Annual Report 2013

STRONGLY POSITIONED THROUGH PRODUCT INNOVATIONS

SHW

KEY FIGURES 2013

K EUR	2013	2012 [1]	Change in %
Sales	365,639	325,373	12.4 %
EBITDA	34,780	32,346	7.5 %
as % of sales	9.5 %	9.9 %	–
EBIT	20,607	22,258	-7.4 %
as % of sales	5.6 %	6.8 %	–
Income after tax – continued operations	13,395	14,238	-5.9 %
Income after tax – discontinued operations	–	31,858	–
Net income for the period	13,395	46,096	-70.9 %
Earnings per share – continued operations (€) [2]	2.29	2.43	-5.9 %
Earnings per share – continued and discontinued operations (€) [2]	2.29	7.88	-70.9 %
Adjusted EBITDA	35,683	33,871	5.3 %
as % of sales	9.8 %	10.4 %	–
Adjusted EBIT	21,661	23,943	-9.5 %
as % of sales	5.9 %	7.4 %	–
Equity	82,529	92,035	-10.3 %
Equity ratio	44.1 %	50.9 %	–
Net debt / Net cash	-2,881	19,629	–
Capital expenditure [3]	32,800	21,159	55.0 %
as % of sales	9.0 %	6.5 %	–
Working Capital	33,412	36,338	-8.1 %
as % of sales	9.1 %	11.2 %	–
Number of employees (average) [4]	1,059	1,022	3.6 %

[1] Adjustment of prior year values due to retrospective application of IAS 19 “Employee benefits”.
[2] Based on average of 5,851,100 shares.
[3] Additions to tangible and intangible assets.
[4] Excluding trainees and temporary workers.

TARGET ACHIEVEMENT

IN € MILLION	TARGET 2013	ACTUAL 2013
Sales – Group	325 – 340	365.6
Sales – Pumps and Engine Components	235 – 250	274.2
Sales – Brake Discs	approx. 90	91.5
Adj. EBITDA – Group	> 33.9	35.7
Adj. EBITDA – Pumps and Engine Components	> 27.8	29.3
Adj. EBITDA – Brake Discs	> 6.9	7.9

STRONGLY POSITIONED THROUGH **PRODUCT INNOVATIONS**

The success of the SHW Group is based, to a large extent, on its product innovations and the know-how of its employees and their ability to take ideas and transform them into marketable products. And not only at its locations in Germany, but in the future this will also take place in Brazil, North America and China. During an eventful and successful 2013 fiscal year, the course has been set for further capital-efficient growth in the years to come.

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

MISSION & VISION

OUR MISSION

We support our customers to achieve the strict regulatory requirements for the reduction of CO_2 emissions. Our product portfolio comprises innovative vehicle components, which increase the efficiency of combustion engines and their auxiliary units and transmissions, as well as brake discs which make a considerable contribution to reducing vehicle weight. We play an active role in shaping the mega trend of CO_2 reduction through our delivery of excellent product quality at competitive prices.

OUR VISION

We want to be one of the globally leading manufacturers of pumps and engine components for all drive technologies and make composite brake discs suitable for large series production. We want to be seen as a reliable partner who creates sustainable value for its customers and shareholders.

BUSINESS SEGMENTS

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 auxiliary 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 transmissions are also produced.

Sales

274

€ million
+15.2 % compared to previous year

Adjusted EBITDA

29.3

€ million
+5.4 % compared to previous year

Employees

679

as of 31 December 2013
+5.6 % 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. For the first time, the Brake Discs business segment was able to deliver a higher number of processed brake discs than unprocessed brake discs.

Sales

92

€ million
+4.6 % compared to previous year

Adjusted EBITDA

7.9

€ million
+14.4 % compared to previous year

Employees

367

as of 31 December 2013
+0.3 % compared to previous year

CONTENT

8

12

16

Sascha Rosengart

Chief Financial Officer

After attaining his degree in business administration, Sascha Rosengart acquired extensive professional experience in the automotive supply industry, holding positions at Tower Automotive and Hengst Automotive. Sascha Rosengart has been a member of the Management Board of SHW Automotive GmbH and Chief Financial Officer of SHW AG since May 2013. He is responsible for the administrative functions including IT, Human Resources, Legal affairs, as well as for Investor Relations & Corporate Communications.

Dr. Ing. Thomas Buchholz

Chief Executive Officer

After studying mechanical engineering and attaining his PhD, Thomas Buchholz has gained extensive professional experience in the automotive supply industry, holding positions at Mahle and TI Automotive. Thomas Buchholz has been Chief Executive Officer of SHW Automotive GmbH and Chief Executive Officer of SHW AG since August 2013. He is responsible for the Pumps and Engine Components business segment.

Andreas Rydzewski

Member of the Management Board

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

FOREWORD OF THE MANAGEMENT BOARD

Dear Ladies and Gentlemen,
Dear Shareholders,

We look back on a 2013 fiscal year that proved to be an eventful and successful year for SHW AG in more ways than one.

In fiscal year 2013, SHW achieved Group sales of € 366 million. This represents a sales increase of 12.4 percent over the previous year. We were particularly pleased with the development of the business with electric auxiliary pumps for the start-stop function, and with our new variable oil/vacuum pumps (tandem pumps), which both contributed significantly to the 15.2 percent increase in the sales of the Pumps and Engine Components business segment. We were able to achieve this growth within a market environment that was characterised by European vehicle production that was almost unchanged.

Adjusted Group earnings before interest, taxes, depreciation and amortisation of tangible and intangible assets (adjusted EBITDA) increased by € 1.8 million to € 35.7 million. Both business segments contributed to this earnings improvement. With an equity ratio of 44.1 percent and net bank liabilities of only € 2.9 million, SHW's financial profile remained very solid and is well above average compared to the industry.

Overall, we succeeded in achieving our own targets with regard to sales and adjusted Group earnings before interest, taxes, depreciation and amortisation (adjusted EBITDA). It should be noted that logistical performance in the first quarter was adversely affected after the SAP-Go-Live on 1 January 2013 and led to additional expenses for SAP support, overtime, rush transports, and external processing orders. In the fourth quarter, the Powder Metallurgy division incurred additional costs due to the reduced machine availability. Earnings of the Brake Discs business segment were adversely impacted by higher maintenance costs, additional cost due to weekend work, as well as increased external processing costs in connection with the start-up of a new processing line.

Dear shareholders, as a result of the business development and the solid balance sheet structure of your Company, the Management Board and Supervisory Board have decided to propose a stable dividend of € 1.00 per share to the Annual General Meeting to be held on 9 May in Heidenheim. Our dividend policy remains results-oriented, so that rising earnings not only bring further financial latitude for growth, but also deliver the respective dividend distributions.

In the course of the year, there have also been changes at the helm of SHW. In the past few months, the new management team has taken a critical look at both the corporate strategy as well as the processes and procedures at the plants.

We have identified significant potential for improvement on all levels of the value chain. Now we only need to consistently leverage this potential and thereby further strengthen our competitiveness and free up the resources necessary for the implementation of our globalisation strategy. This will secure the domestic workplaces at SHW plants and at the same time put us in a position to forge ahead with our long-neglected internationalisation with the degree of diligence necessary.

The implementation of the internationalisation strategy is on track. At the end of the first quarter, or early in the second quarter, we will deliver the first oil pumps in Brazil to a U.S. automotive manufacturer. In early April, a small team of sales representatives and development specialists will move into the new development centre (including performance and endurance test rigs) and new office building near the Canadian city of Toronto. In addition, preliminary reviews will be pushed ahead which will serve as a basis for the decision on the future production facility for large-scale production. In China, SHW is in final negotiations with a renowned European engine manufacturer of Truck & Off-Highway applications for an order (multi-year contract) for engine oil pumps for the Chinese site. To further strengthen our business with pumps and engine components, the new management will be addressing the subject of acquisitions.

Based on our upcoming product launches, we are confident that we will continue on our growth path throughout fiscal year 2014. This growth will be driven largely by the demand for our start-stop pumps and oil/vacuum pumps.

There has also been a significant change in our shareholder structure. Following the successful placement of the remaining shares from the holdings of Nordwind Capital with both domestic and international institutional investors, the shares of SHW AG have been 100 percent in free float since 5 November 2013. Since 21 December 2013, the Company has been a member of the SDAX, which represents the small cap segment for the industrial sectors of the German market.

The price of SHW shares climbed 60.5 percent by the end of 2013 in comparison to the previous year. Thus, once again your investment in the shares of SHW AG has developed significantly better in 2013 in terms of value than the relevant benchmark indices.

We would like to take this opportunity to thank our investors and our customers, suppliers, business and cooperation partners, for their trust and constructive cooperation. Our employees deserve a special thanks, since these results would not have been possible without a solid, highly qualified, and dedicated workforce.

We can assure you, our shareholders, that going forward we will do everything in our power to sustainably increase the value of SHW AG, and would be delighted if you would join us on this path.

Aalen, 11 March 2014

The SHW AG Management Board

Dr. Ing. Thomas Buchholz
Chief Executive Officer

Sascha Rosengart
Chief Financial Officer

Andreas Rydzewski
Member of the Management Board

Portrait: Boris Memel

IN EVERY ENGINEER LIES A VISIONARY

WHAT DRIVES US – FIRST-CLASS COMPONENTS FOR DISCERNING CUSTOMERS AND LESS CARBON DIOXIDE EMISSIONS.

The focus of SHW's development and production is oil pumps for engine and transmission applications. The growth drivers in this area are electric auxiliary pumps for the start-stop function and variable oil/vacuum pumps. Through the use of our main products, CO_2 emissions can be reduced by up to 10 percent. The cost-benefit ratio is excellent compared to other fuel-saving measures.

Thanks to our innovative product portfolio, we have remained on course for sustainable growth in recent years, despite challenging market conditions in Europe.

The scalability of our business model allows a relatively simple and resource-efficient expansion into other regions; by the end of the first quarter or early in the second quarter, the first customer deliveries will take place in Brazil. The implementation of our internationalisation strategy is also on track in North America and China. Also here, the key to our success is our qualified and motivated personnel.

Boris Memel

Director Global Program Management

Boris Memel, born in 1969 and trained as a car mechanic and mechanical engineer, has been at SHW since 1996 and is currently the Director for the Global Program Management. His responsibilities include global customer acquisitions and the acquisition of new and follow-up orders from existing customers.

Interview with Boris Memel

Mr. Memel, what do you do at SHW? What is currently happening in your area?

I started at SHW in the development department. After that, I was a key account manager with product and project responsibility before I have been promoted as the head of the product development department for engine pumps, which had about 50 employees, in 2010. Since September 2013, I am responsible for Global Program Management.

In my current role, I can draw on the extensive experience I have gained from my previous sales and development activities. Here, my distinct product and technical know-how, as well as my cost skills come in handy. The more the products increase in complexity, the more complex my job becomes. Usually, we are involved at an early stage of product development and can suggest to our customers, what paths they can take.

In which innovations have you been involved in?

My team and I have been involved in all of the new products which have been developed in recent years; starting with the first of SHW's entirely proprietary balance shaft modules, then in the development of the regulated vane pump, all the way to our innovative new tandem pump. Especially with the tandem pump, that combines a variable engine oil pump with a vacuum pump for the brake system, I have been extensively involved in almost all of the technical details. Currently, we are starting series production of a product in which we have also integrated a balancer shaft unit. This will ensure a smoother running of the new 3-cylinder engine of one of our customers.

Please briefly describe how your work is moving the Company forward.

Together with my team, we are securing profitable, new and follow-up orders from existing customers as well as attracting new customers.

In your opinion, what separates SHW from the competition? How will you continue to do this in the future?

One of our great advantages is that we have everything we need in one location. This allows us to bring in our entire development know-how (design, layout, simulation, manufacturing, testing, and industrialisation) and effectively take advantage of synergies. As far as products, we have been the pioneers in virtually all of the trends; for example, in 2002 we introduced the first regulated oil pump and in the years that followed, we were the first in the market to bring in other innovations one after the other. Today, we cover the entire product spectrum; for example, in the field of engine lubricating oil pumps, we go from constant oil pumps to the map-controlled oil pumps. Generally, our aim is to be the provider with the best technical solutions.

What is your opinion on the strategic objectives of the Company, such as the establishment of new sites abroad?

If we want to remain competitive in the long run, we have to press ahead wholeheartedly with the internationalisation of our pumps business. North America, Brazil, and China are an absolute must for a global player due to their market size and growth prospects. Although some competitors are ahead of us in terms of internationalisation, I still believe our opportunities in these markets are very good due to our technological expertise. I am regularly on site to acquire both customers and orders, and to raise SHW's profile. A few specific projects are already in the works.

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What is your job on site?

I carry out the technical discussions with the customer. Also, because of my background, I can present the entire product range of the Company, in detail, to the outside and offer the customer the best solutions. In the course of doing this, commercial issues come into play. Then the projects are handed over to the respective project manager, at the very latest at the time of the contract for series production. I also collect information on which projects are currently in the pipelines of our customers, where there are still entry-level opportunities and where we can apply some leverage.

What drives you professionally and personally?

Professionally, it's by far the enjoyment I get out of technology and teamwork. Our products have evolved into very complex modules in recent years – the more demanding, the more exciting! I also want to secure jobs at SHW for the long term through new projects and new clients.

Personally, it motivates me to see my two kids growing up - this gives me a lot of energy. I also enjoy travelling. Otherwise, I exercise regularly to refuel.

What is the direct link between your work at SHW and your personal goals?

Reducing CO_2 emissions has been a topic close to my heart for a long time. For about ten years now, I have been enthusiastically driving the Audi A2 1.2 TDI 3l – a vehicle far ahead of its time in terms of fuel consumption. It is a good feeling to see our control pumps in more and more vehicles and thus making an important contribution to reducing fuel consumption. I am also pleased with the strong performance of SHW shares because it shows that the market has confidence in us.

What personal goals have you set for yourself at SHW?

I would like to expand our customer bases and push ahead with our internationalisation. Otherwise, I'm looking forward to what the future will bring.

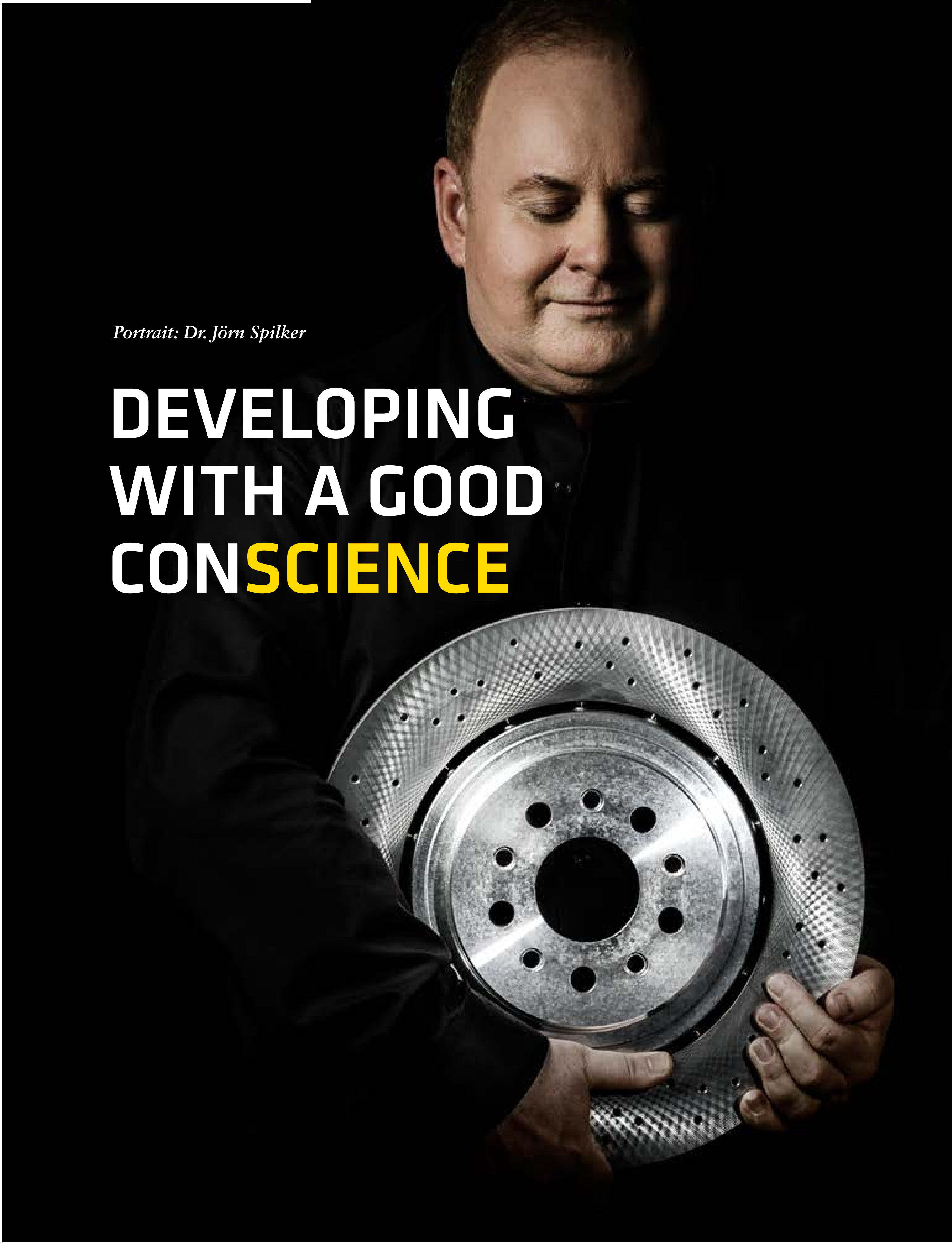
01
Extensive product and technical know-how is the key to acquiring new and follow-up orders.

02
Boris Memel and his colleagues are continuing with SHW's success story, which is marked by production innovation.

03
Boris Memel is on the go not only professionally, but also privately.

Portrait: Dr. Jörn Spilker

DEVELOPING WITH A GOOD CONSCIENCE



ON THE MOVE IN THE PREMIUM SEGMENT WITH ITS COMPOSITE BRAKE DISCS, SHW HAS BEEN ABLE TO ESTABLISH ITSELF IN THE MARKET AS AN INNOVATION AND MARKET LEADER.

The brake discs of Schwäbischen Hüttenwerke are something extraordinary because they combine extreme durability with maximum safety. Through their composite structure and the use of aluminium, these brake discs reduce the car's weight considerably: the reduction amounts to up to 8 kg per vehicle and we are working persistently on achieving an even higher reduction in weight.

With this product, we support our customers in meeting the stringent regulatory requirements for the reduction of CO_2 emissions. The mega trend of CO_2 reduction is the key driver of our success today and will remain so in the future.

Recognising the potential for the optimisation of composite brake discs and making it possible for these brake discs to be utilised in more and more vehicle models, is the challenge facing our highly skilled and dedicated employees. With their expertise, these employees are crucial in ensuring that ideas are turned into marketable products.

Dr. Jörn Spilker

Head of Research & Development Brake Discs

Dr. Jörn Spilker, born in 1958, has been the head of brake disc development since 2011 and has two decades of experience in this specialised field. After studying mineralogy, he received his doctorate in foundry technology at the RWTH Aachen.

With his small, powerful troop of about twenty employees, he supervises a key product in the SHW portfolio. In this interview he talks about the core issues of SHW and also what personally drives and motivates him.

Interview with Dr. Jörn Spilker

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Dr. Spilker, what do you do at SHW? What is currently happening in your area?

I am the head of brake disc development, and am therefore responsible for new projects, design, simulation, modelling, and the testing facilities in both Tuttlingen-Ludwigstal and Neuhausen ob Eck. Not only our products, but also our technical expertise, flexibility, speed, and effective communication, make us a sought after partner of well-known major customers. We develop customised new parts for these customers that are expected to go into series production at a later time. We also carry out technical services, such as the dedicated production of test parts with certain characteristics or dimensions. We also perform standardised tests on our own brake test stand. And, as in any business, there are also special orders, so to that effect, our work is also multifaceted.

Please briefly describe how your work is moving the Company forward.

Above all, through teamwork: the team is very important. The flexibility and speed that add up to our success can only be brought through the community of the team, either within the department or across departments. In the near future, the development of our composite brake discs and the acquisition of new customers will be at the centre of attention. My job will be to win over existing and target customers with our innovative solutions. This is done in close coordination and collaboration with the sales and marketing departments. This has already helped us to successfully build up many new contacts.

In your opinion, what separates SHW from the competition? How will you continue to do this in the future?

For years, SHW has focused on the premium segment: low to medium quantities and special requirements can only be managed with flexible manufacturing. Our composite brake discs are very attractive due to their accompanying weight reduction, and they are being put into more and more premium models. What is more, we cover the entire value chain. We manufacture the aluminium pots for our composite brake discs in our own aluminium gravity die casting foundry at Neuhausen ob Eck. The production of high-precision grooved machined surfaces and the new wave editing take place on flexible special machines.

01
Teamwork: To Dr. Jörn Spilker, a key reason for SHW's commercial success.

02
Think globally – act locally. Dr. Jörn Spilker puts the principle of the Club of Rome into action, both professionally and privately.

03
Keep the target in focus: To leave an environmental and economic footprint with composite brake discs.

What is your opinion of the Company's strategic targets?

The target of our Management Board is the expansion of business with composite brake discs. This development will be accompanied by a significant reduction in our product costs through lean production. Of course, as for the internationalisation of the brake disc business, much remains to be done. In addition to Europe, our main market, we first want to establish ourselves in the USA. Here we have already received an order from a North American car manufacturer. In the medium to long term, even Japan could become an interesting target market.

What drives you professionally and personally?

First of all, my interest in innovative technology and my enjoyment of my work, where only very few limits have been placed on me. I also find the flat hierarchy in our organisation as an advantage, and finally: I follow the Company's success in the capital market – the success we have all contributed to – with tremendous interest. I spend my free time reading, hiking and travelling with my girlfriend.

What is the direct link between your work at SHW and your personal goals?

The objectives of the Club of Rome of working towards a liveable and sustainable future for humanity and the proverbial limits of growth, these are the issues that have interested me and have kept me busy since the 1970s. The reduction of CO_2 emissions and the different ways of meeting the relevant regulatory requirements are a logical development of these issues. I am glad that, through the work that I do, I can make a contribution.

What personal goals have you set for yourself at SHW?

First and foremost, I want to do a good job. Everything else will follow automatically.

"I AM GLAD, THAT THROUGH THE WORK THAT I DO, I CAN MAKE A CONTRIBUTION TO THE REDUCTION IN CO_2."


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SHW composite brake discs have been successful in the market for the last 20 years. Is this a reason to celebrate?

We are not there yet. After all, we want our products to leave a footprint in the market, not just a fingerprint.

Portrait: Heinrich Wiedemann

GROWING WITH MASTERFUL COMPONENTS

SHW COMMANDS THE POWDER METALLURGICAL SERIES PRODUCTION PROCESS LIKE ALMOST NO OTHER EUROPEAN COMPETITOR.

Since 1962, Powder Metallurgy has been an integral part of SHW. We are focused on the production of components for oil pumps and camshaft adjustment systems. Our specialty is aluminium sintered parts which assist in weight reduction and are used to support the lightweight efforts of the engine manufacturers in reducing CO_2 emissions. In recent decades, we have perfected the production process and are presently the sole manufacturer of sintered-aluminium made components in Europe.

Approximately 245 employees possessing tremendous material and process expertise, carry out work and conduct research at the traditional Aalen-Wasseralfingen location. The immense future potential of the powder metallurgy area lies in the ongoing optimisation of the mechanical properties of our engine components.

Heinrich Wiedemann

Head of Technology – Powder Metallurgy

Heinrich Wiedemann, born in 1964, is a mechanical engineer and has been with SHW since 2009. He is the head of technology for Powder Metallurgy in Wasseralfingen. In this interview, he talks about innovations that reduce CO_2 emissions, about the typical Swabian mentality, and about SHW's prospects.

Interview with Heinrich Wiedemann

"OUR INNOVATIVE STRENGTH IS THE KEY TO OUR FUTURE GROWTH."

Mr. Wiedemann, what do you do at SHW? What is currently happening in your area?

II am the head of technology and thus directly responsible for process development, design, and tooling with around 40 employees. The plant manufactures components for the automotive industry using the powder metallurgy process, whereby our core competency lies in the production of components for the oil pumps and camshaft phaser systems and in the production of components made of sintered aluminium. About one-third of the products are delivered to the Bad Schussenried plant and form the heart of the SHW oil pumps. At the Aalen-Wasseralfingen location, we have around 245 employees – a number that signifies quick decision-making and high flexibility. Most important, of course, are the "brains", or the know-how of our employees. This is how we score with our customers.

To the point: How are you bringing SHW forward?

My job is to develop new products for our customers, together with my team, and make processes more intelligent and efficient and, in doing this, help form the future of powder metallurgy.

In which innovations have you been involved in?

Due to the manufacturing process, sintered parts have basically a certain amount of residual porosity, which is unfavourable for strength and hardness compared to components made of compact steel. This is the reason that sintered parts have not yet been used properly in many applications having high mechanical stress, despite their undoubted advantages in terms of design and production cost. The innovative SHW method for material compaction in the surface area increases the performance of our materials effectively and therefore compensates for this disadvantage. A complete component

01

family that is based on this proprietary development is now in mass production and more projects will be launched in 2014.

In your opinion, what separates SHW from the competition?

Powder metallurgy is particularly focused on oil pump components, camshaft phaser parts, and sintered aluminium. We have employees, both in development and in production who possess an enormous amount of know-how because of their long tenure at the Company. We should also

02

03

mention our long-standing customer contacts and our excellent reputation, which provide us easy access to new projects that are important to us.

SHW stands out through the Swabian mentality of its staff: Diligence, ingenuity, tenacity, commitment, a good sense of what's possible and strong business sense.

How will the Company continue to succeed in the future?

Our innovation is the central building block for our future viability. Each of the SHW plants has the corresponding products for this in their portfolios: Our colleagues in Tuttlingen provide innovative lightweight brake discs. The plant in Bad Schussenried produces an extensive range of CO_2-optimising engine and transmission oil pumps. Powder metallurgy supports the lightweight requirements for powerful components made of sintered aluminium. By working closely with our longest standing clients, we are involved early in the development of new, more efficient and low emission engine and transmission generations. This becomes outwardly visible through our growth, which clearly stands out within the automotive environment.

What drives you professionally and personally?

It is not enough for me to just fulfil the obvious requirements: The point is to identify new opportunities that arise daily from conversations with customers and employees, and to inspire oneself and others to come up with smart solutions and make them into marketable products. My family gives me the power to deal with these new challenges. I also like sports such as running, cycling, hiking, and dancing.

What is the direct link between your work at SHW and your personal goals?

Each and every one of us is responsible for the future and the handling of resources, especially when you have a family. In this respect, I believe that my work makes a small contribution to this.

01
A new method of material compaction makes our sintered parts both flexible and durable.

02
In his leisure time, Heinrich Wiedemann enjoys taking part in sports in the open air.

03
Tradition and innovation: The results speak for themselves.

REPORT OF THE SUPERVISORY BOARD

GENERAL INFORMATION

In the 2013 reporting year, the Supervisory Board performed the duties incumbent upon it in accordance with the law, the Articles of Association, and its Rules of Procedure. It concerned itself with the situation of the Company in detail and supervised and advised the Management Board on an ongoing basis.

