|---|---|
| 31.12.2012 | 0 | Trade receivables, global assignment |
| 31.12.2011 | 38,307 | 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 | 2012 | 2011 |
|---|---|---|
| Obligations from rent and lease agreements: | 3,949 | 5,731 |
| of which due within one year | 2,110 | 2,148 |
| of which due in between one and five years | 1,839 | 3,583 |
| of which due in more than five years | 0 | 0 |

SHW Automotive GmbH & Co. KG leases cars under a vehicle leasing arrangement as well as four 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 € 416 thousand (previous year: € 256 thousand). The expense from rent and lease agreements amounted to € 251 thousand in the 2012 financial year (previous year: € 235 thousand).

## (25) YEAR-END AUDITORS' FEES

| K EUR | 2012 | 2011 |
|---|---|---|
| Services relating to the audit of the financial statements | 160 | 175 |
| Other assurance services | 9 | 355 |
| Other services | 21 | 57 |
| Other services | 116 | 91 |

## (26) TOTAL REMUNERATIONS PAID TO THE MEMBERS OF THE MANAGEMENT

| K EUR | 2012 | 2011 |
|---|---|---|
| Short-term benefits (remuneration) | 829 | 849 |
| Long-term benefits (remuneration) | 219 | 212 |
| Post-employment benefits | 0 | 0 |
| Other long-term benefits and post-employment benefits | 0 | 0 |

The remuneration of former members of the management of predecessor companies and their surviving dependents totalled € 240 thousand (previous year: € 240 thousand). Accruals amounting to € 2,177 thousand have been set up for pension obligations to this group of people (previous year: € 2,241 thousand).

The total remuneration paid to members of the Supervisory Board totalled € 150 thousand in the 2012 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 2012 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 of SHW AG, Aalen, 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. The remaining shares (41.7 percent) are held as free float shares.

**ISE Gruppe**

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 € 3,800 (previous year: € 1,600). ISE Automotive charges a daily rate of € 800 for other IT support services. In the 2012 financial year, the SHW Group paid fees totalling € 14 thousand for such services (previous year: € 18 thousand).

The payments to be made by the SHW Group according to the contractual relations described above constitute appropriate remuneration customary in the market for the contractual services to be provided for ISE Automotive GmbH.

**In the 2012 financial year, the SHW AG Management Board 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

- CFO and Managing Director of SHW Automotive GmbH responsible for Group headquarters.

**In the 2012 financial year, the members of SHW AG's Supervisory Board were:**

Anton Schneider, Cologne

- Chairman
- Managing Director of Nordwind Capital

Further current mandates:

- Deputy chairman of the supervisory board of Linz Textil AG, Austria;
- Advisory board member of Nordwind Erste Industriebeteiligungen GmbH;
- Advisory board member and managing director of Nordwind Capital Zweite Industriebeteiligungen GmbH;
- Advisory board member of Nordwind Capital Vierte Industriebeteiligungen GmbH;
- Advisory board member of Nordwind Capital Sechste Industriebeteiligungen GmbH;
- Member of the supervisory board of GS – Tvornica masina Travinik d.d. slimena b. b., in Bosnia-Herzegovina.

Dr. Martin Beck, Feldkirchen

- Vice-Chairman
- 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 shareholder, 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

- 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.

Christian Brand, Karlsruhe

- Chairman of the Management Board of L-Bank

Further current mandates:

- 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;
- Vice-Chairman of the Supervisory Board of Wüstenrot Holding AG;
- Member of the Supervisory Board of Vorarlberger Landes- and 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 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 2012

| Name and registered office of the company | Share in capital in % | Local currency (LC) | Exchange rate (EUR / LC) | Equity capital (1,000 LC) | Result (1,000 LC) |
|---|---|---|---|---|---|
| Schwäbische Hüttenwerke Zweite Beteiligungs GmbH, Aalen-Wasseralfingen | 100 | EUR | 1 | 74,611 | 0* |
| Schwäbische Hüttenwerke Automotive GmbH, Aalen-Wasseralfingen | 100 | EUR | 1 | 91,452 | 0* |
| SHW do Brasil Ltda., Sao Paulo, Brasilien | 100 | BRL | 2.5057 | -562 | -329 |
| SHW Automotive CZ, s.r.o. Brno, Tschechische Republik | 100 | CZK | 25.0887 | -158 | -2 |
| SHW Automotive Pumps Shanghai, China | 100 | EUR | 1 | 1,400** | 0 |
| SHW Automotive Industries GmbH, Aalen-Wasseralfingen | 100 | EUR | 1 | 25 | 0 |

*) Profit and loss transfer agreement
**) Subscribed capital in euros, of which € 210 thousand paid in.

Aalen, 6 March 2013

Krause

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

# AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the SHW AG, Aalen, comprising the statement of financial position, the 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 the company for the business year from 1 January to 31 December 2012. 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 the 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, 6 March 2013

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Marcus Nickel | ppa. Gerda Sattlegger |
| (German Public Auditor) | (German Public Auditor) |

# ASSURANCE OF THE LEGAL REPRESENTATIVES

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated fi nancial statements give a true and fair view of the assets, liabilities, fi nancial 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, 6 March 2013

Management Board of SHW AG

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

# GLOSSARY

## ALUMINUM-BELL

The brake-disk-bell forms the very middle of the brake disc and is used for mounting the disc to the hub and the wheel of the car. Composite discs have an aluminum-bell instead of an iron-bell.

## ALUMINUM DIE CAST HOUSING

Oil pump housing made of aluminum manufactured in high pressure die casting process.