In accordance with its guidelines, the Management Board informs the Supervisory Board regularly, promptly, and comprehensively, in written or verbal form, of all matters of relevance to the Company pertaining to strategy, planning, business development, risk situation, risk management, and compliance, and also involves the Supervisory Board in decisions of special importance. For this purpose, the Management Board prepares a monthly report, which includes detailed information on the economic 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 the business development, planning, and corporate strategies with the Management Board. The members of the Supervisory Board were also in contact with the Management Board outside of the regular meetings, particularly, the Chairmen of two governing bodies. Thus, the members of the Supervisory Board were always promptly informed of current business developments and important business transactions.

Where the approval of the Supervisory Board or one of its committees was required by law, Articles of Association, or Rules of Procedure for individual measures, a resolution was passed in this respect. If necessary, the Management Board prepared written documentation containing the information required for the Supervisory Board's decision, in addition to verbal explanations, on matters requiring approval.

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. An examination of Company documents, in addition to the documents submitted to the Supervisory Board, was not necessary in the year under review.

In principle, the Supervisory Board passes its resolutions in meetings. If needed, resolutions may also be passed outside of the meetings, especially in telephone conferences or by means of a written circulated document. When necessary, the Supervisory Board also meets without the Management Board.

MEETINGS OF THE SUPERVISORY BOARD AND KEY TOPICS

During the year under review, four ordinary meetings and six extraordinary meetings of the Supervisory Board plenum took place in person. All Supervisory Board members took part in over half the meetings. In fiscal year 2013, there were five cases in which Supervisory Board decisions were reached outside of meetings taking place in person.

At the meetings conducted in 2013, the Supervisory Board was comprehensively informed of all central questions of business development, corporate strategy, risk situation, risk management, and the financing structure of SHW AG and the SHW Group by means of verbal and written reports prepared by the Management Board. Among others, the Management Board explained the current sales and earnings trends of the SHW Group, both domestically and abroad, and discussed in detail the business development of the individual business segments in consideration of the respective competitive environment. In the year under review, the key topics were:

- At the meeting of 11 March 2013, the Supervisory Board approved the financial statements, consolidated financial statements and the combined management report of SHW AG, all as at 31 December 2012. Furthermore, the Supervisory Board also concerned itself with the Management Board's proposal for the appropriation of profits, and passed a resolution on the proposed resolutions for the agenda of the ordinary Annual General Meeting on 14 May 2013 and the Supervisory Board's report for fiscal year 2012. It also passed a resolution on the consent of transactions subject to approval and passed a further resolution discharging the directors of SHW AG subsidiaries. Finally, the Supervisory Board dealt with issues relating to risk management.

- At the meeting of 14 May 2013, the Supervisory Board dealt mainly with the business development occurring until March 2013, as well as with issues of corporate governance and the efficiency review of the Supervisory Board and the status of the SAP project (Company-wide introduction of SAP software).

- The subject of the Supervisory Board meeting held on 24 September 2013 was the current business development and the corporate strategy for North America. The Supervisory Board also dealt with the consent of transactions subject to approval as well as with the annual Declaration of Conformity.

- At the meeting of 27 November 2013, the Supervisory Board passed the 2014 budget and the multi-year plan for 2015 to 2017, and also discussed current business development.

- At the extraordinary Supervisory Board meeting by telephone on 18 January 2013, the Supervisory Board dealt primarily with the extension of Mr. Andreas Rydzewski's term of office as a member of the Management Board and his employment contract.

- In the extraordinary Supervisory Board meetings conducted by telephone on 27 March 2013 and 29 April 2013, the Supervisory Board dealt with the composition of the Management Board, and decided on the appointment of Mr. Sascha Rosengart as the new Chief Financial Officer of SHW AG and his Management Board employment contract. A decision on the amicable termination of the appointment of the former Chief Financial Officer, Oliver Albrecht, and the associated severance agreement was adopted in early May through the circulation of written documents.

- In the extraordinary telephone conference meeting of the Supervisory Board on 30 April 2013, the Supervisory Board adopted a decision on the premature, amicable termination of appointment of the former Chief Executive Officer, Dr. Wolfgang Krause, as well as on the associated severance agreement. At the end of May, a resolution was adopted by means of a written circular with regard to the appointment of Dr. Thomas Buchholz as a new member of the Management Board and Chief Executive Officer and on his management board employment contract.

- In the extraordinary Supervisory Board meeting held on 3 July 2013, the Supervisory Board dealt mainly with business development, investment forecasts, and the stabilisation and relocation of the SAP system (hosting).

- In the extraordinary Supervisory Board meeting on 22 November 2013, the Supervisory Board dealt with an investment project.

COMMITTEE WORK

In order to perform its duties efficiently, the Supervisory Board has established two committees in the 2013 reporting year as it had done in the previous year: the Executive Committee and the Audit Committee:

- The ***Executive Committee*** prepares the meetings of the Supervisory Board. It also 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 addressed by the Supervisory Board, including the regular review of the Management Board's remuneration system and the Management Board's long-term successor planning. Where the plenary Supervisory Board's approval is not mandatory by law, the Executive Committee also decides in place of the Supervisory Board on the conclusion, alteration, and termination of employment contracts with Management Board members as well as 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 AktG. The Executive Committee may further decide 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, as well as on the granting of loans to persons named in §§ 89, 115 AktG, and may also approve contracts with Supervisory Board members in accordance with § 114 AktG. Finally, it decides in place of the plenary Supervisory Board on the approval of matters and measures submitted to it and requiring consent. In addition, the Executive Committee performs the function of a nominating committee in accordance with Item 5.3.3 of the German Corporate Governance Code, and as such, prepares the decisions of the Supervisory Board on its suggestions to the Annual General Meeting for elections to the Supervisory Board. During the period under review, the Executive Committee met on a total of four occasions. In addition, seventeen decisions were reached by the circulation of written documentation.

- The ***Audit Committee*** prepares the decisions of the Supervisory Board concerning the financial and consolidated financial statements and agreements with the auditor, particularly the audit assignment, audit focus, and fee. It also deals with the necessary independence of the auditor. Additionally, it prepares the decision of the Supervisory Board for its proposal to the Annual General Meeting on the appointment of the auditor, and makes its recommendation on this matter to the Supervisory Board. The Audit Committee concerns itself with questions regarding financial reporting, including the monitoring of the ¬financial reporting process, the effectiveness of the internal monitoring system, risk management and compliance, and internal auditing systems. In accordance with Item 7.1.2 of the German Corporate Governance Code, the Audit Committee also discusses the half-year and quarterly financial reports with the Management Board before they are published. In the year under review, the Audit Committee met on seven occasions.

- The Supervisory Board has been regularly and comprehensively informed in its plenary sessions of the committees' activities. 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 on the Company website at **http: //www. shw.de/cms/en/investor_relations/corporate_governance/cg_report_declaration_cg**.

AUDIT OF THE FINANCIAL AND CONSOLIDATED FINANCIAL STATEMENTS

The financial and consolidated financial statements of SHW AG and the combined management and Group management report for fiscal year 2013 have been audited by the Company's auditor, Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, and furnished with an unqualified audit opinion. The audit's focus was: the intrinsic value of financial assets and goodwill, risks from mass transactions, sales, the recognition and measurement of inventories, trade receivables, and provisions, fraud, harm to assets and irregularities, and the completeness of the notes to the consolidated financial statements, as well as the management report and consolidated management report.

The Supervisory Board carefully examined these documents. All statements and reports by the auditor were submitted to the members of the Supervisory Board in a timely manner. The financial and consolidated financial statements and the combined management and the Group management report were discussed in detail in the presence of the responsible auditor, first by the Audit Committee and then by the full Supervisory Board. The auditor reported on the main results of its audit and further 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 to the Company (including associated companies) amounting to € 22 thousand, in addition to services related to the audit of the financial statements.

The Supervisory Board agreed with the audit's findings and, following its own audit, concluded that it had no objections. The financial and consolidated financial statements prepared by the Management Board and examined by the auditor, as well as the combined management and Group management report, were approved by the Supervisory Board. The financial statements were thereby adopted. Finally, the Supervisory Board examined the Management Board's proposal for the appropriation of profits and concurred with this proposal, especially with regard to the annual result, liquidity, and financial planning of the Company.

As the auditor, Ebner Stolz GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, has also examined the Management Board's report on relationships with associated companies in fiscal year 2013 and submitted its report to the Supervisory Board. The auditor's review concluded there were no objections and the following unqualified opinion was furnished in accordance with § 313 para. 3 AktG:

"Based on our compulsory audit and evaluation, we confirm that

- the factual information contained in the report is correct,
- for the legal transactions listed in the report the payments made by the companies were not unreasonably high and did not compensate for any disadvantages."

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 audit. The examination of the Management Board report on relationships with associated companies by the Supervisory Board also gave no cause for concern. Thus, the Supervisory Board concurred with the result of the auditor's review. After completing its own examination, the Supervisory Board had no objections to the declaration of the Management Board at the end of the report concerning 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 September 2013, the Management Board and Supervisory Board made a joint Declaration of Conformity in accordance with § 161 AktG.

This declaration has been made permanently available on the Company's website at **http://www.shw.de/cms/en/investor_relations/corporate_governance/cgcodex/**. SHW AG complies to a great extent with the recommendations of the German Corporate Governance Code.

The Declaration of Conformity of September 2013, including explanations of the minor deviations from the recommendations of the German Corporate Governance Code, is also included in the Statement of Corporate Governance pursuant to § 289a HGB, which can be found on the Company's website in a uniform document together with the Corporate Governance Report at **http://www.shw.de/cms/en/investor_relations/corporate_governance/cg_report_declaration_cg/**. Further explanations regarding corporate governance within the SHW Group can also be obtained in this document.

COMPOSITION OF MANAGEMENT BOARD AND SUPERVISORY BOARD

The following changes to the composition of the Supervisory Board and Management Board took place in the 2013 reporting year:

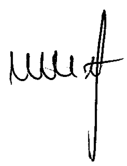
- Mr. Anton Schneider resigned from his office as member and Chairman of the SHW AG Supervisory Board with effect as at the end of 31 December 2013. Mr. Georg Wolf has taken over his position in the SHW AG Supervisory Board as of 10 January 2014. He was appointed as a member of the Supervisory Board by way of judicial appointment and by resolution of the Supervisory Board on 11 January 2014 he was elected as the new Chairman of the Supervisory Board.

- Dr. Wolfgang Krause resigned from his office in the Management Board with effect as at the end of 30 April 2013, and Mr. Oliver Albrecht resigned from his Management Board office with effect as at the end of 7 May 2013. Effective as of 1 August 2013, Dr. Thomas Buchholz was appointed as the successor to Dr. Wolfgang Krause as a member of the Management Board and Chief Executive Officer. Effective as of 6 May 2013, Mr. Sascha Rosengart was appointed as the successor to Mr. Oliver Albrecht as the Chief Financial Officer.

The Supervisory Board thanks the Management Board and all employees whose commitment and work over the past year has made the successful business development of SHW AG possible.

Aalen, March 2014

For the Supervisory Board



Georg Wolf
Chairman

SHW SHARE

AN EXPANSIVE CENTRAL BANK POLICY DRIVES STOCK INDICES TO NEW ALL-TIME HIGHS – SHW SHARES SIGNIFICANTLY OUTPERFORM THEIR BENCHMARK INDICES

The main driving force for new record highs in 2013 in several of the equity markets was the announcement, or so-called "forward guidance", given by the European Central Bank (ECB) and the Federal Reserve that interest rates would be kept at a very low level for a longer period of time.

The two rate cuts by the ECB, the recovery in the U.S. economy in the second half of the year, a stabilisation in economic activity in the eurozone after the second quarter, growth acceleration in China, the ultra-expansionary monetary policy of the Bank of Japan, as well as steady inflows into equity funds, all contributed to the stock market receiving an additional boost.

Discussions on a gradual reduction in Federal Reserve bond purchases, the Cyprus crisis, the budget dispute in the USA, ongoing unstable conditions of the Italian government, and weak emerging market currencies, could only temporarily halt the upward trend.

The positive underlying mood was reflected in the performance of the most important national and international stock indices. The key U.S. index, the Dow Jones Industrial Average, ended the year 26.5 percent higher at 16,577 points. The Japanese Nikkei Index benefited from the continued weakness in the yen and rose 56.7 percent to 16,291 points. In Europe, the Euro Stoxx 50 index increased by almost 18 percent, closing at 3,109 points on 31 December 2013. The German DAX index gained 25.5 percent in the period from January to December 2013 and ended the year with 9,552 points. Surrounded by this positive market environment, the SDAX climbed 1,539 points to a level of 6,789.

The companies included in the relevant benchmark index, the DAXsector Automobile Performance Index, mainly benefited from the dynamic growth in global vehicle production (+4.0 percent year-on-year). The index increased 42.8 percent to 1,393 points. SHW shares also benefited from the positive sentiment for the shares of automotive manufacturers and suppliers. In a year-end

SHW SHARE IN BENCHMARK COMPARISON (INDEXED)

comparison, SHW shares rose by 81.9 percent to € 46.47 – assuming that the dividend payment of € 4.00 per share was reinvested.

The catalyst for the sharp rise in the share price in the fourth quarter of 2013 was, for one, the decision of the former major shareholder, SHW Holding L.P., to place the remaining 58.3 percent of the shares in the capital market by way of an accelerated book-building process. The decision made by the Executive Board of Deutsche Börse AG on 4 December 2013 to include SHW shares in the SDAX index – Deutsche Börse AG's index for 50 of the smaller public companies known as "small caps" – brought even more momentum to the shares. This took effect on 21 December 2013.

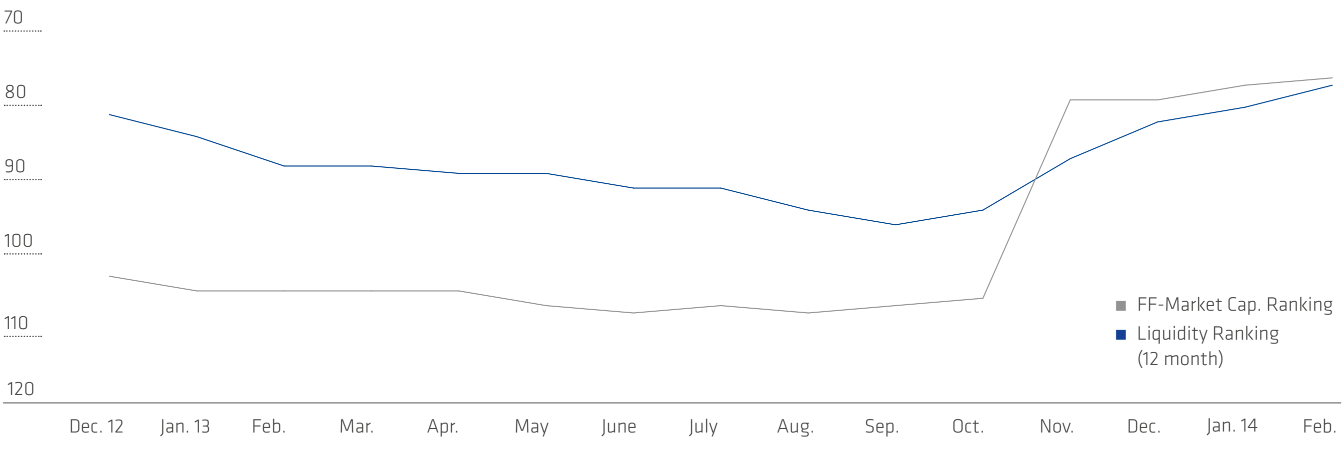
As at 31 December 2013, SHW was ranked no. 81 (previous year: no. 105) in the hierarchy of free-float market capitalisation and was ranked no. 84 (previous year: no. 83) in the liquidity ranking of the MDAX/DAX selection list of Deutsche Börse AG.

SHW SHARES AT 100 PERCENT FREE FLOAT

The shareholder structure has changed considerably since the end of last year. This was due to the broad placement on 5 November 2013 of 3.41 million shares from the ownership of our former major shareholder, SHW Holding L.P., with institutional investors at home and abroad. Approximately 52 percent of these shares were acquired by investment companies in the UK, and German and Swiss investment companies acquired approximately 35 percent and 5 percent, respectively.

According to the definition of the Deutsche Börse AG, if the proportion of shares does not exceed 25 percent of the company's share capital, all of the shares that are held by asset managers, trust companies, investment funds, pension funds, investment companies, or foreign investment companies with short-term investment strategies, are all part of the free float. Accordingly, 100 percent of SHW AG's shares have been held in free float since 5 November 2013.

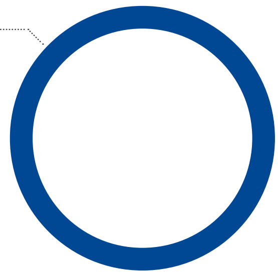
DEVELOPMENT OF FREE FLOAT MARKET CAPITALIZATION / LIQUIDITY RANKING



Source: Deutsche Börse AG

Based on existing voting rights notifications, three shareholders hold more than 5 percent of the share capital: Henderson Global Investors/UK (9.78 percent), JP Morgan Asset Management/SUK (9.41 percent) and Fidelity/UK (5.46 percent). Above the threshold of 3 percent are: Union Investment/Germany (4.31 percent), Capital Group Companies/USA (3.93 percent), F&C Asset Management/UK (3.07 percent), Norges Bank/Norway (3.06 percent), Allianz Global Investors/Germany (3.04 percent), and Linz Textil Holding AG (3.03 percent).

SHAREHOLDER STRUCTURE (AS AT FEBRUARY 2014)



ADDITIONAL RESEARCH COVERAGE ANTICIPATED

During the past year, the number of banks regularly publishing research studies on SHW shares has remained unchanged. Of the five banks – as of March 2014 – covering our shares, three currently offer a buy recommendation and two analysts recommend holding the shares. Analysts' expectations are currently suggesting an average target price of € 57. The inclusion of SHW's shares in the SDAX has prompted more banks and research houses to contact us. At the present time, two more banks have indicated taking up coverage in the current year.

RESEARCH COVERAGE (AS AT FEBRUARY 2014)

Institute	Analyst	Recom-mendation	Target price
Bankhaus Lampe	Christian Ludwig	Buy	60 Euro
Commerzbank	Sascha Gommel / Daniel Schwarz	Buy	60 Euro
Deutsche Bank	Jochen Gehrke / Tim Rokossa	Buy	58 Euro
Exane BNP Paribas	Gerhard Orgonas	Neutral	57 Euro
LBBW	Stefan Maichl	Hold	51 Euro

FURTHER EMPHASIS ON INVESTOR RELATIONS ACTIVITIES

The Company will emphasise its investor relations activities even more in 2014. Following the considerable interest in our shares after our inclusion in the SDAX, we will meet this interest mainly through our participation in investor conferences and roadshows. In line with the regional distribution of the subscribed capital, the focus of our efforts will be on London, Frankfurt, and Zurich. At the end of November, as in previous years, we will be participating in the German Equity Forum in Frankfurt. We also offer investors the opportunity to form an immediate on-site impression of the Company's innovative strength and manufacturing expertise. Through our membership in the BWSC (Baden-Württemberg Small Caps) interest group, we strive to maintain and increase our contact with asset managers and private investors. And finally, family offices have moved more and more into the focus of our IR activities.

Investor Relations Contact:

Michael Schickling
Phone: +49 7361 502 - 462
Fax: +49 7361 5279020 - 462
Email: michael.schickling@shw.de

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 2013	5.85 million
Designated Sponsor	Commerzbank AG

KEY FIGURES OF THE SHW SHARE FOR 2013

High (in €) [1]	47.000
Low (in €) [1]	25.480
Closing prices on 28 December 2012 (in €)	28.955
Closing price on 30 December 2013 (in €)	46.465
Share price performance in FY 2013 (in %)	60.5%
Market capitalisation as of 28 December 2012 (€ m)	169.4
Market capitalisation as of 30 December 2013 (€ m)	271.9
Average daily turnover (€ m) [2]	0.388
Average daily turnover (number of shares) [2]	12,107
Earnings per share (in €)	2.29
Dividend per share (in €) [3]	1.00

[1] Xetra Closing price
[2] All German stock exchanges
[3] Proposal to Shareholders Meeting on 9 May 2014

CONSOLIDATED GROUP MANAGEMENT REPORT AND SHW AG MANAGEMENT REPORT

GROUP PRINCIPLES

GROUP BUSINESS MODEL

SHW AG is the parent company of the SHW Group and a pure holding company. It holds all shares of SHW Zweite Beteiligungs GmbH, which is an intermediate holding company headquartered in Aalen, which, in turn, holds all shares of SHW Automotive GmbH, headquartered in Aalen. In addition, SHW AG holds, directly or indirectly, all shares of the international subsidiaries SHW do Brasil Ltda., headquartered in Vinhedo, Brazil and of SHW Automotive CZ, s.r.o., headquartered in Brno, in the Czech Republic. SHW Automotive GmbH holds all shares of its foreign subsidiaries SHW Automotive Pumps (Shanghai) Co., Ltd., in China, SHW Pumps & Engine Components Inc., headquartered in Toronto, Canada, as well as those of SHW Automotive Industries GmbH.

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

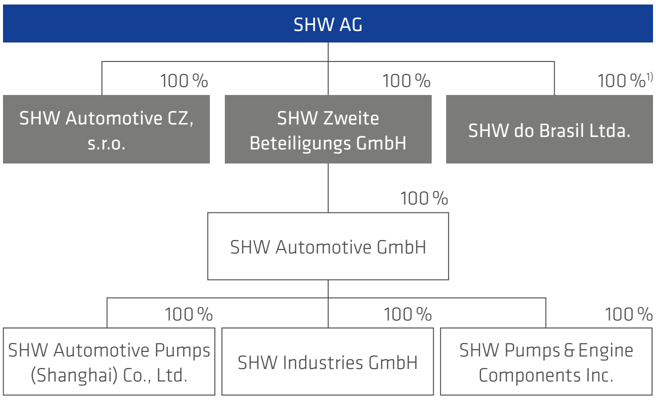
A company with two business segments and focussed on CO_2 reduction

The SHW Group is a supplier to renowned automotive manufacturers, manufacturers of commercial, agricultural, and construction vehicles and also other automotive suppliers.

The Company is divided into two business segments: the Pumps and Engine Components business segment and the Brake Discs business segment. The focus of the SHW Group's business activities is primarily on the development and production of products which contribute to a reduction of fuel consumption and hence, CO_2 emissions, in the automotive sector.

PUMPS & ENGINE COMPONENTS			BRAKE DISCS
Bad Schussenried / Vinhedo		Aalen-Wasseralfingen	Tuttlingen-Ludwigstal Neuhausen ob Eck
Passenger Cars	**Truck & Off-Highway**	**Powder Metallurgy**	
Engine oil pumps	Engine oil pumps	Sintered steel or aluminium components for camshaft phasers	Unprocessed monobloc ventilated brake discs
Transmission oil pumps	Transmission oil pumps	Gear sets	Ready-to-install monobloc ventilated brake discs
Oil / vacuum pumps	Fuel pumps	Sintered components for engines and transmissions	Composite brake discs
Electric auxiliary pumps for start-stop	Electric pumps		
Balancer shafts			
Camshaft phaser			

OVERVIEW OF GROUP SUBSIDIARIES



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

Leading manufacturer of pumps and components

The Pumps and Engine Components business segment is the SHW Group's largest operating segment, with production facilities in Bad Schussenried and Aalen-Wasseralfingen, and Vinhedo (Brazil). The Passenger Car division in Bad Schussenried manufactures variable engine oil pumps, transmission oil pumps, electric auxiliary pumps for the start-stop function, oil / vacuum pumps, balancer shaft units, as well as camshaft phasers. In Vinhedo, production initially starts with engine oil pumps.

The SHW Group's Truck & Off-Highway division produces pumps for engine oil and transmission oil as well as fuel pumps used in trucks, agricultural and construction vehicles, stationary engines and wind power stations.

Additionally, the SHW Group's Powder Metallurgy division manufactures engine components at its facility in Aalen-Wasseralfingen. These include, for example, pump cogwheels and other pump components, e.g. rotors and adjustment rings as well as other components for engines (e.g. camshaft phasers) and transmissions.

Technological leader in the field of brake discs for high performance vehicles

The SHW Group is the technological leader in the production of brake discs for high-performance vehicles. The Brake Discs business segment develops and produces monobloc ventilated brake discs made of cast iron as well as lightweight brake discs, so-called composite brake discs, made of a combination of an iron friction ring with an aluminium pot. The segment's production sites are located in Tuttlingen-Ludwigstal and Neuhausen ob Eck.

MANAGEMENT AND CONTROL

SHW AG is headquartered in Aalen and is therefore a German company subject to the German Stock Corporation Act. The bodies of the Company are the Management Board, the Supervisory Board, and the Annual General Meeting. SHW AG has a dual management system consisting of a Management Board and a Supervisory Board, which strictly separates the functions of management and control.

The Management Board is responsible for managing the Company's business in consideration of what is in the best interest of the Company and aims for a long-term increase in enterprise value. This is carried out while taking into account the interests of shareholders, employees, and other groups affiliated with the Company (stake-holders). In accordance with the Articles of Association, the Management Board consists of one or more persons. The Management Board presently consists of three members. In accordance with the Management Board's Rules of Procedure, every member is responsible for his or her own area of responsibility. Nevertheless, the members have joint responsibility for the management of the Group. As part of this overall responsibility, the three members must work together in their respectively specified area of responsibility in a cooperative and faithful manner for the good of the Company.

The Management Board is responsible for the strategic direction of the Company and consults with the Supervisory Board on related matters. The Management Board must inform the Supervisory Board of SHW AG regularly and beyond the legal reporting obligations on all relevant matters of the Company pertaining to planning, business development, risk situation, risk management, and compliance issues.

The SHW AG Supervisory Board advises and oversees the Management Board in the management of the Company. As a rule, the Supervisory Board is not permitted to carry out management functions. However, the Management Board's Rules of Procedure provide that the Management Board may not carry out certain transactions and measures (e.g., significant changes to the Group structure, acquisitions, or entry into 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 Annual General Meeting. The Supervisory Board meets at least twice during each half calendar year. SHW AG's Supervisory Board has formed an Executive Committee as well as an Audit Committee to raise efficiency and handle complex issues.

MARKET AND COMPETITION

In the area of Passenger Car engine oil pumps, SHW is one of the leading manufacturers in Europe. Its market share is close to 25 percent. The division's main competitors are KSPG (Germany), Magna Powertrain (Canada), Mahle (Germany), TCG Unitech (Austria), and GPM (Germany). In addition, there are a few auto manufacturers, such as Mercedes and VW, who still have their own pump manufacturing facilities.

Our main competitors in Brazil are KSPG (Germany), Melling (USA), GPM (Germany), Schadek (Brazil), and GKN (Great Britain).

The Truck & Off-Highway division is mainly in competition with KSPG (Germany), GPM (Germany), Concentric (Sweden), Rickmeier (Germany), and Kracht (Germany). Within the Powder Metallurgy division, GKN (Great Britain), 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. Here 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 made a commitment in 2009, by means of an EC regulation, to reduce green-house gas emissions by at least 20 percent by the year 2020 compared to the level of 1990.

Since motor vehicles with combustion engines contribute to emissions of greenhouse gases considerably, a focus was placed on reducing CO_2 emissions in road traffic. The corresponding regulation from 2009 provides for an average CO_2 target value of 130 g CO_2/km by 2015 for newly registered passenger cars. At the end of 2013, the European Parliament and the EU Commission agreed on obligatory guidelines for the year 2021. This regulation stipulates that an average CO_2/km target value of 95 g CO_2/km must be met by the year 2021 for 100 percent of the vehicle fleet. It was also decided that the current "New European Driving Cycle – NEDC" should be replaced by the so-called "Worldwide Harmonised Light Vehicles Test Procedure – WLTP" at the next possible opportunity in order to arrive at more realistic consumption values. For so-called "light commercial vehicles", a mandatory target of 147 g CO_2/km was set for the year 2020 (2017: 175 g CO_2/km).

Based on the above-mentioned requirements, there is very heavy pressure on vehicle manufacturers to reduce their vehicles' CO_2 emissions in the years to come.

The measures impacting fuel consumption and CO_2 emissions can be differentiated as follows:

- measures to reduce the energy requirements for vehicle operation (rolling resistance reduced tires, lightweight construction, aerodynamic optimisation)
- measures to improve efficiency in energy conversion from the original source of energy for mechanical power for the drive wheels through the
  - optimisation of the conventional combustion engine (direct injection, cooled exhaust gas recirculation, downsizing and turbocharging, variable valve trains, cylinder deactivation, variable compression, combustion processes, friction reduction, and reduction of thermal losses)

- optimisation of the transmission (automatic transmission, dual clutch transmission, automatic power shift or stepped automatic transmissions)
- electrification of the drive train (micro-hybrid including start-stop function, mild hybrid, full hybrid, plug-in hybrid, electric vehicle)
- optimisation of the energy consumption of auxiliary units (alternators, coolant pumps and oil pumps, vacuum pump for brake boosters, power steering, air compressor, etc.)

- use of alternative fuels in combustion engines

SHW started early in developing the appropriate products and today has a broad product portfolio consisting of fuel-optimised components for engine and transmission applications which increase the efficiency of conventional combustion engines and their ancillary components and transmission, and improve brake disc efficiency which contribute significantly to the reduction in vehicle weight. Therefore, the SHW Group has benefited considerably from the major trend of CO_2 reduction.

The following overview compares the average specific CO_2 emissions of the vehicle fleets of various car manufacturers in Europe in 2012 with the targets for the years 2015 and 2021.

Accordingly, PSA, Toyota, Fiat, Nissan-Renault, and BMW have already reached their individual targets for the year 2015. All other manufacturers are close to their targets.

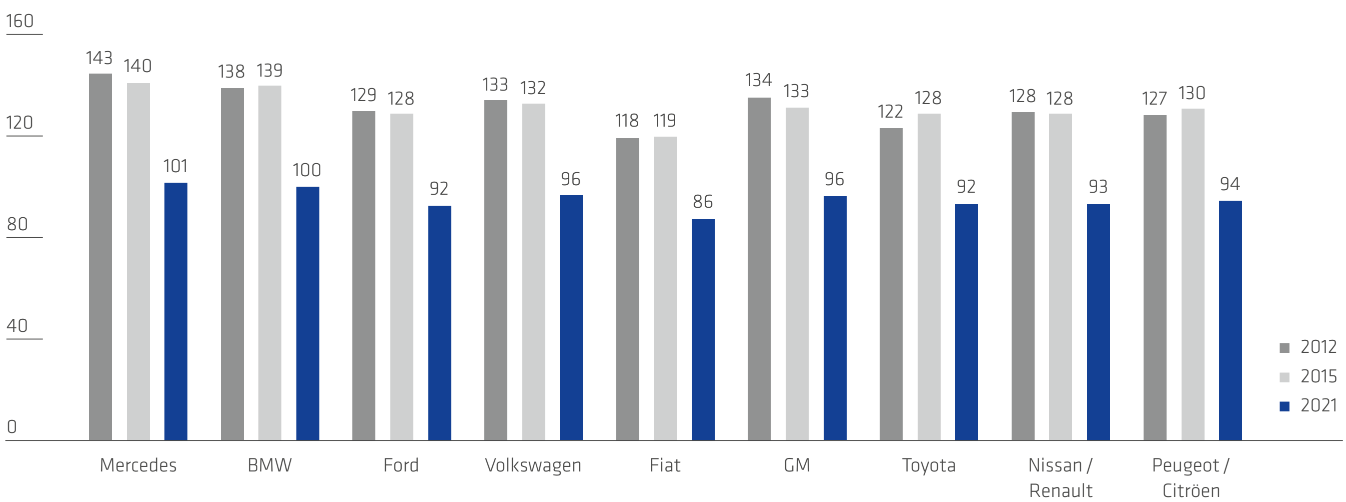
In the other major automotive markets of North America, China, and South America, there are also obligatory CO_2 targets for passenger cars, which necessitate clear measures for reduction on the part of the manufacturers in the coming years. SHW sees a good opportunity to establish itself in these markets with its innovative product portfolio which are an absolute must for a global player because of the markets' size and growth prospects.

CORPORATE STRATEGY, CORPORATE MANAGEMENT, AND CORPORATE OBJECTIVES

Corporate strategy

SHW AG pursues the goal of further strengthening the strong market positions of its Pumps and Engine Components and Brake Disc business segments in order to con-tinue to grow in a capital-efficient manner in the future. To reach this goal, the Company uses the following strategy:

CO_2 EMISSIONS BY OEM — in g/km



Source: ICCT

Focus on innovative product solutions

SHW is a success story marked by product innovations which have made a considerable contribution to the reduction of fuel consumption and, thus, the CO_2 emissions of motor vehicles. The Company intends to focus on this core competency in the future and to be a leading technology partner in the automotive industry for all drive concepts.

The Brake Discs business segment is a sought after development partner when it comes to the safety component brake disc. Our expertise in the composite brake disc product area represents the core competence of this business segment. The Company is currently working intensely on lightweight concepts for vehicles in the upper middle and middle class in order to completely unlock the existing growth potential of this product.

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

The scalability of the pumps business allows SHW to carry out a relatively easy and capital-efficient expansion into countries where new and existing customers already have their engine and transmission production facilities or are inaugurating new ones in the future. The Company plans to follow its existing customers into the growth markets of Brazil and China. For the development of the North American market regarding passenger car applications, SHW wants to initially focus on the leading North American vehicle manufacturers and suppliers of automotive transmissions. With regard to Truck & Off-Highway applications, the Company would like to continue to expand its existing business relationships with North American agricultural and construction machinery manufacturers.

Following the establishment of the Canadian subsidiary, SHW Pumps & Engine Components Inc., Toronto, Ontario on 17 October 2013, the current four-member team of sales representatives and development specialists, under general manager Peter Krug, will move to the new development centre (including performance and endurance test rigs) and administration building in Brampton, Greater Toronto in March. This building also provides enough space to carry out a first Truck & Off-Highway contract. SHW is currently in final contract negotiations with a North American Truck & Off-Highway customer for a fuel pump contract after already delivering a large number of relevant prototypes in the run-up to the contract and concluding a Letter of Intent. The start of production is scheduled for late 2016.

Also, within the next six months, preliminary investigations will be completed upon which a decision will be based regarding the future manufacturing site for large-scale production. As potential sites, we are considering, in particular, the southern United States and Mexico in particular. Both target regions provide a solid infrastructure, relatively low wages, and investment subsidies.

We successfully commenced the operation of our assembly plant in Brazil. Customer approval of the site was carried out successfully in December 2013. First customer deliveries will be made at the end of the first or the beginning of the second quarter. Other projects are currently in the bidding phase.

In China, SHW is in final negotiations with a renowned European engine manufacturer for Truck & Off-Highway applications for an order (multi-year contract) for engine oil pumps for the Chinese site.

Focus on acquisitions

On the basis of solid financial resources, SHW plans to actively shape the ongoing consolidation process taking place in the field of engines and transmission components and expand its market position in selected business segments and regions. To fund acquisitions, SHW has access to borrowing instruments such as syndicated loans or can issue corporate bonds. As a publiclisted company, SHW also has the ability to issue new shares in the context of a cash capital increase or convertible bond issue.

Companies targeted for acquisition are those with technologically sophisticated products that belong to our current core business or are closely related to our current core business and can be integrated into the existing corporate organisation while taking into account the management resources available.

Focus on optimising business processes

To sustainably improve the earnings situation, the Company continually reviews its internal procedures and production processes.

The most important measures at our Neuhausen site are the:

- expansion of painting capacity for processed brake discs and composite brake discs
- introduction of linked production (processing – painting), also including existing installations
- improvement in productivity and process quality

At the foundry in Tuttlingen, further improvements in process safety in all stages of production are currently on the agenda.

In Bad Schussenried, the focus is on the following measures:

- optimisation of the product development process
- optimisation of the production processes and procedures (shop floor management)
- optimisation of the entire supply chain
- consistent management of key performance indicators
- intensive employee training in the areas of lean management and problem solving skills

At our location in Aalen-Wasseralfingen, the focus is on the following measures:

- optimisation of the production processes and procedures (shop floor management)
- implementation of maintenance measures to improve machine availability
- reduction of change-over times
- automation of existing facilities
- capacity expansion in the areas of pressing, sintering, calibration, and finishing
- implementation of the site concept in conjunction with a 3-year investment programme
- intensive employee training in the fields of SAP and lean management

Focus on securing financial flexibility

To secure the financial flexibility of the SHW Group for the long term, the following cornerstones have been defined:

- securing a sustainable and strong capital structure
- following a results-oriented dividend policy with a payout ratio of 30 to 40 percent of the net income for the year in accordance with legal restrictions and while taking into account the financing requirements of the SHW Group
- securing suitable liquidity – present credit line of € 60 million

Internal company control system

The SHW AG Management Board employs various instruments to assess the current business performance and to derive the future strategy and investment decisions. The goal is to take full advantage of the business and entrepreneurial potential for success.

The key operating performance indicator for SHW is the adjusted EBITDA (defined as Group earnings before interest, taxes, depreciation and amortisation of tangible and intangible assets). Adjusted EBITDA measures the quality of the sales development and shows how efficiently the business operations are managed. As a starting point for the calculation of adjusted EBITDA, we use the operating result (EBIT) as reported in the consolidated income statement.

In addition to earnings indicators, liquidity-based indicators are also of great importance. Accordingly, we continuously monitor and control the main factors influencing the working capital (defined as the sum of inventories and trade receivables, less trade payables). For us, the most important indicator is the working capital ratio, which is defined as the ratio of working capital to sales.

The key performance indicators are planned, determined, and monitored for the SHW Group as well as for the two operating business segments, the Pumps and Engine Components business segment and the Brake Discs business segment, whereas the working capital ratio only applies to the Company level.

Financial management is also a part of SHW's control system. In this area, we pay particular attention to the liquidity, capital structure, and possible market price risk, particularly with regard to interest rates and currencies.

Financial targets

The SHW Group's entrepreneurial activity is focused on the sustainable increase in enterprise value and capital-efficient growth. The most important goals are the medium- and long-term increases in sales, Group earnings before interest, taxes, depreciation and amortisation of tangible assets and intangible assets (EBITDA), as well as the sustainable improvement in the working capital ratio.

Non-financial targets

In addition to the financial targets, the SHW Group's management approach considers a number of non-financial targets. The essential success factors are:

- customer satisfaction
- product quality
- qualified and motivated personnel
- environmental awareness

Customer satisfaction plays a central role in the Company's lasting success. SHW employees serve the customers in the best manner possible and provide them with customised solutions. The aim is to retain our high level of customer satisfaction and continue to improve it.

Consistently high quality products and services related thereto are required for a high level of customer satisfaction. Our quality management ensures that our pumps and engine components as well as brake discs are delivered to the customer error-free. The aim is to maintain our high level of quality and to further improve it.

Our employees make a significant contribution to the SHW Group's economic success. Their identification with the Company – which is reflected in the high average length of employment – and their commitment are the essential foundations of the Company's future success. Employee potential is developed and encouraged through a high degree of personal responsibility.

In addition to our product portfolio's focus on CO_2-optimising vehicle components, particular attention is paid to resource-saving production processes. The goal is to keep the rise both in energy consumption and CO_2 emissions below the sales growth figure.

RESEARCH AND DEVELOPMENT

Demand for demand-optimised fluid supply rises further

Regulatory requirements for reducing fuel consumption and consequently CO_2 emissions require a new generation of CO_2-optimised engines and transmissions. In the combustion engine, next to technical combustion optimisation, a demand-optimised supply of oil and water to the engine, transmission, and coolant circuit, as well as the optimisation of the efficiency of the corresponding pump, significantly help to achieve these goals.

As a result, engines with constant oil pumps are becoming increasingly less important, while variable or map-controlled pump systems for engine lubrication are increasingly gaining market share.

Functional integration is also making further progress. SHW was the first company to develop variable oil/vacuum pumps (so-called tandem pumps), which are arranged as a module in the oil pan of the engine and which SHW has been supplying to a renowned European automotive manufacturer since late 2012. In December 2013, the Company was able to win the third tranche of this oil/vacuum pump (tandem pump) with an annual sales volume of close to € 24 million. Series production is scheduled to begin in 2015.

In the past fiscal year, a further start-up of oil/vacuum pump production was added for a 3-cylinder engine of another European car manufacturer. Simultaneously, SHW developed the next generation of CO_2-optimised vacuum pumps which can be used both in integrated oil/vacuum pumps as well as in pure vacuum pumps.

SHW was also the first competitor to develop an oil/vacuum pump with an integrated balancer shaft unit for so-called downsizing engines. The start of series production for a European car manufacturer is scheduled for March 2014.

In the field of automated switching or dual-clutch transmissions, the trend is clearly going in the direction of variable transmission oil pumps where the saving potentials are tremendous. There are also some interesting advances close to market introduction in the area of start-stop systems that extend the idle time of the engine and thus reduce fuel consumption. Whereas the first generation of engines only switched off when the vehicle was stationary, with an extended start-stop system, the engine can already be switched off while coasting, such as when approaching a red light. In the case of start-stop sailing, the engine is switched off while driving as soon as the foot is no longer on the gas or brake. Additional fuel savings are possible in conjunction with GPS navigation devices when the engine automatically deactivates upon entering the city limits. These aggregates generally have electric auxiliary pumps in order to maintain the hydraulic pressure in the auxiliary units after switching off the combustion engine. Since 2011, SHW has been equipping the automatic transmissions of a well-known German car manufacturer with electric auxiliary pumps for the start-stop function.

Also, the variable water pump for engine cooling opens up further potential for reducing fuel consumption. These types of pumps can achieve, besides a reduction in drive power, a significant reduction in the warm-up phase of the engine. This technology is currently in predevelopment and to be prepared for series production. This division is currently also pursuing other new approaches, parts of which possess considerable potential for reducing consumption.

SHW INNOVATIONS SINCE 2000

2000	2002	2004	2005	2006	2006
Balancer shaft unit with oil pump	Variable engine oil pump	Aluminium camshaft phaser	Transmission oil pump for dual clutch	Variable external gear pump	Oil / vacuum pump

2006	2007	2010	2012	2012	2013
Map-controlled engine oil pump	Vane pump in engines	Electric auxiliary pump for hybrids	Camshaft phaser for diesel	Variable oil / vacuum pump	Scissor gear

The development activities are accompanied by the establishment and optimisation of modern product-specific test facilities and equipment. For example, a powerful cold chamber with an associated pump drive unit for functional and endurance tests was recently put into operation.

One emphasis of the Powder Metallurgy division is the development of materials and processes for the more economical production of wear-resistant components for variable oil pumps. A further emphasis is the first backlash-free prestressed gear systems (scissor-gears) which have been developed for use in camshaft drives. In 2014, both innovations will go into series production with corresponding products at renowned car manufacturers.

Further technological development is being influenced by increasing tolerance requirements for the reduction of leakage losses in hydraulic systems and by the trend of replacing steel products by sinter solutions that offer identical performance but are more economical.

Demand for lightweight brake discs continues rising

For years, the Brake Discs business segment has set its focus on lightweight construction. In as early as 1994, SHW produced the first brake disc using composite construction, at that time for the BMW M5. The idea is to separate the actual friction ring of the brake from the so-called pot and to cast this pot from aluminium. By using aluminium, the weight per vehicle can be reduced by up to 8 kg. This results in a reduction in the unsprung masses, which improves the responsiveness of the spring damper unit and positively influences the driving dynamics of the vehicle.

For a long period of time, the core question was which manufacturing process could be the most cost-effective when connecting the iron friction ring with the lighter brake disk pot. Based on the traditional methods of bolting and riveting, SHW was able to develop new concepts to the point of market readiness. These include friction welding and pressure rollers. Together with its partners, joining concepts such as aluminium forging were also tested as well as hybrid applications such as the direct casting connection between the friction ring and the aluminium. The number of vehicles equipped with SHW's composite brake discs has increased steadily in recent years. As a technology leader, SHW is now at the same time by far the leading producer of composite brake discs in Europe.

The focus of future development lies, inter alia, in further weight reduction and in the coating of the friction surfaces with hard surfaces. Through the introduction of lean production principles, the production costs should also decline significantly at the same time, which is a precondition for even more extensive market penetration.

Intellectual property secured for the long term

The SHW Group protects its know-how and intellectual property in terms of pumps and other engine components, brake discs, alloys, and sintered metal parts by the means of numerous industrial property rights such as patents, and the registration of such property rights, respectively. These rights are primarily registered in Germany and several other countries in the European Union, and partly in the USA, Canada, Mexico, and Asia. Some patents are held jointly with customers (Porsche, BMW, and Audi), and can be used fully by both parties.

REPORT ON ECONOMIC DEVELOPMENT

MACROECONOMIC ENVIRONMENT

Revival of the global economy in the second half of the year

With a growth rate for the full year of about 2.9 percent in 2013, the world economy lost some momentum again compared to the previous year's figure of 3.0 percent – whereby there was a slight upturn in economic activity in the second half. It was remarkable that, in contrast to previous years, the growth impetus mainly emanated from the so-called advanced economies, while the pace of growth in the emerging and developing countries weakened further in light of rising bond yields.

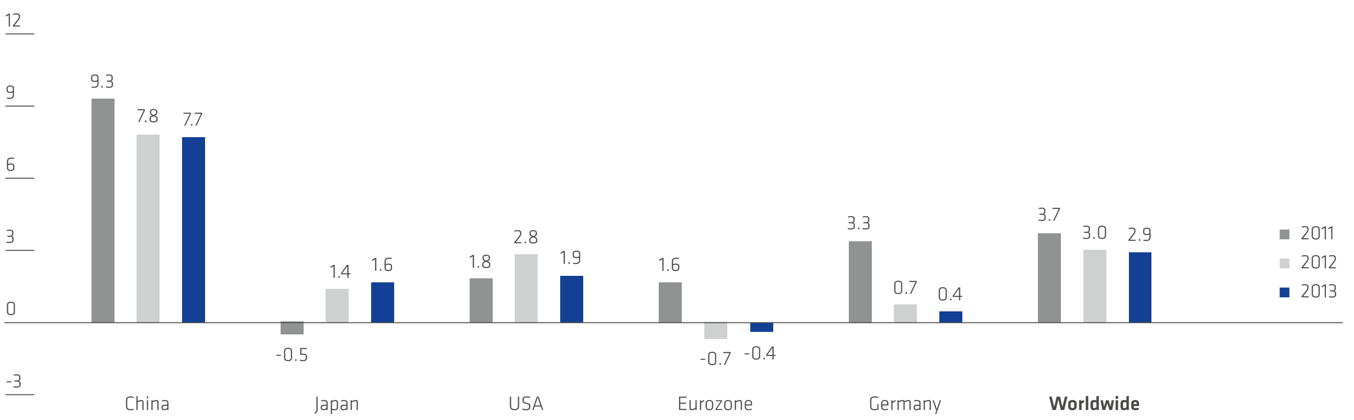
The strongest impact stemmed from the weaker economic growth in China, which, after picking up in the second half of the year, reached 7.7 percent (previous year: 7.8 percent). Threats to economic stability emerged in some of the developing countries (e.g., Brazil, India, Indonesia, South Africa, and Turkey) whose currencies have clearly lost ground against the US dollar since May 2013 when financial investors restructured their portfolios in connection with an increase in long-term U.S. interest rates of about one percentage point to the disadvantage of this group of countries.

The Japanese economy benefited from the monetary and fiscal policy actions carried out by the central bank and the government of prime minister Abe and grew 1.6 percent in 2013 (2012: 1.4 percent). The impetus came mainly from the weaker yen which boosted exports. In addition, government stimulus programmes and the ongoing reconstruction work following the tsunami disaster pushed domestic demand.

The U.S. economy suffered from tax increases and spending cuts and, as a result, only achieved GDP growth of 1.9 percent (2012: 2.8 percent).

After a weaker first quarter in 2013, the economy in the eurozone is now on a moderate growth path. Stimulation in growth came in particular from the countries that have significantly improved their price competitiveness after implementing harsh adjustment measures.

GDP GROWTH BY REGION in %



Source: Global Insight, Commerzbank Research

For example, unit labour costs in Spain, Portugal, and Ireland, relative to the eurozone average, have fallen to the levels seen at the start of monetary union. At the same time, these countries have made considerable progress in the consolidation of their respective public finances. Stronger growth rates were prevented by some of the core countries – notably France, Belgium, and the Netherlands. The main reasons for their economic weakness were the severe rise in unit labour costs with a loss of relative competitiveness, as well as price corrections in the respective real estate markets.

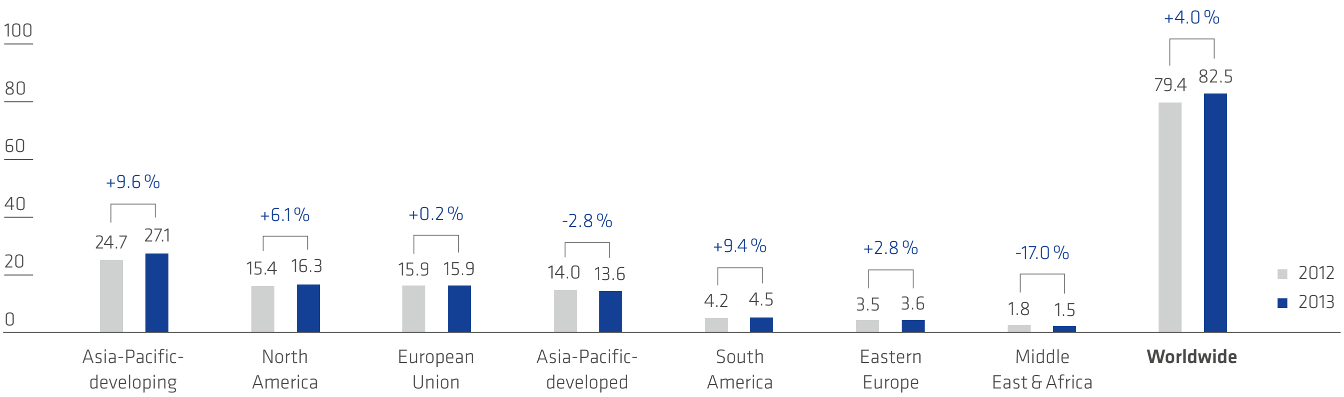
INDUSTRY-SPECIFIC ENVIRONMENT

Automotive production continues on its growth path

The global production of so-called light vehicles (vehicles < 6 t) increased by 4.0 percent in 2013 to 82.5 million vehicles and thus rose faster than the world economy. However, development varied considerably in the different regions. The dynamic growth seen in previous years continued in the emerging countries of the Asia-Pacific region with sales in this region increasing by 9.6 percent to 27.1 million vehicles. The majority of the additional production volume occurred in China where 18.7 million vehicles were manufactured (+12.1 percent year-on-year). In North America, production figures rose 6.1 percent to 16.3 million units. The main share of this increase was attributable to an expansion in U.S. production where approximately 11.0 million vehicles (+9.1 percent year-on-year) rolled off the production lines against the backdrop of robust consumer demand. A 2.8 percent drop in production figures in the advanced countries of the Asia-Pacific region was largely due to Japan. There, the decline in domestic demand and slowing exports led to a decrease in production of 3.6 percent to 9.0 million vehicles. Vehicle production in the South America region increased by 9.4 percent to 4.5 million units. Among others, this increase was the result of growing exports.

A strong second half with increasing domestic demand, and rising exports to the United States, Turkey, and China led to an increase in vehicle production in the European Union of 0.2 percent to 15.9 million units. The development of the UK (+3.9 percent) and France (+3.7 percent) was better than average. In Germany, the most important production base in the European Union, the production level exceeded the previous year's level by 0.5 percent and reached 5.7 million vehicles.

LIGHT VEHICLE-PRODUCTION BY REGION — in million units



Source: PwC Autofacts January 2014

Actual business development in comparison to the 2013 outlook

Overall, we achieved our projected increase in Group sales and adjusted Group earnings before interest, taxes, depreciation and amortisation of tangible and intangible assets (adjusted EBITDA).

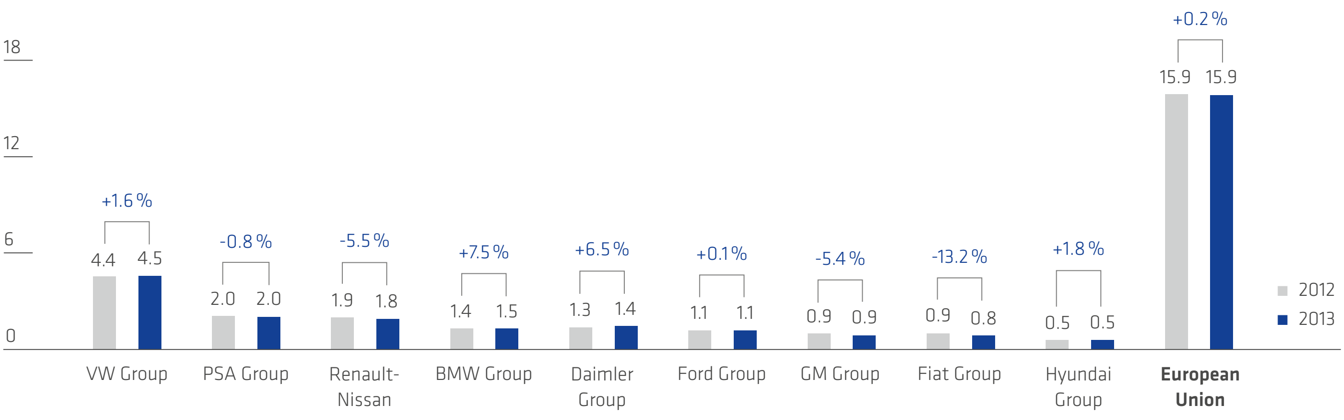
As a result of new product launches and a continued high level of customer call orders, the Company has managed to surpass its original sales forecast of € 325 million to € 340 million significantly. In general, SHW was also able to decouple from the overall market development in fiscal year 2013 in which vehicle production in the European Union of 15.94 million virtually stagnated at the previous year's level. SHW increased Group sales by 12.4 percent to € 365.6 million (previous year: € 325.4 million).

Adjusted Group earnings before interest, taxes, depreciation and amortisation of tangible and intangible assets (adjusted EBITDA) amounted to € 35.7 million exceeding the previous year's figure of € 33.9 million as expected. Thus, adjusted EBITDA was also within the targeted range of € 35 million to € 38 million stated in our interim report as at 30 September 2013.

At € 274.2 million, sales of the Pumps and Engine Components business segment also considerably surpassed its target of € 235 million to € 250 million provided in the 2013 outlook. The corresponding adjusted earnings before interest, taxes, depreciation and amortisation of tangible and intangible assets (adjusted EBITDA) amounted to € 29.3 million, achieving the targeted improvement over the previous year's figure of € 27.8 million.

The Brake Discs business segment achieved sales of € 91.5 million and thus, developed slightly better than expected. The corresponding adjusted earnings before interest, taxes, depreciation and amortisation of tangible and intangible assets (adjusted EBITDA) amounted to € 7.9 million and exceeded the previous year's figure of € 6.9 million as expected.