## AUXILIARIES

Auxiliaries are devices powered by the engine such as the alternator, power steering servo pumps, vacuum pump for the brakes, air conditioner compressor, secondary air pump for exhaust treatment, fan and sometimes also the oil and coolant pumps.

## BALANCER SHAFT UNIT

Three, four and five-cylinder inline engines and V-six engines vibrate more powerfully and run more unevenly than engines with higher numbers of cylinders. Engine running can be improved through the use of balancer shafts which are installed directly inside the engine and which rotate in the opposite direction to the engine's crankshaft.

## CAMSHAFT PHASER

The camshaft is part of the engine's valve train. Its job is to operate the valves at the right moment and in the right sequence, thereby controlling the gas exchange. With the aid of camshaft phasers, the timing of the intake valves or exhaust valves can be adapted to the respective load status of the engine. This improves the engine's performance and torque curve, and also saves fuel.

## COMPOSITE DISC

The composite discs made by SHW consist of a grey cast iron friction ring and an aluminum bell. Both parts are linked together by means of steel pins, where the friction ring can freely glide on those pins in radial direction. Thus it is guaranteed that the friction ring can expand independently from the bell while heated under force. Heat tensions of the disc and the risk of cracks can be minimized. By this way, the composite disc combines extreme durability with highest safety. In addition, a composite disc has less weight than conventional brake discs made from iron. By use of aluminum, a possible weight reduction of up to 8 kg per vehicle can be reached.

## DUAL CLUTCH GEARBOX

Dual clutch gearboxes comprise two independent gearbox units. As they move through the gears, the dual-clutch mechanism allows the engine to engage with each of the two gearboxes in turn via two drive shafts. The dual-clutch gearbox permits an automatic gear change with no interruption in power flow. The gearbox is controlled via a mechatronics module, which houses the electronic control unit, various sensors as well as the hydraulic control elements in a single compact unit.

## ELECTRICAL GEARBOX OIL PUMP FOR HYBRIDS / AUTOMATIC GEARBOXES WITH START-STOP SYSTEM

The electric gearbox oil pump maintains the hydraulic pressure level in auxiliaries after the combustion engine has been switched off.

## EXTERNAL GEAR PUMP

Specification of a variable oil pump.

## FRICTION RING

The friction ring is the part of the brake disc on which the brake pads are pressed, in order to apply the brake force. Friction rings can either be flat, with perforation holes (cross-drills) or grooves.

## FUEL PUMP

In a modern fuel-injection systems, the fuel pump supplies fuel, i.e. diesel or petrol, to the injection valves or injection pump in the right amount and at the right pressure.

## LIGHT VEHICLES

Passenger cars and light trucks with a permissible total weight of up to 6 tons.

## LIGHT WEIGHT BRAKE DISC

See composite discs.

## MAP-CONTROLLED OIL PUMP

A map-controlled oil pump is a special type of variable oil pump, equipped with an electromagnetic control valve. In a so-called data map, target values for certain engine parameters are stored. Networking with the engine control device on the vehicle enables a map-controlled pump to be controlled as needed, dependent on the operating status of the engine. The volume of oil delivered by the pump is regulated by the electromagnetic control valve.

## MICRO, MILD OR PLUG-IN HYBRID

Name for different hybrid vehicle variants. Micro hybrids have a conventional internal combustion engine with start-stop system that switches it off at traffic lights. In a mild hybrid the combustion engine gives the electric motor an assist for starting and accelerating, while electrical energy is recovered by means such as brake energy recovery. A plug-in hybrid has a battery that can be charged with grid power.

## OIL-VACUUM PUMP

In engines with direct injection the vacuum pump generates the vacuum needed for boosting brake performance, vacuum which is also required for controlling servo systems and exhaust gas recirculation. It can also be combined with an oil pump.

## POWDER METALLURGY

In the powder metallurgy production process, different powdered metals are mixed and then pressed into a mould under pressure. During the subsequent heat treatment (Sinter) the granules of powder are firmly attached to their contact surfaces via diffusion of the atoms in the metal.

## SINTER METAL PARTS

Pump cogwheels and other pump components (e.g., rotors and adjustment rings), components for the engine drive (belt and chain wheels), components for camshaft phasers (chain wheel, rotor, stator and signal transmitter disc) and camshafts, camshaft drive wheels, synchroniser hubs and cogwheels made of steel or aluminum powder.

## TRUCK & OFF-HIGHWAY APPLICATIONS

Pumps and engine components for trucks, agricultural and construction vehicles, stationary engines and wind power stations.

## VANE PUMP

Specification of a variable oil pump.

## VARIABLE OIL PUMP

A variable oil pump supplies the amount of oil needed for different engine operating states, dependent on oil pressure.

## VARIABLE WATER PUMP

The main distinctive feature of a variable water pump is that it only works at a reduced rate during the warming-up phase of the engine and ensures that the cooling water inside the cooling ducts of the engine block warms up especially quickly.

## VENTILATED BRAKE DISC

Ventilated brake discs are not solid from metal but contain internal air channels in order to cool the disc down more quickly.

## WAVE-DESIGN / WAVE-DISC

Wave discs or brake discs with wave design are composite discs which offer a further weight reduction by machining of the outer diameter with a wave profile. The additional weight reduction can reach up to 1.5 kg per vehicle, depending on the size of the discs.

# FINANCIAL CALENDAR

| | |
|---|---|
| 21 March 2013 | Annual report 2012 |
| 07 May 2013 | Interim report for the 1st quarter of 2013 |
| 14 May 2013 | Annual general meeting 2013 (Congress Centrum Heidenheim) |
| 06 August 2013 | Interim report for the 1st half of 2013 |
| 05 November 2013 | Interim report for the 3rd quarter of 2013 |

# IMPRINT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