LIGHT VEHICLE-PRODUCTION EUROPE BY OEM — in million units



Source: PwC Autofacts January 2014

BUSINESS DEVELOPMENT AS WELL AS RESULTS OF OPERATIONS, NET ASSETS, AND FINANCIAL POSITION OF THE SHW GROUP

Results of operations

Increase of consolidated sales above market: +12.4 percent

Due to new product launches and the continued high level of customer call-offs, SHW was able to detach themselves from the stagnant market development experienced in 2013. Whereas European vehicle production increased slightly by 0.2 percent, Group sales rose 12.4 percent to € 365.6 million (previous year: € 325.4 million).

Order intake increased by 22.9 percent

The development of the order intake was very strong. At Group level, the Company was able to realise an increase in order intake of 22.9 percent to € 388.8 million in fiscal year 2013. Incoming orders in the Pumps and Engine Components business segment increased by 25.7 percent to € 291.5 million and in the Brake Discs business segment by 15.4 percent to € 97.3 million.

Slight rise in cost of sales ratio

The cost of sales increased to € 323.7 million in fiscal year 2013 compared to € 285.5 million in the previous year. The slight increase in the cost of sales ratio from 87.7 percent to 88.5 percent resulted primarily from a shift in the product mix and its subsequent impact on material costs, salary and wage increases of 3.0 percent on average, higher depreciation and amortisation and as well as increased hourly rates for temporary personnel.

Selling expenses had a minor year-on-year increase of € 0.2 million to € 4.4 million in fiscal year 2013. This brought down the selling expense ratio slightly from 1.3 percent to 1.2 percent.

Administrative expenses increased by € 2.5 million compared to fiscal year 2012. Of this amount, € 1.3 million were related to depreciation and amortisation of the SAP system, which was introduced on 1 January 2013 and to additional SAP license fees, as well as € 0.7 million in connection with the two changes in the Management Board. The administrative expense ratio increased by 0.4 percentage points to 2.7 percent.

The balance of other operating income and expenses improved by € 1.6 million largely due to changes in provisions and the receipt of compensation payments.

KEY FIGURES: SHW GROUP

K EUR	2013	2012 [1]	Change in %
Sales	365,639	325,373	12,4 %
EBITDA	34,780	32,346	7,5 %
as % of sales	9.5 %	9.9 %	–
EBIT	20,607	22,258	-7.4 %
as % of sales	5.6 %	6.8 %	–
Income after tax – continued operations	13,395	14,238	-5.9 %
Income after tax – discontinued operations	–	31,858	–
Net income for the period	13,395	46,096	-70.9 %
Adjusted EBITDA	35,683	33,871	5.3 %
as % of sales	9.8 %	10.4 %	–
Adjusted EBIT	21,661	23,943	-9.5 %
as % of sales	5.9 %	7.4 %	–
Equity	82,529	92,035	-10.3 %
Equity ratio	44.1 %	50.9 %	–
Working Capital	33.412	36.338	-8.1 %
as % of sales	9.1 %	11.2 %	–

[1] Adjustment of prior year values due to retrospective application of IAS 19 “Employee benefits”.

Substantial rise in research and development costs

Research and development costs increased by 50.0 percent compared to the prior year to € 7.5 million (previous year: € 5.0 million). This increase is largely the result of more accurate cost allocations in the new ERP system, which resulted in a proportionate relief in the cost of sales. In addition, this item was also impacted by the decline in the capitalisation of development costs to € 2.4 million after € 3.0 million in the prior year. Altogether, 2.7 percent of sales (previous year: 2.5 percent) was invested in research and development. In the Pumps and Engine Components business segment, the focus was on the development of variable oil pumps, start-stop pumps, oil / vacuum pumps, balancer shaft units, and camshaft phasers. In the Brake Discs business segment, the focus was on the further development of lightweight composite brake discs.

EBIT below previous year's level due to higher depreciation and amortisation

Group earnings before interest and taxes (EBIT) declined by € 1.7 million to € 20.6 million (previous year: € 22.3 million) in fiscal year 2013 compared to the previous year. The corresponding EBIT margin fell to 5.6 percent (previous year: 6.8 percent). The main reason for this decline at the Group level was the € 4.1 million increase in depreciation and amortisation. Thereby, the depreciation and amortisation ratio, that is, the ratio of depreciation and amortisation to sales, increased from 3.1 percent to 3.8 percent in fiscal year 2013.

Adjusted EBIT declines by € 2.2 million or 9.5 percent

Adjusted Group earnings before interest and taxes (adjusted EBIT) decreased between January and December 2013 by € 2.2 million, or 9.5 percent, to € 21.7 million (previous year: € 23.9 million) as a result of higher depreciation and amortisation in comparison to the previous year and represents an EBIT margin of 5.9 percent (previous year: 7.4 percent).

RECONCILIATION STATEMENT: SHW GROUP

K EUR	2013	2012
Sales	**365,639**	**325,373**
Operating result (EBIT)	**20,607**	**22,258**
Total PPA [1]	151	160
PPA [1] customer base	–	–
PPA [1] patents / licenses	–	–
PPA [1] fixed assets	151	160
Costs from production start-up	–	1,525
Consulting costs for SAP GoLive	180	–
Costs of changes to Management Board	723	–
Total adjustments	1,054	1,685
Adjusted EBIT	**21,661**	**23,943**
as % of sales	5.9 %	7.4 %
Other depreciation	14,022	9,928
as % of sales	3.8 %	3.1 %
Adjusted EBITDA	**35,683**	**33,871**
as % of sales	9.8 %	10.4 %

[1] Depreciation arising from purchase price allocation

Adjusted EBITDA improved by € 1.8 million or 5.3 percent

Adjusted Group earnings before interest, taxes, depreciation and amortisation of tangible and intangible assets (adjusted EBITDA) improved over the previous year by 5.3 percent or € 1.8 million to € 35.7 million (previous year: € 33.9 million). The EBITDA margin was 9.8 percent compared to 10.4 percent in the prior year.

It should be noted that logistical performance in the first quarter was adversely affected after the SAP-Go-Live on 1 January 2013 and led to additional expenses for consultant support, overtime, rush transports, and external processing orders. In the fourth quarter, the Powder Metallurgy division incurred additional costs due to the reduced machine availability. Earnings of the Brake Discs business segment were adversely impacted by higher maintenance costs, additional cost due to weekend work, as well as increased external processing costs in connection with the start-up of a new processing line.

Special effects in fiscal year 2013 and in the prior year

During the reporting period, special effects totalled € 0.9 million, of which € 0.2 million were caused by consulting fees in connection with the SAP-Go-Live and € 0.7 million were associated with the changes in the Management Board.

In fiscal year 2012, there were one-off costs in the amount of € 1.5 million due to the delayed delivery and launch of an assembly line in the context of a new product launch. Another part of these one-off cost was caused by an impairment of inventories. Moreover, the Pumps and Engine Components business segment as well as the Brake Discs business segments incurred depreciation and amortisation totalling € 0.2 million resulting from purchase price allocation. The burden of special effects for the Group totalled to € 1.7 million in 2012.

Improved financial result

The net financial result for fiscal year 2013 added up to an expense of € 1.7 million compared to € 2.0 million in the previous year. The improvement of € 0.3 million was primarily due to lower interest expenses on pensions.

Slightly lower tax rate

Income taxes amounted to € 5.5 million in 2013 (previous year: € 6.0 million). The SHW Group tax rate was 29.2 percent in fiscal year 2013 compared with 29.6 percent in the prior year. The lower tax rate is mainly due to the fact that taxes were incurred in the previous year for dividend payments of the STT Technologies joint venture which were eliminated at the Group level.

Net income for the year from continuing operations were affected by significantly higher depreciation and amortisation

Net income from continuing operations was € 13.4 million and was negatively impacted by significantly higher depreciation and amortisation. Therefore it did not reach the previous year's level of € 14.2 million. In total, the Group net income for the year of € 13.4 million was 70.9 percent, or € 32.7 million, lower than the level of € 46.1 million which was achieved in the same period of the previous year. In 2012, this amount included income of € 31.9 million from discontinued operations.

Earnings per share from continuing and discontinued operations declined from € 7.88 to € 2.29. Earnings per share from continuing operations declined from € 2.43 to € 2.29. The weighted average number of shares used in the calculation of earnings per share in 2013 amounted to 5,851,100 shares.

Business segments

Pumps and Engine Components

Sales increase by 15.2 percent

In the Pumps and Engine Components business segment, sales for fiscal year 2013 increased 15.2 percent in comparison to the prior year and reached € 274.2 million (previous year: € 237.9 million).

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

The Passenger Car division within the Pumps and Engine Components business segment achieved sales growth of 19.2 percent due to new product launches and growing sales contributions with start-stop pumps. Total sales of the Passenger Car division in 2013 were € 217.2 million (previous year: € 182.2 million). The Truck & Off-Highway division was able to raise its sales by 9.8 percent to € 30.2 million (previous year: € 27.5 million) as a result of a pick-up in the economy. Due to a sales shift towards the pump assembly plant in Bad Schussenried, the external sales of the Powder Metallurgy division declined to € 26.8 million (previous year: € 28,2 million).

EBIT adversely affected by higher depreciation

The Pumps and Engine Components business segment recorded a decline of € 1.0 million in earnings before interest and taxes (EBIT) respectively 5.0 percent to € 18.7 million in fiscal year 2013 compared to the previous year (€ 19.7 million). The EBIT margin declined to 6.8 percent (previous year: 8.3 percent). This was largely due to an increase in depreciation and amortisation of € 3.8 million in comparison to the prior year. The depreciation and amortisation ratio increased from 2.8 percent to 3.8 percent.

KEY FIGURES: PUMPS AND ENGINE COMPONENTS

K EUR	**2013**	2012 [1]	Change in %
Sales	274,160	237,908	15.2 %
EBITDA	29,114	26,252	10.9 %
as % of sales	10.6 %	11.0 %	–
EBIT	18,675	19,662	-5.0 %
as % of sales	6.8 %	8.3 %	–
Adjusted EBITDA	29,277	27,777	5.4 %
as % of sales	10.7 %	11.7 %	–
Adjusted EBIT	18,878	21,227	-11.1 %
as % of sales	6.9 %	8.9 %	–

[1] Adjustment of prior year values due to retrospective application of IAS 19 “Employee benefits”.

Adjusted EBIT of € 18.9 million below previous year’s level

In 2013, adjusted earnings before interest and taxes (adjusted EBIT) of the Pumps and Engine Components business segment declined in comparison to the previous year by € 2.3 million or 11.1 percent to € 18.9 million (previous year: € 21.2 million) due to higher depreciation and amortisation. The EBIT margin amounted to 6.9 percent (previous year: 8.9 percent).

RECONCILIATION STATEMENT: PUMPS AND ENGINE COMPONENTS

K EUR	**2013**	2012
Sales	**274,160**	**237,908**
Operating result (EBIT)	**18,675**	**19,662**
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
Consulting costs for SAP GoLive	163	–
Total adjustments	203	1,565
Adjusted EBIT	**18,878**	**21,227**
as % of sales	6.9 %	8.9 %
Other depreciation	10,399	6,550
as % of sales	3.8 %	2.8 %
Adjusted EBITDA	**29,277**	**27,777**
as % of sales	10.7 %	11.7 %

[1] Depreciation arising from purchase price allocation

Adjusted EBITDA increased 5.4 percent to € 29.3 million

Adjusted earnings before interest, taxes, depreciation and amortisation of tangible and intangible assets (adjusted EBITDA) rose 5.4 percent from € 27.8 million to € 29.3 million. The corresponding EBITDA margin was 10.7 percent (previous year: 11.7 percent).

It should be noted that logistical performance in the first quarter was adversely affected after the SAP-Go-Live on 1 January 2013 and led to additional expenses for consultant support, overtime, rush transports and external processing orders. In the fourth quarter, the Powder Metallurgy division incurred additional costs due to reduced machine availability. A change in the sales mix also impacted results.

Special effects in fiscal year 2013 and in the previous year

In fiscal year 2013, non-recurring expenses in the amount of € 0.2 million were incurred as one-off costs for SAP Post Go-Live Support.

In fiscal 2012, one-off costs in the amount of € 1.5 million were incurred due to the late delivery and launch of an assembly line for a new product line. These costs also included an impairment of inventories.

Brake discs

Sales increase by 4.6 percent

In fiscal year 2013, sales of the Brake Discs business segment increased in comparison to the previous year by 4.6 percent to € 91.5 million (previous year: € 87.5 million).

The number of brake discs sold increased by nearly 140,000 to about 4.0 million units. For the first time, the Brake Discs business segment was able to deliver a higher number of processed brake discs than unprocessed brake discs.

Significant increase in EBIT margin

The Brake Discs business segment recorded a further significant improvement in earnings before interest and taxes (EBIT) of € 0.8 million to € 4.5 million in fiscal year 2013 compared to the previous year. The EBIT margin improved to 4.9 percent (previous year: 4.1 percent). In addition to an improvement in the product mix, this business segment benefited from productivity improvements and lower quality and energy costs.

KEY FIGURES: BRAKE DISCS

K EUR	2013	2012 [1]	Change in %
Sales	91,479	87,465	4.6 %
EBITDA	7,915	6,927	14.3 %
as % of sales	8.7 %	7.9 %	–
EBIT	4,466	3,621	23.3 %
as % of sales	4.9 %	4.1 %	–
Adjusted EBITDA	7,932	6,927	14.5 %
as % of sales	8.7 %	7.9 %	–
Adjusted EBIT	4,594	3,741	22.8 %
as % of sales	5.0 %	4.3 %	–

[1] Adjustment of prior year values due to retrospective application of IAS 19 “Employee benefits”.

Adjusted EBIT improved by € 0.9 million

Adjusted earnings before interest and taxes (EBIT) improved in 2013 compared to the previous year by more than € 0.9 million and totalled € 4.6 million. This increase resulted in an EBIT margin of 5.0 percent (previous year: 4.3 percent).

RECONCILIATION STATEMENT: BRAKE DISCS		
K EUR	2013	2012
Sales	**91,479**	**87,465**
Operating result (EBIT)	**4,466**	**3,621**
Total PPA [1]	111	120
PPA [1] customer base	–	–
PPA [1] patents / licenses	–	–
PPA [1] fixed assets	111	120
Consulting costs for SAP GoLive	17	–
Total adjustments	128	120
Adjusted EBIT	**4,594**	**3,741**
as % of sales	5.0 %	4.3 %
Other depreciation	3,338	3,186
as % of sales	3.6 %	3.6 %
Adjusted EBITDA	**7,932**	**6,927**
as % of sales	8.7 %	7.9 %

[1] Depreciation arising from purchase price allocation

Adjusted EBITDA increased accordingly

Adjusted earnings before interest, taxes, depreciation and amortisation of tangible and intangible assets (adjusted EBITDA) has continued to develop favourably and increased by €1.0 million to € 7.9 million. The corresponding EBITDA margin amounted to 8.7 percent (previous year: 7.9 percent).

Special effects in fiscal year 2013 and in the previous year

For fiscal years 2013 and 2012 € 0.1 million (rounded) in depreciation and amortisation expenses from the purchase price allocation (previous year: € 0.1 million) were recorded.

Net asset and financial position

Working capital ratio shows considerable improvement

Working capital as at 31 December 2013, declined € 2.9 million, or 8.1 percent, compared with the previous year and amounted to € 33.4 million. The main reason for this decline was the success from actions taken to reduce inventories. Inventories fell by 11.1 percent to € 39.2 million despite the significant increase in sales over the previous year. At the same time, the working capital ratio improved from 11.2 percent to 9.1 percent.

WORKING CAPITAL: MULTI-PERIOD OVERVIEW				
K EUR	2013	2012	Change absolute	Change in %
Inventories	39,192	44,073	-4,881	-11.1 %
Trade receivables	42,101	32,960	9,141	27.7 %
Trade payables	-47,881	-40,695	-7,186	17.7 %
Working Capital	33,412	36,338	-2,926	-8.1 %
as % of sales	9.1 %	11.2 %		

Equity ratio impacted by dividend payment

Group equity declined by € 9.5 million as at 31 December 2013 compared to the previous year and the corresponding equity ratio amounted to 44.1 percent. The main cause of this decline was the distribution of a total dividend of € 4.00 per share, or € 23.4 million. Of this amount, € 3.00 per share, or € 17.6 million was attributed to a one-time special dividend distribution arising from the shareholders' participation in the gain from the sale of STT Technologies Inc. Pension adjustments in the amount of € 2.1 million have been included in equity as a result of the IAS 19 amendment.

FINANCIAL POSITION: MULTI-PERIOD OVERVIEW

K EUR	2013	2012	Change absolute	Change in %
Equity	82,529	92,035	-9,506	-10.3 %
Non-current liabilities and accruals	35,377	31,997	3,380	10.6 %
thereof liabilities to banks	3,676	0	3,676	
Current liabilities and accruals	69,402	56,847	12,555	22.1 %
thereof liabilities to banks	2,042	0	2,042	
thereof trade payables	47,881	40,695	7,186	17.7 %
thereof other financial liabilities	7,027	4,221	2,806	66.5 %
Balance sheet total	**187,308**	**180,879**	**6,429**	**3.6 %**

Trade receivables rose year-on-year by 17.7 percent from € 40.7 million to € 47.9 million. This increase resulted primarily from an increase in the purchase of goods due to higher sales.

The € 2.8 million increase in other financial liabilities to € 7.0 million is mainly due to an increase in provisions for outstanding invoices.

Positive free cash flow despite highest investments in company's history

Cash flow from operating activities from continuing and discontinued operations in fiscal year 2013 increased by € 10.5 million over the previous year's figure of € 19.8 million and amounted to € 30.4 million. In the year 2012, this included cash flow from operating activities from discontinued operations of € 2.6 million. This favourable development is mainly due to the improvement in Group's earnings before interest, taxes, depreciation and amortisation (EBITDA) and in working capital as well as due to higher other current liabilities.

RECONCILIATION STATEMENT: CHANGE IN NET CASH

K EUR	2013	2012
Cash flow from operating activities from continued operations	30,395	19,848
Cash flow from investment activities from continued operations	-29,957	19,900
Cash flow before financing activities (free cash flow)	**438**	**39,748**
Other (esp. dividends)	-22,948	-11,498
Change in net cash	**-22,510**	**28,250**

Cash flow from investing activities from continuing and discontinued operations reached the highest value in the Company's history and amounted to € -30.0 million as a result of the numerous new product launches. In the previous year, cash flow from investing activities was impacted in the amount of € 42.9 million by the sale of STT. In 2013, investments were carried out for new assembly lines, a logistics hall in Bad Schussenried, and for new processing centres.

This resulted in free cash flow of € 0.4 million in fiscal year 2013 (previous year: € 39.7 million).

Net bank liabilities at a low level

As at 31 December 2013, the SHW Group had net bank liabilities of € 2.9 million, which was € 22.5 million below the level of 31 December 2012. This decrease resulted primarily from a net outflow of € 23.4 million for the dividend to our shareholders.

As at 31 December 2013, the SHW Group held cash and cash equivalents amounting to € 2.8 million (previous year: € 19.6 million). Bank liabilities in the amount of € 5.7 million are comprised of two KfW loans totalling € 4.8 million, and an operating loan of € 0.9 million. This operating loan is part of a € 60 million credit line facility, which will run until 30 September 2017. Half of this credit line may be used for acquisitions. At the end of the year, this line was utilised in addition by guarantees amounting to € 1.1 million. The operating loan bears a variable interest rate, which is based on Euribor plus a margin. The interest rate is not hedged.

Numerous new product launches cause strongly increasing capital expenditures

Due to the high number of new product launches, additions to tangible assets and intangible assets increased in fiscal year 2013 to € 32.8 million (previous year: € 21.2 million, excluding STT) and thus exceeded the cash flow from investing activities totalling € 30.0 million. Tangible and intangible assets additions to the Pumps and Engine Components business segment amounted to € 27.3 million (previous year: € 17.7 million) and included investments in research and development of € 2.4 million (previous year: € 3.0 million). The Brake Discs business segment invested a total of € 4.6 million (previous year: € 1.7 million).

Growth is reflected in a significant increase in tangible assets and receivables

At the end of fiscal year 2013, total assets increased over the previous year by 3.6 percent to € 187.3 million (previous year: € 180.9 million). Tangible assets increased by € 16.5 million year-on-year to € 74.8 million through the commissioning of new production plants and buildings. The significant rise in the item “other intangible assets” is the result of the capitalisation of development costs.

NET ASSETS POSITION: MULTI-PERIOD OVERVIEW

K EUR	2013	2012	Change absolute	Change in %
Non-current assets	99,688	82,410	17,278	21.0 %
thereof other intangible assets	14,205	12,314	1,891	15.4 %
thereof tangible assets	74,781	58,269	16,512	28.3 %
thereof other financial assets	659	1,395	-736	-52.8 %
Current assets	87,620	98,469	-10,849	-11.0 %
thereof inventories	39,192	44,073	-4,881	-11.1 %
thereof trade receivables	42,101	32,960	9,141	27.7 %
thereof liquid assets	2,837	19,629	-16,792	-85.5 %
Balance sheet total	**187,308**	**180,879**	**6,429**	**3.6 %**

As at the balance sheet date, inventories in the business segments declined by € 4.9 million in comparison to the previous year and totalled € 39.2 million. Trade receivables increased by € 9.1 million to € 42.1 million due to higher sales and the invoicing of tooling orders in the fourth quarter.

ROCE influenced by the Company's strong growth

The return on capital employed (ROCE), which measures the return on invested capital, declined from 24.4 percent to 19.7 percent in the reporting year.

RETURN ON CAPITAL EMPLOYED (ROCE): MULTI-PERIOD OVERVIEW

K EUR	2013	2012
Goodwill	7,055	7,055
Other intangible assets	14,205	12,314
Tangible assets	74,781	58,269
Deferred tax assets	2,988	3,377
Other non-current financial assets	659	1,395
Inventories	39,192	44,073
Trade receivables	42,101	32,960
Other assets	3,490	1,807
Asset items of capital employed	184,471	161,250
Deferred tax liabilities	-3,619	-3,119
Other non-current accruals	-3,388	-2,948
Other non-current financial liabilities	-206	-100
Trade payables	-47,881	-40,695
Other current financial liabilities	-7,027	-4,221
Income tax liabilities	-1,176	-1,016
Other current accruals	-3,010	-5,170
Other liabilities	-8,266	-5,745
Liability items of capital employed	-74,573	-63,014
Capital Employed	109,898	98,236
Adjusted EBIT	**21,661**	**23,943**
ROCE	19.7 %	24.4 %

This was the result of the Company's continued strong growth, which on the one hand is reflected in a significant increase in tangible assets and on the other hand in the adjusted Group earnings before interest and taxes (adjusted EBIT) via rising depreciation and amortisation.

Number of employees increases below-average

Despite the high number of new product launches and the high level of capacity utilisation, the number of employees working for the SHW Group in fiscal year 2013 increased at a lower rate.

In the SHW Group, the annual average number of employees increased by 3.6 percent to 1,059 employees. Most of this increase happened in the two manufacturing plants of the Pumps and Engine Components business segment.

In the Pumps and Engine Components business segment plants the average number of employees increased from 627 to 658. The number of employees at the two plants of the Brake Discs business segment rose from 360 to 366 employees.

In 2013, personnel expenses increased 6.5 percent to € 69.4 million compared with € 65.1 million in the previous year. In addition to the increase in employees, this also reflects the collective bargaining agreement of the metal industry in south-western Germany. This current agreement has a total term of 10 months and runs from 1 July 2013 to 30 April 2014. It stipulates a 3.4 percent increase in salary payments as of 1 July 2013. The personnel cost ratio, i.e., the ratio of personnel expenses to Group sales, declined from 20.0 percent to 19.0 percent. Employee productivity, which is defined as sales per employee (annual average), improved over the previous year by 8.5 percent from € 318,400 to € 345,400 per employee.

As at 31 December 2013, there were a total of 45 apprentices (previous year: 40) at all SHW locations. The focus in the hiring of apprentices was for the professional training of new industrial mechanics.

In addition to direct job-related education and training programmes, the Company also offers regular seminars for employees and trainees, such as driving safety courses for car drivers and motorcyclists, smoking cessation seminars, and particularly for our apprentices, seminars addressing "safety on the road".

In 2013, four employees celebrated their 40-year anniversary with the Company, 8 employees celebrated their 25th anniversary, and 30 employees celebrated their 10th anniversary. This is a testament to the low turnover and long tenure at our Company.

In February 2013, Sigmar Gabriel, Chairman of the SPD, visited our powder metallurgy operations in Aalen-Wasseralfingen. During the Company tour and the subsequent discussion with representatives of the management, the works council, and youth and trainee representatives, the current Federal Minister of Economic Affairs and Vice Chancellor, got an impression of the innovative product range of the powder metallurgy which is focused on CO_2 reduction. Key issues also included the change in energy policy, the shortage of skilled workers, temporary workers, the security of pensions, and the resulting generational fairness.

In July, the SHW band (Bergkapelle) celebrated its 200th anniversary with an anniversary evening and a weekend of celebrations in conjunction with the 31st District music festival of the brass music association (Blasmusikverband) in Ostalb as well as many other musical societies of the Ostalb district and other renowned artists.

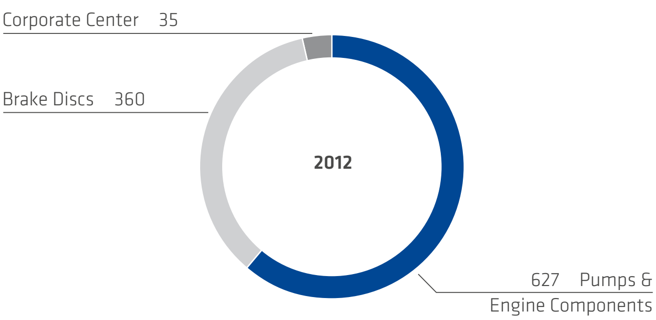
OVERALL ASSESSMENT OF THE ECONOMIC SITUATION

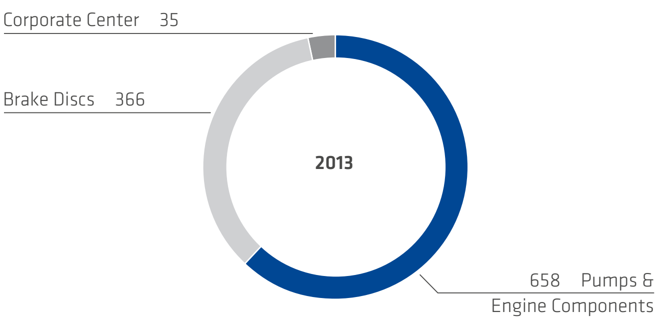
The SHW AG Management Board has a generally positive assessment of the course of business in 2013. We achieved the targets for Group sales and adjusted Group earnings before interest, taxes, depreciation and amortisation of tangible and intangible assets (adjusted EBITDA) which had been last updated with the interim report for third quarter 2013. As a result of the growth-related increase in investments, our total depreciation and amortisation increased 40.5 percent from € 10.1 million to € 14.2 million compared to 2012 and the depreciation and amortisation ratio, i.e., the ratio of depreciation and amortisation to Group sales, rose from 3.1 percent to 3.9 percent. Net income from continuing operations reached € 13.4 million, which was slightly below the level of the previous year of € 14.2 million. Despite the significant increase in sales, working capital could be reduced by 8.1 percent to € 33.4 million and, at the same time, the working capital ratio improved to 9.1 percent after 11.2 percent.

With an equity ratio of 44.1 percent and net bank liabilities of only € 2.9 million, SHW's financial profile continues to be well above average when compared to the industry.

With the Group's innovative product portfolio and the existing orders, the Management Board of SHW AG believes the Group is well positioned to continue to grow faster than the underlying vehicle market in the future. Moreover, the Company has various debt and equity instruments at its disposal in order to expand its market position in selected business areas and regions – also through acquisitions.

EMPLOYEES BY BUSINESS SEGMENT





ANNUAL FINANCIAL STATEMENTS OF SHW AG

The Group management report and the management report of SHW AG for fiscal year 2013 are combined in accordance with § 315 para. 3 HGB in conjunction with § 298 para. 3 HGB. The annual financial statements and the combined Group management report as well the management report of SHW AG are simultaneously disclosed in the Federal Gazette.

The following figures and explanations relate to the annual financial statements of SHW AG prepared according to the provisions of the German Commercial Code and the German Stock Corporation Act.

EXPLANATION OF THE RESULTS OF OPERATIONS

INCOME STATEMENT

K EUR	2013	2012
1. General administration expenses	-2,625	-2,481
2. Other operating income	1,033	2,774
3. Other operating expenses	-760	-682
4. Income from investments	20,516	65,257
5. Interest result	1,228	-84
6. Result from ordinary activities	19,392	64,784
7. Extraordinary result	0	0
8. Taxes on income	-4,916	-5,569
9. Other taxes	-14	-9
10. Net income for the year	14,462	59,206
11. Profit carried forward	14	12
12. Unappropriated profit	**14,476**	**59,218**

The result from ordinary activities has declined by €45.4 million in comparison to the previous year and amounted to € 19.4 million. The reason for this is essentially the € 44.7 million decline to € 20.5 million (previous year: € 65.3 million) in income from the profit and loss transfer agreement with SHW Zweite Beteiligungs GmbH recorded under income from investments. In the previous year, this had included income from the sale of STT in the amount of € 41.8 million.

The increase in general administration expenses resulted primarily from costs related to the changes in the Management Board as well as general wage and salary cost increases.

EXPLANATION OF NET ASSETS AND FINANCIAL POSITION

SHW AG BALANCE SHEET (SUMMARISED)

K EUR	2013	2012	Change
Fixed assets	76,915	75,415	1,500
Current assets including prepaid expenses	92,192	136,835	-44,643
Total assets	169,107	212,250	-43,143
Equity	124,484	133,426	-8,942
Accruals and liabilities	44,623	78,824	-34,201
Total equity and liabilities	**169,107**	**212,250**	**-43,143**

Fixed assets mainly include the interest in SHW Zweite Beteiligungs GmbH in the amount of € 74.6 million (previous year: € 74.6 million). The € 1.5 million increase in fixed assets resulted from a capital increase at our subsidiary in Brazil in the amount of € 0.6 million as well as other long-term loans in the amount of € 0.9 million.

Current assets mainly include trade receivables from the transfer of profits as well as interest-bearing loans against SHW Zweite Beteiligungs GmbH.

The equity of SHW AG fell by € 8.9 million. This decrease resulted from a dividend payment to our shareholders in the amount of € 23.4 million, net of the net income of fiscal year 2013 in the amount of € 14,5 million. The equity ratio was 73.6 percent compared to 62.9 percent in the prior year.

The reason for the decline in accruals and liabilities from € 34.2 million to € 42.1 million was primarily the decrease in liabilities from loans, which could be partially repaid through the transfer of profits, against SHW Automotive GmbH.

REFERENCE TO THE DEPENDENCY REPORT PURSUANT TO § 312 PARA. 3 SENT. 3 AKTG

The Management Board of SHW AG has prepared a report on its relationships with associated companies during the previous fiscal year which includes the following closing statement:

"The Management Board declares that according to the circumstances known to the Management Board at the time the legal transactions were entered into or the measures were carried out or refrained from, the Company received adequate consideration for each legal transaction and through the measures being taken or not being taken, was not put at any disadvantage".

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 components. 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 German Stock Corporation Act and the recommendations of the German Corporate Governance Code, the remuneration of Management Board members consists of both fixed (non-performance related) and variable (performance-related) components. A total of 40.0 percent of the variable remuneration is comprised of an annual bonus and 60.0 percent consists of a rolling sustainability bonus, of which half is based on a two-year assessment and the other half is based on a three year assessment. The remuneration components are configured so that they are suitable, both separately and in their entirety, considering the duties of the individual Management Board members, their personal performance, the economic situation, and the success and future prospects of SHW AG.

Non-performance related remuneration components

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 benefiting the Management Board members with the premiums paid by the Company.

Variable remuneration components

For performance-related remuneration, a target bonus is set out in each service contract of the Management Board members which corresponds to the performance-related remuneration when the objectives have been fully (100 percent) achieved.

The first element of the Management Board's variable remuneration is the annual bonus for each fiscal year, which accounts for 40 percent of the target bonus. Its determination is based on achieving objectives, which are related to certain key performance indicators of the Company and its subsidiaries and associated companies (together comprising the SHW Group). A total of 70.0 percent of the annual bonus depends on the development of the SHW Group's EBITDA and 30.0 percent depends on the development of the net financial liabilities of the SHW Group. The relevant benchmark for assessing the extent to which objectives have been achieved are the EBITDA and the net financial liabilities targets for the SHW Group included in the annual budget which was approved by the Supervisory Board for the relevant fiscal year. The annual bonus to be paid in any fiscal year is calculated and subsequently paid out in the following year on the basis of the audited and approved consolidated financial statements of SHW AG. The Supervisory Board may give appropriate consideration to extraordinary developments when assessing the extent to which objectives have been achieved. Moreover, the amount determined is reduced if the financial targets contained in the relevant credit and external financing agreements of the SHW Group (so-called covenants) are not met in the relevant fiscal year. If the objectives have been exceeded, the annual bonus may 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 variable remuneration is the so-called sustainability bonus, which constitutes 60.0 percent of the target bonus. One half of the sustainability bonus is determined on the basis of a two-year assessment, and the other on the basis of a three year assessment. The amount is determined by the share price development of the Company in relation to the benchmark index, the

TOTAL REMUNERATION OF THE MANAGEMENT BOARD FOR FISCAL YEAR 2013

K EUR	Non-performance related remuneration components		Performance-related remuneration components		Annual remuneration
Name	Annual fixed remuneration	Supplementary benefits	Annual bonus	Sustainability bonus	**Total**
Dr. Ing. Thomas Buchholz	125 [1)]	7	52 [1), 2)]	52 [1), 2)]	236
Andreas Rydzewski	226 [3)]	14	15	60 [4), 5)]	315
Sascha Rosengart	131 [6)]	8	32.5 [6), 7)]	32.5 [6), 7)]	204
Total	**482**	**29**	**99.5**	**144.5**	**755**

1) Pro rata temporis; member of the Management Board since 1 August 2013
2) For fiscal year 2013, Dr. Thomas Buchholz received a non-performance related bonus commitment totalling € 104 thousand: half of which (€ 52 thousand recorded under "annual bonus"), will be paid after the close of 2013, with the re-maining half (€ 52 thousand reported under "sustainability bonus") to be paid after the close of 2014.
3) This includes a payment in the amount of € 20 thousand for the provisional assumption of the role of Chief Executive Officer until the appointment of Dr. Thomas Buchholz as Chief Executive Officer with effect from 1 August 2013.
4) The total value of the sustainability bonus for the 2013 fiscal year (based on two- year and three-year assessments) at 100 percent of target attainment (for the calculation of the sustainability bonus, please refer to the section titled "Remuneration report – Management Board – Variable remuneration components").
5) The amount of the sustainability bonus based on a three-year assessment, which is attributable to fiscal year 2011, is due two months after the close of the year 2013 and amounts to € 33 thousand for Mr. Andreas Rydzewski.
The amount of the sustainability bonus based on a two-year assessment, which is attributable to fiscal year 2012, is due two months after the close of the year 2013 and amounts to € 34 thousand for Mr. Andreas Rydzewski.
6) Pro rata temporis; member of the Management Board since 6 May 2013.
7) For fiscal year 2013, Mr. Sascha Rosengart received a non-performance related bonus commitment amounting to € 65 thousand: half of which (€ 32.5 thousand recorded under "annual bonus"), will be paid after the close of 2013, with the re-maining half (€ 32.5 thousand reported under "sustainability bonus") to be paid after the close of 2014.

DAXsector Automobile Performance Index in the relevant current fiscal year and the following year (two-year basis), as well as in the current 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 increases or decreases as compared to the pro rata target bonus at a ratio in which the SHW share price outperforms or underperforms the benchmark index during the applicable time period; however, the sustainability bonus may not amount to more than 150 percent of the pro rata target bonus (200 percent in the case of the Chief Executive Officer). The calculated sustainability bonus is paid two months after the end of the applicable assessment period.

Pension commitments

A contractual pension agreement only exists with the former Chief Executive Officer, Dr. Krause, and is based on the retirement benefit entitlements from a service contract which originated in the year 2000. It primarily contains the following provisions:

The pension annuity begins with the termination of the function of member of the Management Board upon reaching the age of 65, unless occupational disability or an inability to work as defined in the statutory pension insurance, or in the case of a survivor's pension in the event of death occurs. Should an occupational disability or an inability to work arise before the retirement age is reached, the Chief Executive Officer will receive a disability pension in the amount of the pension commitment. In the case of death, his widow will receive a survivor's pension in the amount of 60 percent and each child entitled to support will receive an orphan's pension in the amount of 20 percent

TOTAL REMUNERATION OF MANAGEMENT BOARD MEMBERS WHO HAVE RESIGNED IN FISCAL YEAR 2013

K EUR	Non-performance related remuneration components		Performance-related remuneration components		Annual remuneration
Name	Annual fixed remuneration	Supplementary benefits	Annual bonus	Sustainability bonus	**Total**
Dr. Ing. Wolfgang Krause	159 [1]	5	0	0 [2]	164
Oliver Albrecht	201 [3]	8	15	60 [3), 4), 5]	284
Total	**360**	**13**	**15**	**60**	**448**

[1] Thereof, pro rata temporis fixed compensation of € 64 thousand until his resignation on 30 April 2013, as well as compensation amounting to a total of € 95 thousand for the months of May to October 2013 including, in the context of compensation, the sustainability bonus to be considered based on a two-year assessment which is attributable to fiscal year 2012. The sustainability bonus based on a three-year assessment and to be considered in the context of compensation payment which is attributable to the 2012 fiscal year, should be recalculated upon its determination and due date and paid out as compensation.

[2] The sustainability bonus based on a three-year assessment which is attributable to fiscal year 2011 is due two months after the close of the year 2013 and amounts to € 55 thousand for Dr. Wolfgang Krause. The sustainability bonus based on a two-year assessment which is attributable to fiscal year 2012, is due two months after the close of the year 2013 and amounts to € 57 thousand for Dr. Wolfgang Krause.

[3] Mr. Oliver Albrecht resigned from the Management Board effective 31 May 2013. However, remuneration shall be paid up to the end of the service contract, and thus will continue to be paid up to and including 28 February 2014. This also applies to variable remuneration components attributable to this period, which may only become due after the end of 28 February 2014.

[4] The total value of the sustainability bonus for the 2013 fiscal year (based on two-year and three-year assessments) at 100 percent of target attainment (for the calculation of the sustainability bonus, please refer to the section titled "Remuneration report – Management Board – Variable remuneration components").

[5] The sustainability bonus based on a three-year assessment, which is attributable to fiscal year 2011, is due two months after the close of the year 2013 and amounts to € 28 thousand for Mr. Oliver Albrecht. The sustainability bonus based on a two-year assessment, which is attributable to fiscal year 2012, is due two months after the close of the year 2013 and amounts to € 34 thousand for Mr. Oliver Albrecht.

of the agreed pension commitment. If there are two or more orphans, the combined orphan's pension will amount to 40 percent of the agreed pension commitment and shall 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 and, in the case of three or more orphans, to a combined total of 80 percent divided equally. Should the Chief Executive Officer resign before reaching retirement age – as in the case presented of the resignation of the former Chief Executive Officer effective at the end of April – the non-forfeiture of pension entitlement is based on legal regulations. Accordingly, the pension entitlement of the former Chief Executive Officer became vested. As a result of the termination of employment prior to age 65 of the former Chief Executive Officer, Dr. Krause, the pension entitlement was reduced accordingly. The Company has pension provisions of € 55 thousand for the pension commitment to Dr. Krause mentioned above. The present value of this pension commitment is € 55 thousand. The expected fixed pension payment per month amounts to approximately € 330.

Other benefits in the event of death

In the event of the death of a Management Board member during the term of his appointment, his widow, or alternatively his dependants, are entitled to the fixed remuneration due for the month of his death and for the two months thereafter.

Benefits in the event of termination of the service contract

In the case of the premature revocation of a Management Board member's appointment for good cause, the service contract provides that, at the discretion of the Supervisory Board, the Company may either release the Management Board member from his services with full payment of his fixed remuneration (including unused holiday entitlement), or terminate the service contract prematurely and pay a settlement in the amount of two years' remuneration (including supplementary benefits), which may not exceed 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 provide the members the right to resign from office and terminate their service contract. When exercising this right of termination, the Management Board member receives a settlement amounting to two years of annual remuneration (including supplementary benefits), but not exceeding the remuneration due for the remaining term of the contract. For the purpose of this provision, a third-party purchaser is defined as a purchaser that is neither SHW Holding L.P., which was the main shareholder of SHW AG until 7 November 2013, nor an affiliated company.

TOTAL REMUNERATION OF MANAGEMENT BOARD FOR FISCAL YEAR 2012

K EUR	Non-performance related remuneration components		Performance-related remuneration components		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] The amount of the sustainability bonus for fiscal year 2012 at 100 percent target achievement (for more detail on the calculation of the sustainability bonus see section "Remuneration report – Management Board – Variable remuneration components").
[2] The amount of the sustainability bonus based on a two-year assessment at-tributable to fiscal year 2011 is due two months following the end of 2012 and amounts to € 56 thousand for Dr. Wolfgang Krause, € 34 thousand for Mr. Andreas Rydzewski, and € 29 thousand for Mr. Oliver Albrecht.

Other remuneration components

SHW Holding L.P., which was the main shareholder until the sale of its entire holding in SHW AG, effective 7 November 2013, decided after the sale to grant an optional fixed, one-time payment in the amount of € 75 thousand each to the Management Board members in office. These members were Dr. Thomas Buchholz, Andreas Rydzewski, and Sascha Rosengart. The processing of this payment was carried out by SHW AG for the purpose of income tax deductions. Further benefits from third parties with regard to their activities as Management Board members have not been promised and/or granted to any member of the Management Board in the year under review. In addition, no member of the Management Board was granted additional compensation for the assumption of mandates in Group companies of the SHW Group. During 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 Annual General Meeting and 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) and the Deputy Chairman receives one and a half times the amount (€ 30 thousand). Supervisory Board members, who belong to a Supervisory Board committee, also 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 Deputy 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 single 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 value-added tax payable on their remuneration and expenses.

TOTAL REMUNERATION OF THE SUPERVISORY BOARD FOR FISCAL YEAR 2013

K EUR	Annual fixed remuneration	Executive Committee and Audit Committee attendance fees	Total [1]
Anton Schneider Chairman of the Supervisory Board Chairman of the Executive Committee	40	1	41
Dr. Martin Beck Deputy Chairman of the Supervisor Board	30	1	31
Dr. Hans Albrecht	20		20
Christian Brand Chairman of the Audit Committee	20	2	22
Edgar Kühn	20		20
Ernst Rieber	20		20
Total	**150**	**4**	**154**

[1] Excluding amounts that were reimbursed as expenses or reimbursed for value-added taxes paid on their remuneration.

During the year under review, none of the Supervisory Board members received remuneration or benefits for services personally rendered, especially for any consultation or mediation services from SHW AG or one of its subsidiaries. No member of the Supervisory Board was granted loans or advance payments from SHW AG during the year under review.

In the reporting year, all members of the Supervisory Board of SHW AG in office as at 31 December 2013 concurrently belonged to the Supervisory Board of Schwäbischen Hüttenwerke Automotive GmbH, an indirect subsidiary of SHW AG. For periods during which SHW AG Supervisory Board members are also members of the Supervisory Board of Schwäbischen Hüttenwerke Automotive GmbH, the members only receive an attendance fee for the Supervisory Board meetings of Schwäbischen Hüttenwerke Automotive GmbH instead of the remuneration otherwise payable for their activities as members of the Supervisory Board of Schwäbischen Hüttenwerke Automotive GmbH. The attendance fee amounts to € 500 for regular members of the Supervisory Board, the Chairman of the Supervisory Board receives twice this amount, and the Deputy Chairman receives one and a half times this amount.

TOTAL REMUNERATION OF THE SUPERVISORY BOARD FOR FISCAL YEAR 2012

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

[1] Excluding amounts that were reimbursed as expenses or reimbursed for value-added taxes paid on their remuneration.

DECLARATION OF CORPORATE GOVERNANCE PURSUANT TO § 289A HGB AND THE CORPORATE GOVERNANCE REPORT PURSUANT TO ITEM 3.10 OF THE GERMAN CORPORATE GOVERNANCE CODE

The Declaration of Corporate Governance pursuant to § 289a HGB, which in particular includes the Declaration of Conformity according to § 161 AktG, information on general corporate governance practices, a description of the working methods of the Management Board and Supervisory Board, and information on the composition and working methods of their respective committees, as well as Corporate Governance Report pursuant to Item 3.10 of the German Corporate Governance Code, which reports on other corporate governance topics at SHW, can be found in a combined document on the SHW website under http://www.shw.de/comps/en/investor_relations/corporate_governance/cg_bericht_erklaerung_unternehmensfuehrung.

DISCLOSURES AND EXPLANATIONS RELATING TO TAKEOVER REGULATIONS

This chapter contains disclosures in accordance with §§ 289 para. 4, 315 para. 4 HGB and the Management Board's explanatory report in accordance with § 176 para. 1 sent. 1 AktG.

COMPOSITION OF SUBSCRIBED CAPITAL

The Company's subscribed capital amounts to € 5,851,100.00. It is divided into 5,851,100 no-par value bearer shares with a notional amount of share capital of € 1.00 per share. The shares are fully paid in. Different classes of shares do not exist. All shares confer the same rights and obligations. Each share grants one vote at the Annual General Meeting.

RESTRICTIONS ON VOTING RIGHTS OR THE TRANSFER OF SHARES

Restrictions on voting rights or the transfer of shares do not exist.

INTERESTS IN CAPITAL THAT EXCEED 10 PERCENT OF THE VOTING RIGHTS

On 5 November 2013, the remaining 58.3 percent of shares held by the former major shareholder, SHW Holding L.P., were placed with institutional investors domestically and abroad in an accelerated bookbuilding process. To the knowledge of the Company, no shareholder held an interest in capital that exceeded 10 percent of the voting rights as at 31 December 2013.

SHARES WITH SPECIAL RIGHTS CONFERRING CONTROL

Shares with special rights conferring control were not issued.

Method of exercising voting rights when employees hold shares, but do not di-rectly exercise their control rights

There is no control of voting rights when the employees holding an interest in the capital do not directly exercise their control rights.

LEGAL REGULATIONS AND PROVISIONS IN THE ARTICLES OF ASSOCIATION ON THE APPOINTMENT AND DISMISSAL OF MANAGEMENT BOARD MEMBERS AND ON AMENDMENTS TO THE ARTICLES OF ASSOCIATION

According to the Articles of Association, the Management Board of SHW AG shall consist 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 dismisses them. Their appointment carries on for a maximum period of five years; a reappointment or an extension of their term is permissible for a maximum period of five years in each case (cf. in particular § 84 para. 1 sent. 1 to 4 AktG). A simple majority of votes cast by the Supervisory Board is required for appointing Management Board members; the Chairman of the Supervisory Board has the deciding vote when the vote is tied (§ 11 para. 7 of the Company's Articles of Association). If several persons are appointed to the Management Board, the Supervisory Board may appoint one member as the Chief Executive Officer (§ 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 Deputy Chairman (§ 6 para. 2 of the Company's Articles of Association). If a required member of the Management Board is absent, in urgent cases the court is to appoint a member (§ 85 para. 1 sent. 1 AktG) upon the request of an involved party. The Supervisory Board may revoke the appointment of a Management Board member as well as the nomination for Chief Executive Officer for good cause (cf. particularly § 84 para. 3 sent. 1 and 2 AktG).

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

AUTHORISATION OF THE MANAGEMENT BOARD TO ISSUE OR REPURCHASE SHARES

According to § 4 of the Company's Articles of Association, with the consent of the Supervisory Board, the Management Board has the authorisation to increase the Company's share capital on one or several occasions 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 no-par value bearer shares in exchange for contributions in cash and/or in kind until and including 28 February 2016 (Authorised Capital 2011). With the consent of the Supervisory Board, the Management Board is authorised to determine the further details of capital increases from the Authorised Capital 2011 as well as their execution. The profit entitlement of the new shares may be determined other than in the manner described in § 60 para. 2 AktG, which states that, in principle, shares issued in the course of the year are only entitled to a pro rata dividend for the fiscal year of issue. Alternatively, shares issued in the course of the year may be granted with a full entitlement to profits, or rather, with the profit entitlement granted as of the beginning of the following year. Generally, when issuing new shares, shareholders are entitled to a statutory subscription right which is in proportion to their interest in the share capital. Nevertheless, with the consent of the Supervisory Board, the Management Board has the authorisation to wholly or partially exclude the subscription rights in specific cases. These cases are explained in more detail in Authorised Capital 2011.

By resolution of the extraordinary Annual General Meeting of 14 June 2011, the Management Board was given authorisation to issue bearer and/or registered convertible bonds, bonds with warrants, participation rights and/or profit participation bonds (and combinations of these instruments), on one or several occasions, for a total nominal amount of € 125,000,000.00 (in words: one hundred and twenty-five million euros) with or without limited maturity. The Management Board also received authorisation to grant or to impose upon the holders or creditors of bonds, conversion rights or option rights for no-par value bearer shares of the Company with a pro rata amount of the 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 terms and conditions of the bond.

The bonds are to be issued in exchange for cash payment. To the extent that the raising of funds serves the Group's financing interests, the bonds may also be issued by entities controlled by the Company, or those in which the Company has a majority interest. In this case, with the consent of the Supervisory Board, the Management Board is authorised to assume the guarantee for the bonds, give other declarations, and take the actions required to make the issue successful, as well as to grant no-par value bearer shares of the Company to holders of conversion and option rights. In principle, shareholders are entitled to a statutory subscription right to the aforementioned bonds in proportion to their interest in the share capital. However, with the consent of the Supervisory Board, the Management Board is authorised to exclude the shareholder's subscription right, in whole or in part, in specific cases which are explained in more detail in the resolution of the Annual General Meeting. The extraordinary Annual General Meeting of 14 June 2011 has created contingent capital amounting to € 2,925,550.00 (Contingent Capital 2011) to serve the aforementioned conversion and option rights and conversion obligations of the Company.

By resolution of the extraordinary Annual General Meeting of 14 June 2011, and according to § 71 para. 1 No. 8 AktG, with the consent of the Supervisory Board, SHW AG is also authorised to purchase treasury shares of the Company with a notional amount of up to 10 percent of the Company's share capital existing at the time of the authorisation until 13 June 2016. Shares repurchased under this authorisation, together with other treasury shares purchased and still possessed by the Company, may not exceed more than 10 percent of the share capital at any time. A purchase may 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 may be reissued or cancelled without requiring a further resolution of the Annual General Meeting. Upon consent of the Supervisory Board, the Management Board is authorised to exclude shareholder subscription rights, in whole or in part, when reissuing treasury shares in the specific cases which are explained in more detail in the Annual General Meeting's resolution. According to the resolution of the extraordinary Annual General Meeting of 14 June 2011, in addition to the aforementioned authorisation to purchase treasury shares in accordance with § 71 para. 1 No. 8 AktG, and in addition to the methods described, it is also permissible to purchase shares of the Company through the use of derivatives.

For this purpose, with the Supervisory Board's consent, the Management Board has the authorisation to sell options which, when exercised, oblige the Company to purchase Company shares (put options). Furthermore, with the consent of the Supervisory Board, the Management Board is authorised to purchase options which grant the Company the right to purchase the Company's shares upon exercising the option (call options) as well to purchase shares using put options, call options, and/or a combination of the two. Share purchases using put options, call options, or a combination of the two 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 so that when exercising the option, the subsequent purchase of Company shares does not occur after 13 June 2016.

MATERIAL COMPANY AGREEMENTS SUBJECT TO A CHANGE OF CONTROL RESULTING FROM A TAKEOVER BID

A syndicated loan agreement dated 25 October 2012 was concluded with a line of credit for a total of € 60.0 million under the lead of UniCredit Bank AG. Commerzbank AG, Kreissparkasse Ostalb, SEB AG, and BW Bank are also members of the consortium. This agreement has a term of five years and runs until 30 September 2017. As part this syndicated loan agreement, an amount of up to € 30.0 million may also be used for acquisitions. The value of the working capital facility amounted to € 0.9 million as at 31 December 2013. At the end of the year, this line was utilized in addition by guarantees amounting € 1.1 million. The credit agreement may be terminated prematurely by the banks if a third party directly or indirectly acquires or holds more than 50 percent of the shares or the voting rights of SHW AG. The definition of third parties for the purpose of this regulation is any purchaser who is neither SHW Holding L.P. nor an affiliated company.

Agreements with SHW Group customers for the development and supply of SHW products were all concluded between Schwäbischen Hüttenwerke Automotive GmbH, a wholly-owned indirect subsidiary of SHW AG, and the respective customers. The latter are entitled to terminate the agreements in accordance with standard market regulations if the shareholder structure of Schwäbischen Hüttenwerke Automotive GmbH changes and thereby affects customer interests. Additionally, Structured Lease GmbH has an extraordinary right to terminate lease agreements which were entered into between Schwäbischen Hüttenwerke Automotive GmbH and Structured Lease GmbH as part of "sale and lease back" transactions if the shareholder structure of Schwäbischen Hüttenwerke Automotive GmbH changes and in turn causes or threatens to cause a deterioration in the financial situation of Schwäbischen Hüttenwerke Automotive GmbH. In cases of a premature cessation of lease agreements due to extraordinary termination, Schwäbischen Hüttenwerke Automotive GmbH must ensure the amortisation of Structured Lease GmbH (especially through the payment of all outstanding leasing instalments, a calculated residual value, and a possible early repayment penalty) and immediately return the leased assets to Structured Lease GmbH. SHW AG (formerly: Schwäbischen Hüttenwerke Beteiligungs GmbH) and Schwäbischen Hüttenwerke Zweite Beteiligungs GmbH have each accepted joint liability. The corresponding agreement for the assumption of joint liability, however, was concluded at the end of 31 December 2013.

Company indemnification agreements concluded with Management Board members and employees in the event of a takeover bid

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

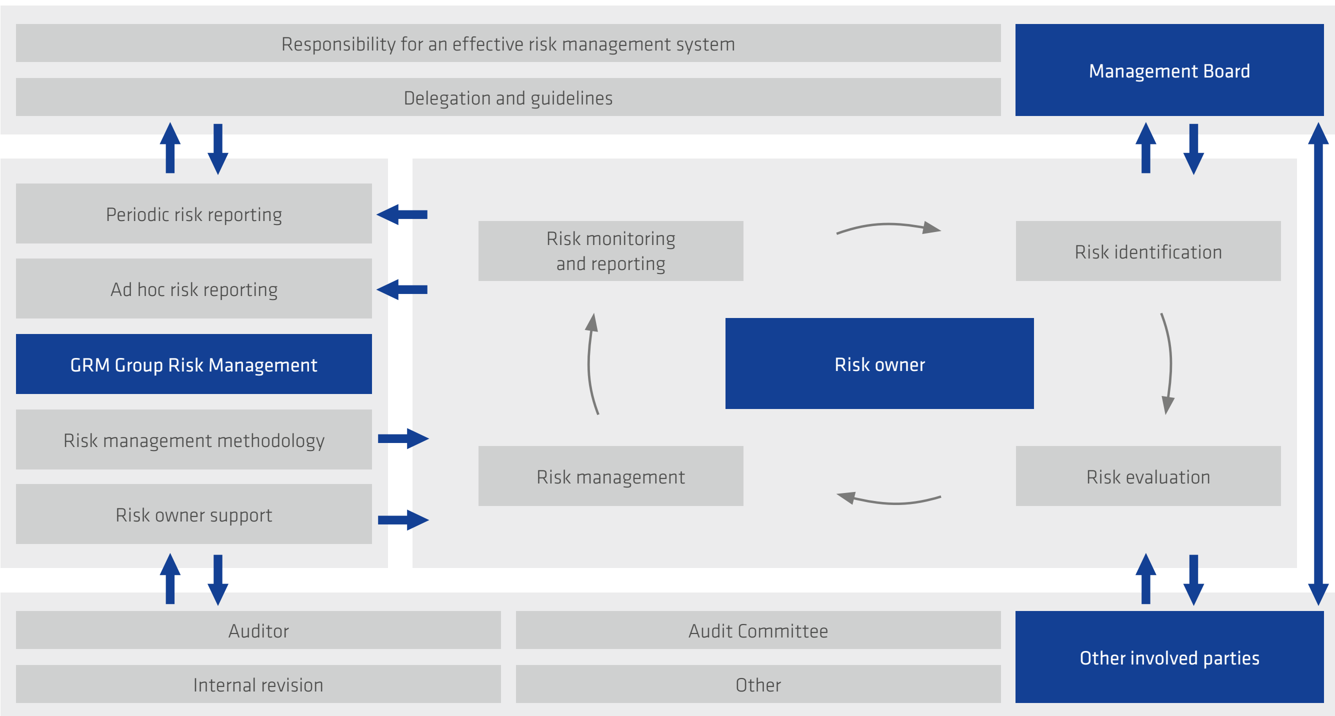
RISK REPORT

PRINCIPLES OF RISK MANAGEMENT

In the course of its business activities, the SHW Group encounters numerous risks and opportunities which can have a positive or also negative impact on the results of operations, net assets, and financial positions.

We consider risk to mean possible future developments or events which could lead to a negative forecast for the Company or cause the Company's results to deviate from the targets. In this risk report, we have divided the most important risks into three main categories: strategic and operational risks, risks relating to the compliance with standards, and financial risks.

THE RISK MANAGEMENT PROCESS



RISK MANAGEMENT ORGANISATION

The Management Board of SHW AG is responsible for risk management and for de-termining the principles of risk management. It decides how to deal with risks and de-termines the extent of risk to be borne by SHW.

The Management Board regularly reports to the Supervisory Board with regard to the key risks of the Company and on issues of 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 reviews the plausibility and completeness of reported risks. He is also responsible for the risk management system's ongoing improvement. The Group risk manager reports directly to the Management Board.

On the business segment and plant level, there are so-called risk officers – typically managers below the Management Board level – who are responsible for the management and monitoring of individual risks.

To achieve the most effective risk management possible, we have implemented an integrated risk management system within which risks are identified, assessed, controlled, monitored, and systematically reported. Our key objective in doing this is to safeguard the Company's value and increase it further.

GENERAL RISK MANAGEMENT PROCESS

SHW's risk management process is comprised of four steps:

- risk identification and risk recognition
- risk assessment
- risk management
- risk monitoring and risk reporting

Risk identification and risk recognition

To ensure that risks are recognised as comprehensively as possible, we have defined Group-wide risk categories and risk areas and the persons responsible for the identification of risks (risk officers).

Risk officers must identify the risks relevant to SHW four times annually and also document these risks by means of a risk recording sheet. Material changes to risks, which are identified in the course of the year, are communicated to the Management Board via established reporting channels.

Risk assessment

The assessment of risks is carried out by the risk officer also by using the risk recording sheet. Gross and net expected values are derived for each individual risk. The first value represents the expected financial impact on earnings before interest and taxes (EBIT) before any risk-reducing measures are taken and is multiplied by the expected probability of occurrence. The second value represents the expected financial impact following the implementation of risk-reducing measures. This amount is then multiplied by the expected probability of occurrence.

Risk management

Risk officers are responsible for the development and implementation of measures designed to reduce risk in their own area of responsibility. The decision on the implementation of risk reduction measures is either made by the risk officer, in coordination with the Management Board, or by the Management Board. Four different approaches are used:

- risk avoidance
- risk reduction with the aim of minimising the financial impact or the likelihood of occurrence
- risk transfer to a third party
- risk acceptance

Risk monitoring and risk reporting

Each risk officer must observe the ongoing and potential risks in his/her area of responsibility in order to be able to respond quickly if necessary. Risk reporting comprises:

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

Group guidelines on risk management and the instruments used for control are reviewed and refined at regular intervals.

Internal control and risk management system with regard to the Group accounting process – information pursuant to § 289 para. 5 and § 315 para. 2 no. 5 HGB with explanations

According to § 289 para. 5 and § 315 para. 2 no. 5 HGB, SHW AG is obliged to describe the key characteristics of the internal control and risk management system in the management report and the Group management report, particularly with regard to the accounting and Group accounting processes. In addition to the prescribed by the law, the following section also includes the relevant explanations in this regard, pursuant to § 175 para. 2 sent. 1 AktG.

The internal control and risk management system related to accounting shall ensure that all events and transactions are recognised in the financial accounting in their entirety are correctly estimated and evaluated, and are presented in the financial reporting of SHW AG and its subsidiaries in compliance with the statutory and contractual requirements and internal guidelines. This requires Group-wide compliance with statutory and internal Company guidelines.

The Management Board shapes the scope and focus of the systems implemented in accordance with the specific requirements of SHW AG. These are reviewed regularly and updated if necessary. However, it should be noted that despite appropriate and functional systems, full assurance of the identification and management of risks cannot be guaranteed.

The accounting processes within the SHW Group are almost completely centralised at its headquarters in Aalen. This facilitates the use of standardised and uniform processes and the use of standardised systems in financial accounting.

The accounting department prepares the consolidated financial statements for the SHW Group as well as the financial statements for all Group companies with the exception of the financial statements of SHW do Brasil, which are prepared in Brazil, and reports consolidated financial information to the Management Board on a monthly basis. More complex issues, which have an impact on accounting, are evaluated with the support of external advisers, when necessary. In addition, the four-eye principle is applied to all accounting processes.

The controlling department routinely reviews the completeness and accuracy of the information contained in the financial statements and well as possible deviations from the business plan. These results are reported to the Management Board by means of a standardised report on a monthly basis.

SHW AG already possesses an adequate system of various internal guidelines which covers compliance issues, authorisation concepts for orders and the conclusion of contracts, as well as signatory powers and internal accounting guidelines.

The internal accounting guidelines contain control systems such as a Group-wide unified reporting system for consolidation purposes which is aimed at ensuring uniform financial statements within the SHW Group. These guidelines are continually updated. As part of its monitoring activities, the Supervisory Board is also regularly involved in major issues pertaining to the accounting and to the hereto associated internal control and risk management systems.

STRATEGIC AND OPERATIONAL RISKS

Economic and industry risks

As a supplier to the automotive industry, the business development of the SHW Group is directly and substantially dependent upon the production of new vehicles. The industry experts of PwC Autofacts currently expect further growth in the global production of light vehicles in the year 2014 (see Industry and Macroeconomic Outlook on page 69) The highest growth is expected to be seen in the emerging markets in the Asia Pacific region (including China).

After the sale of a 50 percent interest in STT Technologies Inc., Canada in October 2012, the SHW Group is dependent even more on vehicle and engine production in Europe and on the export activities of its customers to North America and China. In particular a renewed escalation of the sovereign debt crisis could have a negative impact on the purchasing behaviour of consumers and consequently affect the growth prospects of the SHW Group. In addition, various automotive manufacturers intend to significantly expand their vehicle and engine production, especially in countries like China and Brazil, as well as in the USA/Mexico. In both cases, there is the risk that the installed production capacity at SHW's German locations would not be properly utilised.

To reduce this risk, the Company is stressing the establishment and expansion of its pump and engine components business in Brazil, North America and China.

Nevertheless, the SHW Group is prepared for a sudden drop in vehicle production similar to that seen in 2009. As was successfully practised in the years 2008 and 2009, the Company would respond though appropriate measures for cost adaptation along the entire value chain in order to secure the financial and earnings position of the Group.

In summary, we can say that, given the present state of knowledge, a significant decline in passenger car sales in Europe and a corresponding drop in production figures is unlikely in 2014.

Risks resulting from alternative drive technologies

SHW's customers are confronted with ever more challenging CO_2 limits for their vehicle fleets. The trend is moving in the direction of increasingly more powerful engines, which are simultaneously more fuel efficient and emit fewer emissions, and is also going toward hybrid and electric vehicles. As a result, SHW's future success depends mainly on its ability to develop new and improved CO_2-relevant vehicle components for all drive technologies and bring them to market on a timely basis.

The SHW Group has recognised the future importance of hybrid vehicles early on and in 2008, delivered the electric auxiliary pump for the first European hybrid vehicle. This technology is now finding wide application in the start-stop function of vehicles with automatic transmissions.

Industry consolidation and competitive risks

The SHW Group is faced with risk from the continued industry consolidation in the area of engine and transmission components. As a result of the acquisition in October 2012 of the German ixetic GmbH by Magna Powertrain, a financially strong competitor with a broad product portfolio emerged in Europe. A perpetually intense competitive environment in Europe – currently SHW's most important vehicle market – can jeopardise capital-efficient growth.

To reduce this risk, SHW intends to establish a broader foothold both regionally and in terms of products. In this regard, acquisitions are considered.

Risks upon entering new markets

SHW plans to further advance the internationalisation of its business activities with its wholly-owned subsidiaries in Brazil, North America, and China. In doing so, SHW expects to be exposed to a number of risks. For one, there is the risk that the Company will not, or only insufficiently, be considered for new projects. Second, the start-up costs can differ from the budgeted figures both in terms of time as well as amount.

In order to limit the associated risks, we only make capital expenditures or employ specialised personnel when a concrete order has been received.

Risks from new product launches

SHW is exposed to risks associated with new product launches. There is a risk that delays, quality problems, or increased start-up costs will occur and that the budgeted production costs will be exceeded.

To keep these risks under control, a close cooperation and coordination between the relevant SHW departments (especially those of production, purchasing, sales, quality assurance, and development) and the relevant departments of the customers and suppliers takes place in the start-up phase.

Customer risks

Customer risks arise from the dependence of SHW on key customers (key accounts), which are in a position to use their bargaining power. This could lead to considerable pressure on margins. These risks arise not only from the relative size of our major customers, but also from the relatively limited ability to influence their business.

In the past financial year, the SHW Group generated more than 10 percent of Group sales with three customers. In the prior year, three customers also accounted for more than 10 percent of Group sales based on like-for-like Group sales. The share of sales generated by the SHW's largest customers increased from 38.2 percent to 39.7 percent. To minimise these risks, SHW strives to ensure a balanced distribution of sales per customer. In this respect, not only is the acquisition of new customers on the agenda, but also the development of new markets (North and South America, China) and application areas, as well as acquisitions.

In summary, we can state that with our present state of knowledge – based on the existing, predominantly long-running orders and our longstanding client relationships – either a complete loss or partial loss of one of the main customers is unlikely in the next few years. This is particularly true since SHW provides a large number of various products for a variety of engines, transmissions, and vehicle types for each individual customer.

Risks of rising input costs

To produce pumps and engine components as well as brake discs, the SHW Group obtains iron scrap, raw aluminium, aluminium and steel powder, and coke from raw material suppliers. Historically, iron, aluminium, and coke prices have been subject to sharp price fluctuations. In many instances, the SHW Group has agreements with the automotive manufacturers it supplies in which the selling prices of products are adjusted to the short- and medium-term fluctuations in commodity prices for raw aluminium, aluminium powder, steel powder, and iron scrap on a monthly, quarterly, or half-yearly basis. In these cases, so-called “material surcharges” are imposed to the automotive manufacturers we supply in addition to the selling prices agreed on by the SHW Group. To deal with the price fluctuation of coke, SHW and a number of customers have made agreements on an energy surcharge, which is renegotiated periodically and adjusted to price level changes.

Next to cost of materials, personnel costs represent the second-largest cost block within the SHW Group. If the increases in salaries in the forthcoming collective bargaining negotiations are significantly higher than the productivity gains, this could weaken the relative competitiveness of SHW AG and have a negative impact on the achievement of its earnings targets.

If in the near term, contrary to our expectations, the scheduled call volumes of our customers are scaled back significantly and result in deviations to our sales budget; this would then cause an increase in our personnel cost ratio and to a certain extent result in a negative impact on earnings.

In order to be able to respond flexibly to peaks in demand, SHW uses the option of employing fixed-term contract workers and temporary employees in the context of capacity management. Overall, a further rise in labour costs represents a significant risk factor for the profitability of the SHW Group, which will need to be offset with efficiency measures – especially in the production area. The planned sales increases combined with a proportionally lower increase in the number of employees, should keep any increases in the personnel expense ratio within limits.

Risks related to EEG apportionment

On 18 December 2013, the European Commission initiated a formal investigation to determine whether the partial exemption from a levy on the promotion of renewable energies (so-called “EEG apportionment”) granted to electricity-intensive companies in Germany is consistent with the EU state aid rules currently in force and, if necessary, would need to be repaid retroactively. The German federal government assumes that the Renewable Energies Act (EEG) itself and the relief provisions contained in the EEG for electricity-intensive companies offer no aid within the meaning of Article 107 TFEU (Treaty on the Functioning of the European Union) and considers this view to be confirmed by the supreme court (the “PreussenElektra” judgement) of the European Court of Justice. SHW shares the view of the German federal government and therefore forgoes the recognition of a provision.

Supplier risks

The SHW Group is reliant on its suppliers for the timely delivery of raw materials and for the components necessary for production. A delayed delivery would have a significant effect on the SHW Group's business operations.

SHW has maintained long-term relationships with the majority of its suppliers. SHW contends with the potential risks arising from delayed deliveries or the loss of key suppliers with regular on-site reviews, which include an assessment of creditworthiness. At the same time, SHW maintains close contacts and business relationships with alternative suppliers worldwide for essential purchased items.

Through the use of a modern enterprise resource planning system, the SHW Group has created the conditions required for ensuring that the necessary materials are available on time and in sufficient quantity. In order to improve the supply chain even further, there has been a new logistics centre available at the location in Bad Schussenried since the spring of 2013.

IT risks

On 1 January 2013, the SHW Group introduced SAP as its new ERP enterprise software at all of its German locations. After the SAP-Go-Live, additional expenses for consultant support, overtime, rush transports, and external processing orders occurred in the first quarter of 2013. Following a full stock taking at all locations, the still somewhat unsatisfactory booking consistency resulted in inventory differences in the fourth quarter. Throughout the entire last year, intensive training measures were implemented and will continue in the current fiscal year as needed. Overall, the Company sees a low likelihood of further charges.

RISKS RELATED TO COMPLIANCE WITH STANDARDS

Risks in cases of faulty products (product liability)

Despite extensive quality control, components produced by the SHW Group may still turn out to have defects. Defective products can also cause damage to the end customers of the automotive manufacturers, which can lead to damages and product liability claims also from their end customers.

Defective or potentially defective products may also force the SHW Group to be required to carry out so-called "recalls", or alternatively, the Group's customers may be required to carry out these types of measures.

To prevent and reduce these risks, appropriate quality assurance systems are set up. Against claims for damages due to defective products, the SHW Group is insured to the extent customary in the market taking into account an appropriate deductible. Accruals are recognised when an actual claim becomes predominantly probable.

Environmental risks

The SHW Group's facilities are subject to a variety of environmental regulations which stipulate the emission limits and standards for the treatment, storage, and disposal of waste and hazardous materials. The Group's foundry at the Tuttlingen-Ludwigstal location is especially subject to a number of such environmental regulations. In 2013, the reference values for noise emissions were further tightened at this location through regulatory requirements and regulatory monitoring due to new legal provisions. Compliance with these environmental regulations and compliance with the constraints under the authorisations required for operation create operating costs and require sequential investments. Failure to comply with environmental regulations may result in civil, criminal or public law consequences, especially fines and claims for damages due to property damage or personal injury, or in temporary or permanent suspension of operations.

FINANCIAL RISKS

Risks of default

During calendar year 2013, the continued growth momentum in the international vehicle markets resulted in a renewed improvement of profitability of the SHW Group's globally active customers. Customers with a strong dependence on the southern countries of the European Union experienced a sequential improvement in operating earnings. There was no further increase in the risk of default with these customers. When required, payment terms and debt limits are adjusted and monitored regularly. On the supplier side, the economic situation on average has not seen much of an improvement. As a result of our multi-supplier strategy, we currently see little risk of having to offer financial support to any of our suppliers.

Currency risks

Currently, the SHW Group does not incur any serious currency risks since nearly all costs and sales are predominantly invoiced in euro in virtually all input factor and product markets. With the initiation of deliveries to customers in Brazil at the end of the first quarter or, respectively, at the start of the second quarter of 2014, no transaction risks for the Group will arise since sales and costs are incurred in local currency. Initially, translation risks will mainly arise from the exchange rate of the euro against the Brazilian real.

Financing risks

With an equity ratio of 44.1 percent and net financial liabilities of € 2.9 million as at 31 December 2013, as well as sufficient available credit lines, the SHW Group's financial profile can be described as being very solid.

For a refinancing loan, there is a loan agreement for € 60 million with a term until 30 September 2017 between a number of companies in the SHW Group and various banks. Up to € 30 million of this amount can be used for corporate acquisitions. As part of this credit agreement, the companies of the SHW Group have pledged to comply with certain corporate ratios ("financial covenants"). In fiscal year 2013, the Company complied with the target values of both ratios – the economic equity ratio and the leverage ratio.

The SHW Group may also draw on other debt and equity instruments. Overall, the financing of the Group's planned organic growth and growth through acquisitions is secured.

Interest rate risks

Changes in market interest rates affect future interest payments on floating rate liabilities. Therefore, significant interest rate increases could affect the profitability, liquidity, and financial position of the SHW Group.

In order to reduce the interest rate risk and assure financial flexibility, SHW aims to continue to finance investments largely from its cash flow from operating activities. In 2013, the interest rates in the eurozone remained on a very low level. The European Central Bank has announced plans to proceed with this low interest rate policy. Therefore, we do not expect any meaningful increases in interest rates in the near future.

Impairment risks (goodwill impairment)

A portion of the SHW Group assets consists of intangible assets, including goodwill. As at 31 December 2013, the Group's goodwill, which was reported in the balance sheet, amounted to € 7.1 million. Of this amount, € 4.2 million was attributable to the Pumps and Engine Components business segment and € 2.8 million was attributable to the Brake Discs business segment. The goodwill impairment test as at 31 December 2013 was based on the planning for the years 2014 – 2017 and took into account assumptions on the future development.

Although the goodwill on 31 December 2013 was assessed as recoverable, it cannot be ruled out that impairment may be required at a future reporting date.

No additional major risks occurred in the reporting year compared to fiscal year 2012.

Key risks in fiscal year 2014

We see the key risks in the current financial year as being related to the subjects of new product ramp-ups, product liability, suppliers, and EEG apportionment.

Risk categorie	Probability of occurrence	Expected value (net)
New product launches	< 30 percent	< € 1 m
Product liability risks	< 30 percent	< € 1 m
Supplier risks	< 30 percent	< € 1 m
EEG apportionment	< 30 percent	< € 5 m

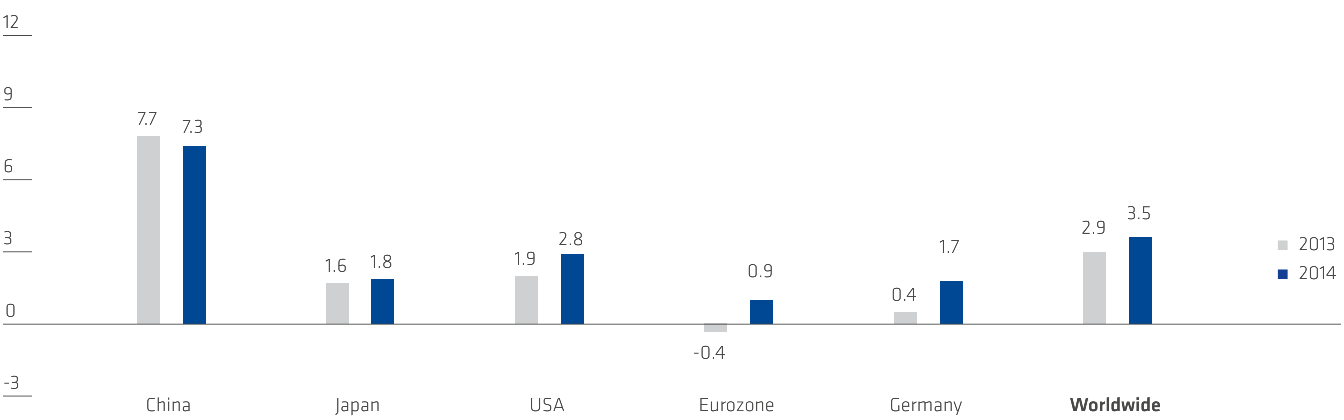
OVERALL RISK ASSESSMENT

From today's perspective, we judge the overall risk position of the Group to be well manageable. We have not identified any risks which could permanently weaken the results of operations, net assets, and financial situation either individually or in conjunction with other risks. Risks that could jeopardise the continued existence of the Group are also not apparent.

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Since the beginning of the 2014 fiscal year, there have been no material changes in the Company's circumstances, the Group's circumstances, or in the industry environment.

GDP GROWTH BY REGION in %



Source: Global Insight, Commerzbank Research

OUTLOOK AND OPPORTUNITIES REPORT

INDUSTRY AND MACROECONOMIC OUTLOOK

The global economy picks up momentum

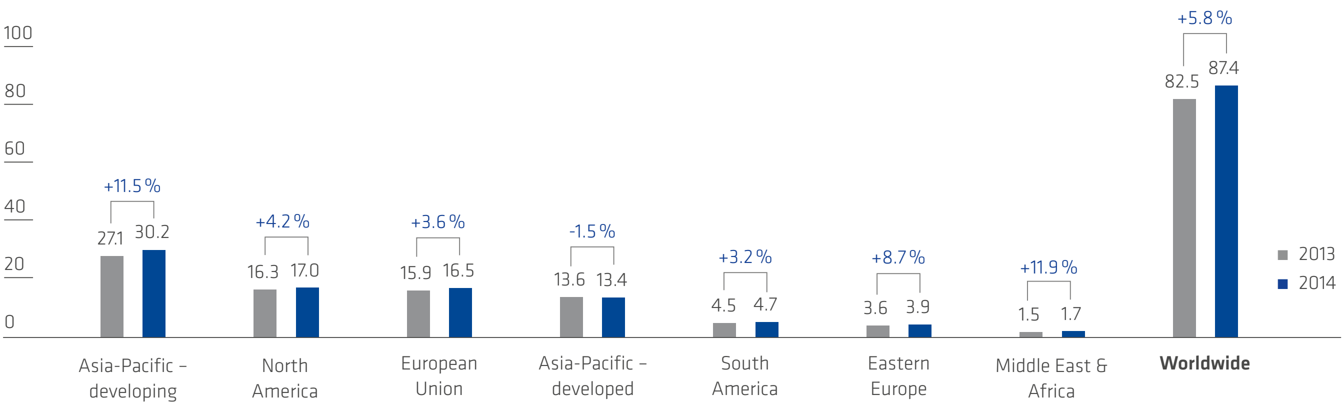
After three years of declining growth rates and with the decreasing uncertainty related to the sovereign debt crisis, the breeding ground for a stronger recovery in the global economy in 2014 has been created. In contrast to previous years, the economists at Commerzbank believe that growth will be mainly driven by the economic recovery in the so-called "advanced economies", while the pace of expansion, although still high, will continue to slow down in the emerging and developing countries in the current year. In this regard the slowing pace of growth in China is having the highest impact.

According to the economists at Commerzbank, the eurozone will experience a recovery in economic performance in the current year, but a strong upturn is still not in sight. The economic experts expect (status: 18 February 2014) an increase of 0.9 percent for the year on average, whereby the economic outlook is clouded by economic problems in Italy and France. In both countries, the above-average rise in unit labour costs is increasingly causing these countries to lose price competitiveness. In contrast, Ireland, Spain, and Portugal have been able to significantly improve their competitiveness since the outbreak of the global financial crisis, due to a strong decline in unit labour costs, and are now back on a growth path.

For the German economy, the analysts at Commerzbank expect annual average GDP growth of 1.7 percent (previous year: 0.4 percent). The growth drivers are rising capital expenditures and exports.

In the USA, the overall positive environment is expected to be reflected in an acceleration in growth to 2.8 percent (previous year: 1.9 percent). The debt burdens of private households have dropped significantly, and the real estate sector seems to have overcome its crisis. The biggest economic risk remains the huge budget deficit with the concept of a debt limit for the U.S. federal budget.

LIGHT VEHICLE-PRODUCTION BY REGION — in million units



Source: PwC Autofacts January 2014

For China, the economic experts at Commerzbank expect growth in economic output to reach only 7.3 percent in 2014 (previous year: 7.7 percent). The economic reforms agreed in November 2013 which, among others, provide for the convertibility and flexibility of the Renminbi and restrictions on land sales by local authorities to provide budget financing, have a particularly stagnating effect. Moreover, the initiated structural transformation from heavy industry to the services and consumer goods sector, as well as the imbalances in the Chinese financial sector will all dampen the growth of the Chinese economy.

Despite existing risks, the economic outlook and rising disposable incomes in many emerging markets provide a solid basis for an upturn in the global automotive business in 2014.

China and USA drive global vehicle production growth

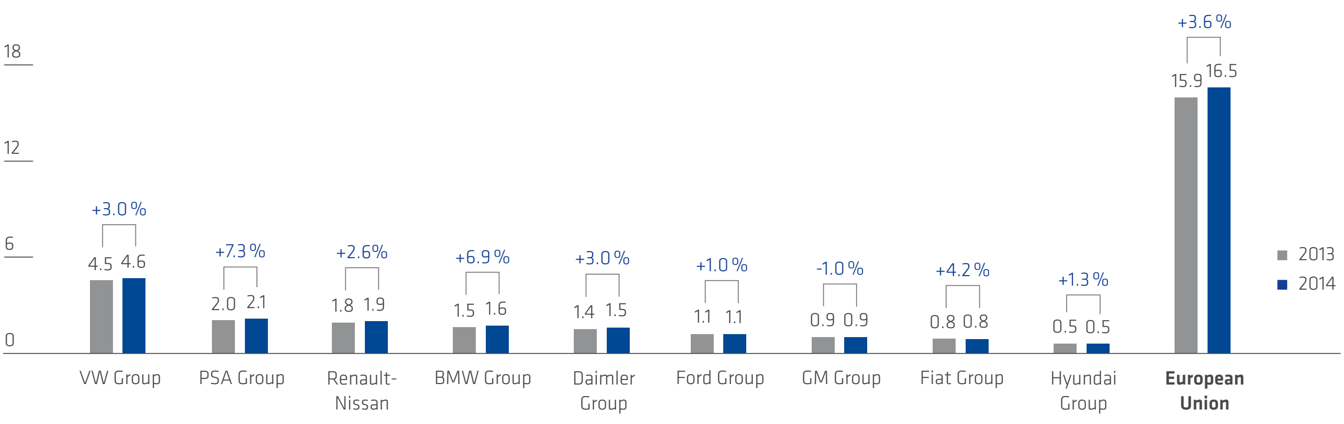
Industry experts from PwC Autofacts expect 2014 to see an increase in global light vehicle production (vehicles < 6 t) of 5.8 percent to 87.4 million vehicles. This growth should be supported by production growth in the emerging countries of the Asia Pacific region, with China providing the lion's share. In North America and South America, the production numbers will continue to stabilise after the strong increase experienced in the previous year. With the economic stabilisation in the eurozone and an improvement in consumer confidence, the stage has been set a relatively good year for the European vehicle manufacturers with an expected 3.6 percent increase in 2014.

For the production location of Germany, PwC automotive experts forecast a minimal 1.3 percent increase in production volume to about 5.75 million units for 2014. The introduction of new products should enable SHW to grow faster than the underlying vehicle market also in 2014.

GROUP OUTLOOK

In this past fiscal year, we have achieved our sales and earnings targets despite the persistently challenging market environment in Europe. We are well on our way to continue ahead on our sustained growth path in the coming year.

LIGHT VEHICLE-PRODUCTION EUROPE BY OEM — in million units



Source: PwC Autofacts January 2014

Sales growth projected in the mid to high single-digit percent range

Assuming a continued stable order situation, SHW AG expects Group sales in fiscal year 2014 to be in the range of € 380 million to € 400 million. Further planned product ramp-ups and a shift in the product mix towards more complex pumps should lead to sales in the Pumps and Engine Components business segment of between € 287 million and € 305 million. In the Brake Discs business segment, the target is to further increase the share of processed discs and higher value composite brake discs and thus achieve sales in the order of € 93 million to € 95 million.

EBITDA to improve in the course of further sales growth

The Management Board's focus in fiscal year 2014 will be primarily on acquiring new orders, optimising logistical and operational business processes at all locations, and also establishing and expanding of business in Brazil, China, and North America. In achieving the planned sales growth, the Company expects to reach adjusted Group earnings before interest, taxes, depreciation and amortisation (adjusted EBITDA) in the order of € 38 million to € 40 million in 2014.

Targeted working capital ratio of sustainable 11 percent

Another topic of focus in fiscal year 2014 for the Management Board will be the optimisation of working capital. The aim is to achieve a sustainable working capital ratio, i.e., the ratio of working capital to sales, of 11 percent.

A high level of investment in 2014, depreciation and amortisation will rise significantly

Based on a high number of new product ramp-ups and increased replacement investments at the Aalen-Wasseralfingen location, the Company plans to carry out investments in tangible assets in the range of € 25 million to € 29 million in the 2014 fiscal year.

The high level of investments in the period of 2011 to 2014 will be reflected in significantly higher depreciation and amortisation.

Dividend policy: payout ratio of 30 to 40 percent

The SHW Group pursues a sustainable, resultsoriented dividend policy. The Company plans to continue to pay 30 percent to 40 percent of net income for the year as dividends to the Company's shareholders also in the future while at the same time taking into account any legal restrictions and financing requirements of the SHW Group. This will allow shareholders to participate accordingly in the Company's success.

OPPORTUNITIES

Principles for managing opportunities

We consider the term "opportunities" to mean possible future developments or events that could lead to a positive forecast for the Company or the chance to exceed the existing targets. Our opportunity management is essentially formed on the basis of the goals and strategies of the two business segments of Pumps and Engine Components as well as Brake Discs. Direct responsibility for the early and regular identification and analysis of opportunities rests with the operational management of the business segments. Opportunity management is an integral part of the Group-wide planning and control systems at SHW. In this context, a thorough examination takes place on the subjects of markets and competition, relevant cost items, and key success factors. This leads to the formation and definition of concrete business segment-specific targets.

An important role in opportunity management is played by the development and sales departments. They are constantly searching for ways to optimise the existing pumps, engine components, and brake discs as well as for new applications and market opportunities. Opportunities also often arise through product innovation which results during the development of new, more efficient and lower emission engine generations. This is the reason SHW strives to become involved in the vehicle manufacturer's development process as early as possible.

Group-wide opportunities

Considerable effort will be required to achieve the 2021 emission targets

In recent years, manufacturers of passenger cars have partially made some significant progress in the direction of meeting the CO_2 limit of 130 g/km which is set for the year 2015.

Nevertheless, further significant efforts will be necessary in order to reach the 2021 emission target of 95 g/km set by the European Commission.

The automotive industry has several means available to achieve this target value. Efforts will be focused on optimising the traditional combustion engines and reducing vehicle weight. In addition, significant funds will be invested in the development of hybrid and electric vehicles.

SHW AG with its pumps, engine components, and brake discs makes a significant contribution to reducing fuel consumption and, in turn, to lowering CO_2 emissions. With SHW's core products – camshaft phasers, variable oil pumps, and electric auxiliary pumps for start-stop systems – the Company succeeds in reducing CO_2 emissions by more than 10 percent.

With its composite brake discs, the Brake Discs business segment also makes a contribution to reducing CO_2 emissions. Here the weight savings amounts to 2 kg per brake disc, or 8 kg per vehicle.

Based on its innovative product portfolio and existing orders, SHW is well positioned to continue growing faster than the underlying vehicle market in the future.

Opportunities in the business segments

For the period of 2013–2018, the industry experts at PwC Autofacts expect the production of light vehicles in the emerging countries of the Asia Pacific region (including China) and in South America to achieve an average annual growth rate (CAGR) of 8.3 percent and 6.3 percent, respectively. To participate in this expected growth, SHW has established two wholly-owned subsidiaries for the production of oil pumps in China and Brazil. In Brazil, the first deliveries to customers will commence at the end of the first quarter or, respectively, beginning of the second quarter. At the same time, SHW is working on its reentry into the North American market. After founding the Canadian subsidiary, SHW Pumps & Engine Components Inc., Toronto, Ontario, on 17 October 2013, a lease contract has since been signed for a building in Brampton, Ontario which will serve as a development centre (including performance and endurance test rigs) and as an office building starting in April 2014. This building also provides enough space in order to start the first smaller series productions.

Within the next six months, preliminary investigation will be completed upon which a decision will be based regarding the future manufacturing site for large-scale production. As potential sites, we are considering the southern United States and Mexico in particular. Both target regions provide a solid infrastructure, relatively low wages, and investment subsidies. By the year 2018, SHW wants to achieve sales of € 100 million in North and South America.

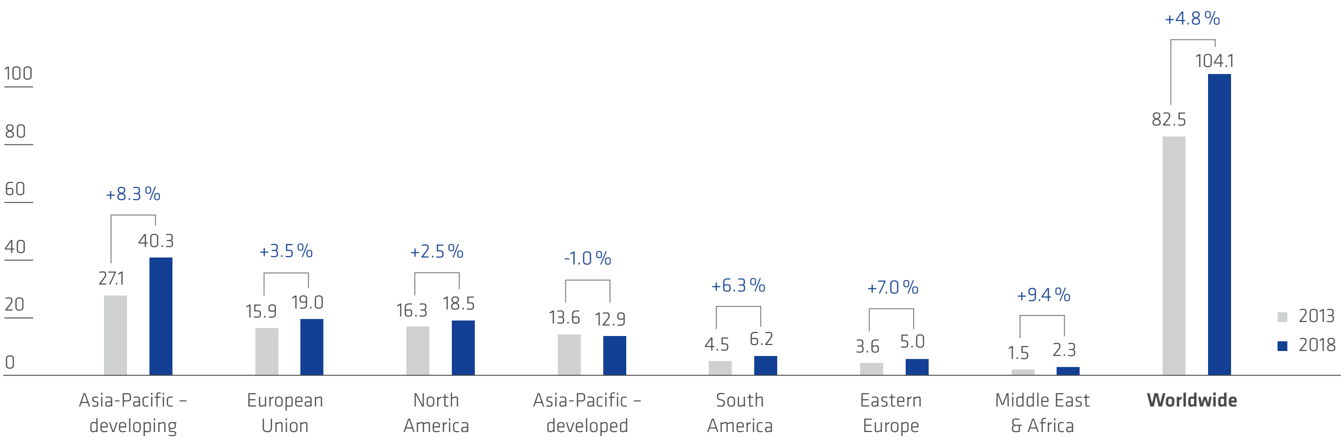
In China, the Company is in final negotiations with renowned European engine manufacturer for Truck & Off-Highway applications for an engine and oil pump order (multi-year contract) for the Chinese location. This would mean that by mid-2015, the first pumps will be produced and delivered in China. In addition, we are also planning to meet the European needs of this customer through our operations in China. In total, this order should allow SHW to achieve a sales volume of approximately € 7 million per year from 2017/2018. By the year 2018, SHW is targeting sales of € 100 million also in the Asia Pacific region.

With an equity ratio of 44.1 percent and a net debt ratio (net debt/EBITDA) of 0.08, SHW has a very solid financial profile. For current operations, the Company has a syndicated loan of € 60 million at its disposal until September 2017. For any acquisitions, SHW can draw on a variety of different debt and equity instruments.

In the field of water circulation and coolant pumps there is a breakthrough of variable water pumps currently emerging which is similar to the development seen in engine lubricating oil pumps. Unlike conventional pumps, which are usually designed for maximum requirements (high load and speed at high temperatures), the variable pumps are designed in such a way that the coolant flow is always exactly equal to the current demand. SHW is working on concepts for the switchable coolant car pump and sees a good chance of establishing itself in this attractive market segment.

In the field of composite brake discs, SHW is a technological leader and the market leader by far. Next year, SHW will begin delivering the first composite brake discs as part of a large series order from a renowned German automotive manufacturer. With further automation of the production process, the Company is aiming for a significant reduction in production costs so that it may also be in a position to submit competitive bids for vehicles in the upper-middle and middle class segments in the future.

LIGHT VEHICLE-PRODUCTION 2013–2018 (CAGR) in million units



Source: PwC Autofacts January 2014

GENERAL STATEMENT ON EXPECTED DEVELOPMENTS

During the current fiscal year, if material changes in the economic environment do not occur, the Management Board of SHW AG expects a moderate rise in sales along with an improvement in the operating earnings position. The Management Board will pay particular attention to the themes of operational excellence and internationalisation in the 2014 fiscal year.

Aalen, 11 March 2014

Dr. Ing. Thomas Buchholz
Chief Executive Officer

Sascha Rosengart
Chief Financial Officer

Andreas Rydzewski
Member of the Management Board

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET (IFRS)

AS AT 31 DECEMBER 2013

ASSETS				
K EUR	Note	31 Dec 2013	31 Dec 2012 * adjusted	1 Jan 2012 * adjusted
Goodwill	(1)	7,055	7,055	7,055
Other intangible assets	(1)	14,205	12,314	8,552
Tangible assets (property, plant, and equipment)	(1)	74,781	58,269	58,360
Deferred tax assets	(18)	2,988	3,377	2,569
Other financial assets	(2)	659	1,395	823
Non-current assets		99,688	82,410	77,359
Inventories	(3)	39,192	44,073	37,741
Trade receivables	(4)	42,101	32,960	45,059
Other financial assets		0	0	748
Other assets	(5)	3,490	1,807	1,345
Cash and cash equivalents	(6)	2,837	19,629	10,682
Current assets		87,620	98,469	95,575
Total assets		**187,308**	**180,879**	**172,934**

*) Adjusted, see Note page 85, 86, 104 and 110 for explanations

EQUITY AND LIABILITIES

K EUR	Note	31 Dec 2013	31 Dec 2012 * adjusted	1 Jan 2012 * adjusted
Subscribed capital	(7)	5,851	5,851	5,851
Capital reserves	(7)	14,780	14,780	14,780
Revenue reserves	(7)	63,630	73,662	33,417
Other reserves	(7)	-1,732	-2,258	3,198
Total equity		82,529	92,035	57,246
Pension accruals and similar obligations	(8)	24,488	25,830	20,032
Deferred tax liabilities	(18)	3,619	3,119	3,194
Other accruals	(9)	3,388	2,948	2,984
Other financial liabilities	(10)	206	100	130
Liabilities to banks	(10)	3,676	0	11,250
Non-current liabilities and accruals		35,377	31,997	37,590
Liabilities to banks	(10)	2,042	0	8,053
Trade payables	(10)	47,881	40,695	42,166
Other financial liabilities	(10)	7,027	4,221	11,511
Income tax liabilities	(10)	1,176	1,016	950
Other accruals	(9)	3,010	5,170	8,858
Other liabilities	(10)	8,266	5,745	6,560
Current liabilities and accruals		69,402	56,847	78,098
Total equity and liabilities		**187,308**	**180,879**	**172,934**

*) Adjusted, see Note page 85, 86, 104 and 110 for explanations

CONSOLIDATED INCOME STATEMENT (IFRS)

FOR THE FINANCIAL YEAR AS OF 31 DECEMBER 2013

K EUR	Note	2013	2012 *
Sales	(11)	365,639	325,373
Cost of sales	(16, 19)	-323,665	-285,461
Gross profit		**41,974**	**39,912**
Selling expenses	(12, 16)	-4,446	-4,202
General administration expenses	(13)	-9,949	-7,386
Research and development costs	(14)	-7,547	-5,030
Other operating income	(15)	3,198	4,292
Other operating expenses	(16)	-2,623	-5,328
Operating result		**20,607**	**22,258**
Financial income	(17)	7	6
Financial expenses	(17)	-1,692	-2,037
Earnings before taxes (EBT)		**18,922**	**20,227**
Deferred taxes	(18)	-611	-837
Current income tax	(18)	-4,916	-5,152
Net income from continuing operations		**13,395**	**14,238**
Net income from discontinued operations		**0**	**31,858**
Net income for the year		**13,395**	**46,096**
Earnings per share (continuing and discontinued operations **		2.29	7.88
Earnings per share (continuing operations) **		2.29	2.43

*) Adjusted, see Note page 85, 86, 104 and 110 for explanations
**) Based on 5,851,100 shares (5,798,195 shares)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS)

FOR THE FINANCIAL YEAR AS OF 31 DECEMBER 2013

K EUR	31 Dec 2013	31 Dec 2012*
Net income for the year	13,395	46,096
Items that will not be reclassified to profit and loss in future periods		
Actuarial gains / losses from pension accruals and similar obligations before tax	984	-6,096
Tax effect	-278	1,719
Items that may be reclassified to profit and loss in future periods		
Currency translation reserve	-180	-1,079
Tax effect	0	0
Other comprehensive income after tax	526	-5,456
Total comprehensive income after tax	**13,921**	**40,640**
from continuing operations	13,921	8,782
from discontinued operations	0	31,858

*) Adjusted, see Note page 85, 86, 104 and 110 for explanations

CONSOLIDATED CASH FLOW STATEMENT (IFRS)

FOR THE FINANCIAL YEAR AS OF 31 DECEMBER 2013

K EUR	Note	2013	2012 *
1. Cash flow from operating activities			
Net income from continuing operations / Net income for the year		13,395	14,238
Depreciation / amortisation (+) of fixed assets		14,173	10,088
Income tax expenses through profit or loss (+)	(18)	4,916	5,152
Income taxes paid (-)		-4,730	-4,978
Financing costs through profit or loss (+)	(17)	1,692	2,037
Interest paid (-)		-597	-787
Financial investment income through profit or loss (-)	(17)	-7	-6
Interest and dividends received (+)		7	2,539
thereof dividends received		0	2,533
thereof interest received		7	6
Increase (+) / decrease (-) in accruals		-2,078	-2,262
Change in deferred taxes		611	856
Other non-cash effective expenses (+) / income (-)		-1,076	-1,190
Gain (-) / loss (+) from the disposal of assets		176	-2
Increase (-) / decrease (+) in inventories, trade receivables, and other current assets		-5,688	-6,863
Increase (-) / decrease (+) in trade payables, and other current liabilities		9,601	-1,554
Cash flow from operating activities from continuing operations		30,395	17,268
Cash flow from operating activities from discontinued operations		0	2,580
Cash flow from operating activities from continuing and discontinued operations		30,395	19,848

K EUR	Note	2013	2012 *
2. Cash flow from investing activities			
Cash received (+) from the disposal of tangible assets		66	81
Cash received (+) from the disposal of non-current financial assets		0	42,890
Cash paid (–) for investments in tangible assets		-25,439	-16,432
Cash paid (–) for investments in intangible assets		-4,584	-4,727
Cash flow from investing activities from continuing operations		-29,957	21,812
Cash flow from investing activities from discontinued operations		0	-1,912
Cash flow from investing activities from continuing and discontinued operations		-29,957	19,900
3. Cash flow from financing activities			
Cash received (+) from the assumption of financial liabilities		5,718	0
Cash paid (–) for the redemption of financial liabilities		0	-19,500
Dividends paid to shareholders		-23,404	-5,851
Payments (–) for investments in non-current financial assets		-81	-810
Cash flow from financing activities from continuing operations		-17,767	-26,161
Cash flow from financing activities from discontinued operations		0	0
Cash flow from financing activities from continuing and discontinued operations		-17,767	-26,161
4. Cash and cash equivalents at the end of the period			
Cash-effective changes in cash and cash equivalents (sum of positions 1–3)		-17,329	13,587
Exchange rate-related changes in cash and cash equivalents		-18	103
Cash and cash equivalents at the beginning of the period		19,629	10,682
Changes in cash from scope of consolidation related changes		555	-4,743
Cash and cash equivalents at the end of the period	**(6)**	**2,837**	**19,629**

*) Adjusted, see Note page 85, 86, 104 and 110 for explanations

STATEMENT OF CHANGES IN GROUP EQUITY (IFRS)

AS OF 31 DECEMBER 2013

in TEUR	Subscribed capital (Note 9)	Capital reserves (Note 9)	Revenue reserves (Note 9)	Other reserves (Note 9)	Total equity
As at 1 January 2012 (as initially reported)	5,851	14,780	33,417	1,079	55,127
thereof from discontinued operations	0	0	0	1,079	1,079
Changes in measurement methods	0	0	0	2,119	2,119
As at 1 January 2012 (adjusted)	5,851	14,780	33,417	3,198	57,246
thereof from discontinued operations	0	0	0	1,079	1,079
Changes from actuarial gains and losses	0	0	0	-4,377	-4,377
Foreign currency translation	0	0	0	-1,079	-1,079
Total income recognised directly in equity	0	0	0	-5,456	-5,456
Net income for 2012	0	0	46,096	0	46,096
Total comprehensive income for the period	0	0	46,096	-5,456	40,640
Dividends paid	0	0	-5,851 *	0	-5,851
As at 31 December 2012 (adjusted)	**5,851**	**14,780**	**73,662**	**-2,258**	**92,035**

*) 1 Euro per share

in TEUR	Subscribed capital (Note 9)	Capital reserves (Note 9)	Revenue reserves (Note 9)	Other reserves (Note 9)	Total equity
As at 1 January 2013 (as initially reported)	5,851	14,780	73,709	0	94,340
Changes in measurement methods	0	0	-47	-2,258	-2,305
As at 1 January 2013 (adjusted)	5,851	14,780	73,662	-2,258	92,035
Changes from actuarial gains and losses	0	0	0	706	706
Foreign currency translation	0	0	0	-180	-180
Income recognised directly in equity	0	0	0	526	526
Net income for 2013	0	0	13,395	0	13,395
Total comprehensive income for the period	0	0	13,395	526	13,921
First-time consolidation of previously non-consolidated subsidiaries for reasons of materiality	0	0	-23	0	-23
Dividends paid	0	0	-23,404 *	0	-23,404
As at 31 December 2013	**5,851**	**14,780**	**63,630**	**-1,732**	**82,529**

*) 4 Euro per share

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR FISCAL YEAR 2013

BASIS FOR THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

SHW AG's consolidated financial statements as at 31 December 2013 were approved by the Management Board on 5 March 2014 for submission to the Supervisory Board. SHW Aktiengesellschaft with registered offices at Wilhelmstr. 67, Aalen / Germany was created by the Company's change of legal form in 2011 and was entered in the commercial register on 8 June 2011. Until the time of the successful placement of the block of shares, the largest single shareholder was SHW Holding L.P., Bermuda. Since 5 November 2013, all shares have been held in free float. The Group's principal activity is the production and sale of hydraulic pumps, powder metallurgy parts, and brake discs. The consolidated financial statements presented conform to the applicable International Financial Reporting Standards (IFRS) set by the International Accounting Standards Board (IASB) in London. The version of IFRS as at 31 December 2013 is authoritative, as to be applied in the EU. All interpretations of the International Financial Reporting Interpretations Committee (IFRIC) relevant for the 2013 fiscal year as well as previous interpretations of the Standing Interpretations Committee (SIC), have been applied.

The consolidated financial statements are generally prepared in accordance with the historical cost principle. Excluded from this are derivative and available-for-sale financial instruments which are accounted for at fair value. Deviations from this are specified under the accounting and valuation principles.

The consolidated financial statements have been prepared in euro. Unless indicated otherwise, the figures shown in the consolidated financial statements are stated in thousand euros (€K). The consolidated financial statements also exempt the Company from preparing consolidated financial statements in accordance with § 315a III HGB.

With the resolution of 13 January 2014, the shareholders of SHW Automotive GmbH and SHW Zweite Beteiligungs GmbH unanimously resolved to make use of the exemption rules pursuant to § 264 para. 3 HGB and to dispense with preparing a management report and notes as well as the disclosure of the annual financial statements. The resolutions were released to the Federal Gazette for publication on 21 January 2014.

CONSOLIDATION METHODS

Scope of consolidation and consolidation principles

The consolidated financial statements comprise the financial statements of SHW AG and all of its major subsidiaries as the topmost consolidation group as at 31 December of a give fiscal year. The financial statements of subsidiaries are prepared using uniform accounting and valuation principles as at the same balance sheet date as the parent company's financial statements. The 50 percent interest in STT Technologies Inc., Concord / Canada was sold by means of a contract dated 25 October 2012 and was no longer included in the consolidated financial statements as of the end of October 2012. In 2013, SHW do Brasil Ltda, Sao Paulo / Brazil has been included in the scope of consolidation for the first time since the company has commenced operating activities. In 2014, we will include SHW Pumps & Engine Components Inc., Canada, in the scope of consolidation. The companies SHW Automotive CZ, s.r.o, Brno / Czech Republic, SHW Automotive Pumps, Shanghai / China and the SHW Automotive Industries GmbH, Aalen, are currently not in operation and will not be included in the consolidated financial statements for reasons of materiality.

A complete list of all SHW Group holdings is on file at the commercial register of the Local Court of Aalen (HRB 7-A) and is attached to these notes to the consolidated financial statements as an integral component.

Capital consolidation is carried out in accordance with the purchase method. Subsidiaries are fully consolidated as of their date of acquisition i.e. the date on which the Group assumes their control. As soon as the parent company's ability to control the subsidiary ceases, they are no longer included in the consolidated financial statements. Joint ventures are proportionally consolidated as of their acquisition date, i.e., the date on which the Group assumes joint control. They are no longer included in the consolidated financial statements as soon as joint control ceases to exist. Upon first-time consolidation, a company's acquisition cost is allocated to the identifiable assets, liabilities, and contingent liabilities of the company acquired. The assets acquired, particularly the intangible assets, are reassessed in terms of their accounting and subsequently recognised at fair value. To the extent that the acquisition costs of acquiring the company exceed the proportional fair value of the net assets, goodwill is recognised and an impairment test is carried out once a year or, more often, with good cause. Unscheduled amortisation is carried out when the impairment test reveals a loss in value.

All intra-Group balances, transactions, income, expenditures, and profits and losses from intra-Group transactions, that are included in the single financial statements of consolidated companies, are eliminated. In the case of proportionate consolidation, the elimination is carried out according to the ownership interest held.

CHANGES IN ACCOUNTING AND VALUATION PRINCIPLES

1. New and amended standards and interpretations applicable in the year 2013.

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and interpretations, which have been adopted by the EU into European law and which must be applied to reporting periods beginning on 1 January 2013:

- IFRS 1 (amendment), "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters". This IFRS amendment alters, for one, the reference to the fixed transition date of "1 January 2004" to "date of transition to IFRS". This amendment also provides guidance on how an entity should resume presenting financial statements in accordance with IFRS after a period in which the entity was unable to comply with IFRS because it had a functional currency that was subject to severe hyperinflation.

  This amendment has no impact on the Group.

- IFRS 1 (amendment) "Government Loans". The amendment introduces a new exception to the general principle of retrospective application of IFRS for first-time adopters. The provisions of IAS 20.10A, in terms of government loans which are granted at a below-market rate of interest and must be recognised in compliance with the provisions of IAS 39 (and in the future, IFRS 9) and thus, measured at their fair value, are to be prospectively applied to below-market government loans granted on or after the transition date. For government loans already in existence at the time of the transition, the measurement based on previous accounting rules can be considered for the opening IFRS balance sheet.

  This amendment has no impact on the Group.

- IAS 1 (amendment) Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income (June 2011). IAS 1 provides for a change in the grouping of the items included under other comprehensive income. Those items, which might later be reclassified to the net income for the period, are to be presented separately from the items which will not be reclassified. This provides recipients of the consolidated financial statements a better understanding of the effects the individual items of other comprehensive income will have on the future net income.

  The amendment merely leads to adjustments in the presentation of the statement of comprehensive income.

- IAS 12 (amendment) "Income Taxes". The amendment to IAS 12 introduces a simplification regulation in the treatment of temporary tax differences in connection with the application of the fair value model established by IAS 40. Accordingly, a refutable presumption is introduced that the realisation of the carrying amount through a sale is generally decisive for the assessment of deferred taxes for real estate measured at fair value.

  This amendment has no material impact on the consolidated financial statements.

- IAS 19 "Employee Benefits" was amended in June 2011 and must be applied for the first time in fiscal years beginning on or after 1 January 2013. The impact on the Group is described in the following: the corridor method has been abolished and all actuarial gains and losses are recognised in other comprehensive income as they occur; past service costs are recorded immediately; interest expenses and expected income from plan assets are recognised at their net value taking into account the underlying interest rate for the defined benefit obligation. The impact on the Group is described on page 105.

  As a result of the amended IAS 19 definition for benefits upon termination of employment, commitments for supplementary amounts under partial retirement agreements represent other non-current employee benefits. Therefore, these supplementary amounts are no longer deferred with their total amount at the time of the agreement, but are ac,cumulated on a pro rata basis over the active years of service of the employees concerned. The conclusion of the contract shall be based on the date of the collective agreement, if this has already established a legal claim, otherwise on the date of the individual agreement. This results in a future reduction, in principle, of the accruals for partial retirement. For the SHW Group, the retrospective application did not result in significant changes. Therefore, for reasons of materiality an adjustment of the figures of the previous years was foregone.

- IFRS 13, "Measurement at Fair Value", aims to improve valuation consistency and reduce complexity. It describes how fair value is to be defined, how the valuation should be ascertained, and which disclosures are to be made. The regulations which incorporate an alignment of IFRS and US GAAP do not enlarge the scope of fair value measurement, but instead illustrate the manner in which fair value is to be applied in cases where the standards already require or permit this.

  This change has no material impact on the measurement of the assets and liabilities of the Group. It did have an effect on the notes since additional disclosures in the notes were to be made.

- IFRIC 20, "Stripping Costs in the Production Phase of a Surface Mine". This IFRIC is to be applied for the first time for fiscal years beginning on or after 1 January 2013.

  This IFRIC has no impact on the net assets, financial position, or results of operations of the Group.

- IFRS 7 (amended), "Disclosures – Offsetting Financial Assets and Financial Liabilities." However, IFRS 7 provides new disclosure requirements in relation to certain offsetting agreements. This disclosure requirement applies regardless of whether the offsetting agreement has actually led to the offsetting of the relevant financial assets and financial liabilities. In addition to a qualitative description of the offsetting rights, several quantitative disclosures must also be made in this regard.

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

This change has no material impact on the Group.

Annual Improvements to IFRSs: Cycle 2009 – 2011

Changes to five of the standards were made as part of the Annual Improvement Project. A clarification of the existing regulations should be achieved by adapting the wording of individual IFRSs. In addition, there are changes that affect the accounting, recognition, measurement, and the disclosures in the notes. Affected are the standards IAS 1, IAS 16, IAS 32, IAS 34, and IFRS 1.

These changes have no material impact on the Group.

2. Standards, interpretations, and amendments to existing standards not yet mandatory in 2013 and not adopted early by the Group.

The IASB and IFRIC have issued further standards and interpretations. These regulations have not been applied in this fiscal year because either they have not yet been adopted by the EU or their application is not yet mandatory. The Group's assessment of the impact of these new standards and interpretations is described below:

- IFRS 10, "Consolidated Financial Statements", is based on existing standards. The focus of IFRS 10 is the introduction of a uniform consolidation model for all entities on the basis of the control of the subsidiary by the parent company. The new standard also provides guidance for determining whether or not an entity is controlled, particularly in difficult cases.

  This change currently has no impact on the Group.

- IFRS 11 "Joint Arrangements". IFRS 11 was published in May 2011 and must be applied for the first time to fiscal years beginning on or after 1 January 2014. The standard replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". IFRS 11 has abolished the previous option to apply the proportionate consolidation method for jointly controlled entities. In the future, these entities will be consolidated solely by use of the equity method.

The SHW Group does not expect this standard to have a major impact on the consolidated financial statements.

- 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.

  In the EU, this standard must be applied for fiscal years starting 1 January 2014.

  This standard resulted in additional disclosure requirements for the notes.

- IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recognised in equity insofar as there is no change in control and as long as these transactions do not result in goodwill or in gains or losses. In the case of a loss of control, the standard provides detailed instructions on the presentation in the financial statements. Any remaining interest in the entity should be measured at fair value and the resulting profit or loss should be disclosed as such. The revised standard has no impact on the reporting period since none of the non-controlling interests have a negative balance and there have been no transactions in which an interest in an entity was retained after the loss of control of that entity. In addition, there have been no transactions with non-controlling interests.

  The application of this standard is obligatory in the EU for fiscal years starting 1 January 2014.

  This standard has no material impact on the consolidated financial statements.

- IAS 28 "Investments in Associates and Joint Ventures" (revised May 2011). The revision of IAS 28 was published in May 2011 and is to be applied for the first time in fiscal years beginning on or after January 1, 2014. With the adoption of IFRS 11 and IFRS 12, the scope of IAS 28 has been expanded to include the application of the equity method to joint ventures and associated companies.

  This amendment has no impact on the consolidated financial statements.

- IAS 32 (amended), "Offsetting of Financial Assets and Financial Liabilities." The offsetting requirements formulated in IAS 32 were principally retained and merely substantiated by further guidance on their application. On the one hand, the standard setter expressly emphasises that an unconditional and legally enforceable claim to offset must exist even in the case of an insolvency of a participating party. On the other hand, criteria are quoted, for example, under which gross fulfilment of a financial asset and a financial liability may still lead to offsetting. The supplemented guidelines are to be applied retrospectively to fiscal years beginning on or after 1 January 2014.

  The Group does not expect the new standard to have a major impact.

- Amendments to IFRS 10, IFRS 12, and IAS 27 Investment Entities. The amendments to IFRS 10 define an investment entity. If a company fulfils the definition of an investment entity, it must not consolidate its subsidiaries but measure its investments at fair value through profit or loss. A company is considered an investment entity if it meets the following criteria.

  - The company pledges to its shareholders that it is committed to a business purpose of only carrying out investments in order to create an increase in value, and to generate income from investments, or both.

  - The company measures and evaluates the performance of substantially all of its investments based on their fair value.

  The consequential modifications to IFRS 12 and IAS 26 contain new disclosure requirements for investment entities.

  These changes have no impact on the consolidated financial statements as the Company is not an investment entity.

- Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets". The amendments correct disclosure requirements which resulted from the modification of IFRS 13 which went beyond the intended purpose. IAS 36 relates to impaired assets where the recoverable amount corresponds to the fair value less selling costs. Currently, the recoverable amount must be disclosed regardless of any impairment incurred. The correction limits the disclosure requirement to cases in which impairment has actually occurred. However, the scope of required disclosures has been expanded.

This standard has no material impact on the consolidated financial statements.

- Amendments to IAS 39 “Novation of Over-the-Counter Derivatives and Continuation of the Existing Hedge Relationship”. With this amendment, derivatives continue to be designated as a hedging instrument in an existing hedging relationship despite novation. Novation is defined as circumstances in which the initial derivative counterparties agree that a central counterparty should substitute for their initial counterparty and therefore should act as the respective counterparty. A fundamental prerequisite for novation is that the involvement of a central counterparty has occurred as a result of legal or regulatory requirements. In addition, changes of the contractual provision may only affect those areas which are necessary in the context of novation. The aim of the amendment is to avoid effects on hedge accounting resulting from the derecognition of a derivative when converting the contract to a central counterparty.

  This standard has no material impact on the consolidated financial statements.

ACCOUNTING AND VALUATION PRINCIPLES

Currency translation

The consolidated financial statements are prepared in euros, which is the functional and presentation currency of the Group. Each company within the Group determines its own functional currency. The items contained in the financial statements of the respective Group companies are measured using this functional currency. Foreign currency transactions are translated initially at the spot rate for the functional currency and the foreign currency prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the spot rate prevailing at the reporting date. All currency differences are recognised in profit or loss. 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 rate of the fiscal year, while the income statement items are translated at the average exchange rates during the period. Any differences resulting from these conversions are directly recognised under “other reserves” within equity (“foreign currency translation”). At the time of disposal, the amount recognised in “other reserves” is then recorded in profit or loss.

Intangible assets

Intangible assets, which were not acquired in the course of a company acquisition, are capitalised at their acquisition cost. The acquisition costs of intangible assets acquired through a business combination are recognised at fair value as of the acquisition date. In subsequent periods, intangible assets are recognised at their acquisition cost or production cost less accumulated amortisation and accumulated impairment losses. A distinction is made between intangible assets with limited useful lives and those with indefinite useful lives. Aside from goodwill, the SHW Group does not possess any intangible assets with indefinite useful lives.

Intangible assets with limited useful lives are amortised using the straightline method over their economic useful life of 4 to 9 years and are tested for possible impairments when there is evidence suggesting that the intangible asset may be impaired. The useful lives and amortisation methods are reviewed at the end of each fiscal year and adjusted if necessary.

Research costs are expensed in the period incurred. Project development costs are only capitalised as intangible assets when the Group can verify the technical feasibility of completing the intangible asset which would allow for the internal use or sale of the asset, as well as the intention of completing the intangible asset and the intention to use or to sell the asset. Furthermore, the Group must provide proof of the establishment of the asset's future economic use, the availability of resources for the purposes of completing the asset, and also be able to reliably identify the expenses incurred which can be attributed to the development of this intangible asset. The development costs include directly attributable costs, as well as a proportionate share of overhead expenses. Selling expenses and general administration expenses are not included.

Customer base

The fair value of the customer base at the time of the business combination is determined using a capitalised value method. The asset is amortised on a straight-line basis over a period of 4 to 5 years in accordance with the underlying valuation method. If there is evidence of a possible impairment, an impairment test is carried out and impairment losses are recognised if necessary.

Goodwill

Goodwill is carried at acquisition cost upon its initial recognition. Goodwill is 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 of the business acquired. Following initial recognition, goodwill is measured at acquisition cost less accumulated impairment losses.

Goodwill is subject to an impairment test on an annual basis, or when needed, and is impaired when necessary. When 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. This is true regardless of whether the 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 is first allocated to the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a proportionate basis and in accordance with the carrying amount of each asset in the unit. Any recognised impairment loss on goodwill may not be reversed in subsequent periods.

Tangible assets

Tangible assets are measured at acquisition cost or production cost less accumulated scheduled depreciation and accumulated impairment losses. The production costs of tangible assets produced internally comprise the direct and overhead costs of production directly attributable to the asset and include depreciation.

Tangible assets are depreciated using the straight-line method over their expected useful life. The carrying amount of tangible assets is tested for impairment whenever there is an indication that the asset's carrying amount exceeds 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	3 to 14 years

At the end of each fiscal year, the residual values, useful lives, and depreciation methods are reviewed and adjusted accordingly. A tangible asset is derecognised either upon its disposal or when there are no future economic benefits expected from its use or disposal. Gains or losses resulting from an asset's derecognition are recorded in profit or loss.

Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of tangible and intangible assets to determine whether there are any indications of impairment. If there are indications of impairment, then the asset's recoverable amount is estimated in order 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 flows that are essentially independent from those of other assets or other groups of assets, then the recoverable amount of the asset's cash-generating unit is estimated. If there is a reasonable and consistent basis for allocating the assets, then the joint assets are allocated to the respective cash-generating units; otherwise the assets are allocated to the smallest group of cashgenerating units for which a reasonable and consistent basis of allocation can be determined.

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

This pre-tax interest rate takes current market assessments of the time value of money into account 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 selling costs.

When the estimated recoverable amount of an asset (or cash-generating unit) is less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. The impairment loss is immediately recognised as an expense. Should the impairment loss be subsequently reversed, then the carrying amount of the asset (or cash-generating unit) will be increased through profit or loss up to the revised estimate of the recoverable amount.

The increase in the carrying amount shall not exceed the amount that would have been determined if an impairment loss on the asset (or cash-generating unit) had not been recognised in previous years.

Borrowing costs

Interest on borrowed capital is capitalised within the context of IAS 23 for qualifying assets, if the interest is significant.

Financial assets and liabilities

Financial assets as defined by IAS 39 are categorised as either financial assets measured at fair value through profit or loss, loans and receivables, investments held to maturity, or available-for-sale financial assets. Financial liabilities are categorised as either liabilities at amortised acquisition cost or as financial liabilities measured at fair value through profit or loss.

Financial assets and liabilities are initially recognised at fair value. In the case of financial assets for which fair value has not been measured through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset are also included.

The SHW Group determines the classification of its financial assets upon initial recognition and, if permitted and appropriate, reevaluates this allocation at the end of each fiscal year.

Financial instruments are recognised as soon as the SHW Group becomes a contracting party to the financial instrument. In the case of customary purchases or sales on the market as part of a contract whose terms require delivery within a period typically specified by the regulations and conventions of the respective market, the settlement date is relevant for the initial recognition and subsequent derecognition, i.e., the date on which the asset was delivered to or by the SHW Group.

Financial assets measured at fair value through profit or loss

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

Loans and receivables

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

Available-for-sale financial investments

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

Interest-bearing borrowings

Upon their initial recognition, interest-bearing borrowings are recognised at fair value less transaction costs associated with the borrowing. Following their initial recognition, interest-bearing borrowings are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised or as part of the amortisation process.

Financial liabilities measured at fair value through profit or loss

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

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

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

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

If there is objective evidence of impairment of financial assets carried at amortised cost, the amount of the 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 their original invoice amount, less any bad debt allowances. An impairment using an allowance account is undertaken when there is objective, material evidence that the Group will not be in a position to collect the receivable in full. Receivables are derecognised as soon as they become uncollectable.

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

Financial assets or financial liabilities are derecognised when 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 shown separately on the balance sheet, i.e., separate from non-financial assets and non-financial liabilities.

Cash and cash equivalents

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

Inventories

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

Inventories are recognised at their net realisable value when the net realisable value is lower on the closing date due to a fall in prices on the selling market. Appropriate impairments on inventory are taken for inventory 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 and take into account the future development of salaries and pensions as well as the 2005 G reference tables ("RICHTTAFELN") published by Klaus Heubeck on 19 July 2005, which are applicable in Germany for the measurement of occupational pension obligations for fiscal years ending after the date of publication. The actuarial interest rate is based on first-class, fixed-interest, corporate bonds with an AA rating.

Actuarial gains and losses, which arise from changes in actuarial assumptions and deviations between earlier actuarial assumptions and the actual development, have been recorded directly through profit or loss in equity under other accruals at the time they arise and in consideration of deferred tax since 1 January 2013. The previous option of immediate recognition in profit or loss, in equity, or the deferred recognition according to the so-called corridor method, has been abolished. The actuarial gains and losses recognized in other reserves, and the related deferred taxes are not resolved in subsequent periods in the profit and loss account. The actuarial gains and losses recognized in the respective period and the related deferred taxes are shown separately in the statement of comprehensive income.

With IAS 19 (revised), changes in the level of benefits with retroactive effect on entitlements already earned which result from adjustments to the plan, are no longer spread over the time period until they become vested. The retroactive adjustment of the benefits are directly recognised in EBIT in the year in which the plan is adjusted. See also the explanations on IAS 19 (revised) on page 44.

Expenses from the accrual of pension provisions are recorded under financial expenses. The remaining components of net pension expenses are included in the income statement under the respective functions.

For defined-contribution plans, the SHW Group has no further obligations above and beyond the payment of contributions and pension insurance contributions and social contributions to the special purpose funds. The contributions are recognised as an expense and allocated to the respective functions.

The measurement of other non-current employee benefits is also carried out using the projected unit credit method.

Other accruals

Other accruals are the best estimate of all identifiable risks and contingent liabilities and are recognised at the amount required to fulfil the current obligation on the balance sheet date. Accruals are recognised when there is a legal or constructive obligation resulting from a past event that makes a future outflow of resources embodying economic benefits likely and when the amount of the obligation can be reliably estimated. If the impact of the interest effect is material, then the accruals are discounted at a pre-tax interest rate. Current accruals are expected to be utilised within the following fiscal year.

Actual tax refund claims and tax liabilities

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

Deferred taxes

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

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

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

Deferred tax assets and liabilities are measured in accordance with the liability method using the tax rates expected in the year the asset is realised or the liability is settled. This is based on tax rates (and tax laws) that have been enacted by the balance sheet date or that are expected to be enacted in the near future.

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

Leasing

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

If 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 recognised at the lower of fair value of the leased item or at the present value of the minimum lease payments. The corresponding liability to the lessor is recorded in the balance sheet as a financial lease obligation. The lease payments are divided into an interest component and a repayment component, with the interest expenses being directly reported through profit or loss.

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

Share-based remuneration

The obligations arising from share-based remuneration programmes are calculated according to IFRS 2. Remuneration programmes settled in cash are recorded as an accrual and measured at fair value at each balance sheet date. The expense is recorded in the income statement under “personnel expenses”. Share-based remuneration programmes settled in equity instruments are measured at the time they are granted. The fair value of the obligation is recognised in personnel expenses over the vesting period.

Derivative financial instruments and hedging transactions

A derivative financial instrument is a financial instrument whose value changes in response to the change in a certain reference factor. This financial instrument normally demands little to no expenditure for its acquisition and settles at a future date.

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

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

For derivative financial instruments used in a hedge relationship, the changes in fair value in the course of the fiscal year are recognised according to the type of hedge relationship. In the case of a cash flow hedge, changes in fair value of the effective portion of the hedge instrument are recorded directly in equity under “other reserves” (“changes in the fair value of hedge instruments”) and take into account deferred taxes. The ineffective portion is reported directly in profit or loss under the financial result.

To the extent that the requirements for a cash flow hedge no longer exist, the amounts recognised under “other reserves” are released in profit or loss over the remaining term of the hedge instrument.

Income and expenses

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

Dividends and interest income are recognised at the time they occur. In the case of dividends, this represents the point in time in which the right to receive payment is established.

Operating expenses are recognised upon the utilisation of the service. Expenses for advertising and sales promotions as well as other sales-related expenses are recognised at the time they occur. Accruals for warranties are made at the time of the product’s sale. Interest and other borrowing costs are recorded as incurred as long as the borrowing costs are not related to qualified assets within the meaning of IAS 23 and if the opportunities and risks of the goods sold have been transferred to the buyer.

Government grants

Government grants are recognised at fair value if it can be assumed with great certainty that the grant will be given and that the Group fulfils the necessary conditions for the grant’s receipt.

Government grants for costs are recognised over the period in which the related costs for which the grant was given in compensation are incurred. Performance-based grants are offset against the corresponding expenses for which they were given in compensation in accordance with IAS 20.29 et seq.

Government grants for investments are deducted from the related assets.

Key estimates

The preparation of the financial statements requires that assumptions and estimates are made for the measurement of some balance sheet items, for the disclosure of contingent liabilities, and for disclosing income and expenses. Actual amounts may differ from these estimates.

The following presents the key forward-looking assumptions and significant sources of uncertainty concerning estimates as at the reporting date that involve a considerable risk of material adjustment to the carrying amounts of assets or liabilities in the upcoming fiscal year.

Goodwill impairment

The SHW Group tests goodwill for impairment annually or when there is an indication that the goodwill of € 7,055 thousand (previous year: € 7,055 thousand) might be impaired. This involves an estimate of the recoverable amount of those cash-generating units (CGUs) to which the goodwill is allocated. In order to calculate the recoverable amount of the CGU, the Group must estimate the fair value, less the cost of sale, based on the EBIT forecasts and, in addition, select an interest rate in order to calculate the present value of cash flows. Further details may be found in Note 1 “intangible assets and tangible assets”.

Development costs

Development costs are capitalised according to the accounting and valuation methods presented. The initial capitalisation of costs is based on the management’s assessment that technical and economic feasibility has been demonstrated. Generally, this is the case when a product development project has achieved a certain degree of maturity within an existing project management model. Determining the amounts to be capitalised requires assumptions and estimates to be made of the expected cash flows from the assets, discount rates to be applied, and the expected period of future cash flows to be generated by the assets. As at 31 December 2013, capitalised development costs amounted to € 8,995 thousand (previous year: € 8,063 thousand).

Pensions and similar obligations

Costs of defined benefit plans and other post-employment benefits are 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 € 24,488 thousand as at 31 December 2013 (previous year: € 25,830 thousand). Further details may be found in Note 8 “pension accruals and similar obligations”.

Deferred tax assets

Deferred tax assets are recognised for all unutilised tax-loss carry-forwards to the extent that it is probable that taxable income will be available in the future so that the tax-loss carry-forwards can actually be used. A considerable degree of discretionary judgement is required from management to determine the amount of deferred tax assets that can be recognised, based on the expected timing and level of taxable income in the future together with future tax planning strategies. Further details may be found in Note 18, "income taxes".

Estimates used in the application of accounting principles

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

This particularly applies to the following types of situations:

- Determination of the fair value of assets and liabilities acquired as part of a business combination, as well as these assets' period of useful life, based on assessments by the management.
- In the case of assets that are to be sold, management must determine whether these can be sold in their present condition and whether their sale is very probable.
- In recognising 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 allocated to the categories of "held-to-maturity financial investments", "loans and receivables", "available-for-sale financial assets" and "financial assets measured at fair value through profit or loss".

Segment reporting

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

NOTES TO THE BALANCE SHEET

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

	Acquisition and production costs				
K EUR	As at 1 Jan 2012	Additions	Disposals	Reclassifications	Currency translation differences
Intangible assets					
Customer base	51,370	0	-3,920	0	119
Goodwill	7,055	0	0	0	0
Internally generated assets	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 machinery	86,352	4,044	-24,256	10,116	704
Other equipment, operating and office equipment	12,901	2,137	-1,906	2	45
Advance payments 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**

	Acquisition and production costs				
K EUR	As at 1 Jan 2013	Additions	Disposals	Reclassifications	Currency translation differences
Intangible assets					
Customer base	47,569	0	0	0	0
Goodwill	7,055	0	0	0	0
Internally generated assets	9,080	3,789	-200	0	0
Other intangible assets	6,527	795	0	0	0
	70,231	4,584	-200	0	0
Tangible assets					
Land, land rights, and buildings	27,349	3,195	0	1,816	0
Technical equipment and machinery	76,960	14,379	-163	4,163	0
Other equipment, operating and office equipment	13,179	4,399	-98	316	-7
Advance payments and assets under construction	7,281	6,243	0	-6,295	0
	124,769	28,216	-261	0	-7
Total	**195,000**	**32,800**	**-461**	**0**	**-7**

As at 31 Dec 2012	Accumulated amortisation / depreciation	Net carrying amounts 31 Dec 2012	Net carrying amounts 1 Jan 2012	Amortisation / depreciation of the fiscal 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**

As at 31 Dec 2013	Accumulated amortisation / depreciation	Net carrying amounts 31 Dec 2013	Net carrying amounts 1 Jan 2013	Amortisation / depreciation of the fiscal year
47,569	47,569	0	0	0
7,055	0	7,055	7,055	0
12,669	2,471	10,198	8,062	1,453
7,322	3,315	4,007	4,252	1,038
74,615	**53,355**	**21,260**	**19,369**	**2,491**
32,360	7,935	24,425	20,454	1,041
95,339	60,485	34,854	25,228	8,881
17,823	9,550	8,273	5,306	1,760
7,229	0	7,229	7,281	0
152,751	**77,970**	**74,781**	**58,269**	**11,682**
227,366	**131,325**	**96,041**	**77,638**	**14,173**

Intangible assets and tangible assets do not contain any qualified assets within the meaning of IAS 23.

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

As a result of the sale of the STT interest, the value of gross assets declined by € 33,075 thousand.

Additions to internally generated assets were mainly the result of capitalised development costs of € 2,406 thousand.

Other intangible assets primarily include the capitalised costs of the SAP project of € 3,525 thousand (previous year: € 3,874 thousand).

Scheduled depreciation and amortisation of tangible and intangible assets are included in functional costs and particularly in the cost of sales. Unscheduled depreciation is reported under other operating expenses. There was no unscheduled depreciation in the 2012 and 2013 fiscal years.

Goodwill

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

- Pumps CGU
- Engine components CGU
- Brake discs CGU

In principle, the segments correspond to the CGUs with the exception of the Pumps CGU and the Engine components CGU that form a common segment.

The recoverable amount of the three CGUs was calculated on the basis of their fair value less selling costs. This calculation was made using EBIT forecasts which are based on the financial plan approved by management for the years 2014 to 2017. Calculation of the terminal value is based on an inflation/growth rate of 1.0 percent (previous year: 1.0 percent). A 9.1 percent discount rate was used for the EBIT forecasts (previous year: 10.8 percent). This is the risk-adjusted weighted average cost of capital (WACC) before taxes.

The goodwill was allocated to the relevant CGUs as follows:

CARRYING AMOUNT OF GOODWILL

K EUR	2013	2012
Pumps & Engine Components	4,233	4,233
Brake Discs	2,822	2,822
Total	**7,055**	**7,055**

The goodwill recognised in the Pumps and Engine Components business segment is only related to the area of Pumps and not the Engine Components area.

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. An overall growth assumption was not made for the planning period, but instead planning was based on the amount of calls on standing orders expected to be received from the OEMs (Original Equipment Manufacturers).

Cost increases

EBIT forecasts are based on averages from previous years' experience as well as on estimates of future developments. The fundamental assumptions made coincide with those from external sources of information (the German Foundry Association (Deutscher Gießereiverband) and the Powder Metallurgy Professional Association (Fachverband Pulvermetallurgie)).

Discount rates

The discount rate was derived from a base interest rate (after tax) of 2.75 percent and an after-tax market risk premium of 6.0 percent. The β factor, capital structure, and borrowing cost rate were derived from a peer group of comparable companies.

The recoverable amount is compared with the corresponding carrying amount of the relevant CGU. An impairment of goodwill is recognised if the recoverable amount is less than the carrying amount of the CGU. The annual goodwill impairment test revealed there was no need for impairment. Even in the case of a 1.0 percentage point increase in the discount rate or a change in the EBIT forecast of -10 percent, there would still be no need for impairment.

(2) Other non-current financial assets

K EUR	2013	2012
Cash surrender value of reinsurance	343	350
Participating investments	307	1,045
Other	9	0
Total	**659**	**1,395**

Other non-current financial assets include interests of € 307 thousand (previous year: € 1,045 thousand) in the form of investments in equity instruments, which are categorised as financial investments held for sale. These are measured at acquisition cost since there is no quoted price on an active market available for these instruments. Since these are non-operational companies, it is also not possible to reliably measure their fair value due to their unpredictable cash flows. In the previous year, this item still included non-current loans to SHW do Brasil, which were consolidated in 2013.

(3) Inventories

K EUR	2013	2012
Raw materials and supplies	13,689	16,418 *
Work in progress	16,216	12,694 *
Finished goods	9,263	14,389
Advance payments	24	572
Total	**39,192**	**44,073**

*) Previous year's figure restated due to SAP conversion; purchased parts in an amount of € 2,150 thousand were reclassified from work-in-progress to raw materials and supplies.

Inventories do not include qualified assets within the meaning of IAS23.

Impairment of inventories in fiscal year 2013 amounted to € 1,778 thousand (previous year: € 2,692 thousand). The adjustment relative to the prior year is included in the cost of sales through profit or loss.

The acquisition and production costs of inventories, which are recognised as an expense under the cost of sales, amounted to € 239,070 thousand (previous year: € 202,580 thousand).

The net carrying amount totals € 39,192 thousand (previous year: € 44,073 thousand).

(4) Trade receivables

K EUR	2013	2012
Receivables from customers	42,135	32,996
Bad debt provisions	-34	-36
Total	**42,101**	**32,960**

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 2013	42,135	34,434	34	5,782	825	241	257	464	98
as of 31 Dec 2012	32,996	27,983	36	2,991	303	162	1,288	80	153

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

With regard to the trade receivables that are not impaired or overdue, 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 of impairment, for example, in the case of insolvency.

Allowances for bad debts on trade receivables, which are included in profit or loss as other operating expenses, developed as follows:

K EUR	2013	2012
Bad debt provisions as at 1 January	**36**	**40**
Additions (impairment expenses)	4	5
Reversals (other operating income)	6	9
Bad debt provisions as at 31 December	**34**	**36**

In addition, there is a provision of € 1,518 thousand (previous year: € 1,582 thousand) for disputed items.

(5) Other current assets

A receivable from an energy tax refund, debit balances, as well as claims from other taxes amounting to € 1,258 thousand (previous year: € 1,054 thousand), are all included under other assets.

(6) Cash and cash equivalents

K EUR	2013	2012
Receivables from Magna Powertrain Inc., Concord, Ontario, Canada	2,837	19,629
Total	**2,837**	**19,629**

Bank deposits earn a variable rate of interest for on-call deposits of up to 3 months.

(7) Equity

The changes in equity are shown in the “Statement of Changes in Group Equity”.

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

The subscribed capital amounts to € 5,851,100.00. It is divided into 5,851,100 no-par value bearer shares with a pro rata amount of the share capital of € 1.00 each. The shares are fully paid up.

The capital reserves include the premiums from the issue of shares less transaction costs directly attributable to raising capital.

The revenue reserves include the consolidated net income from previous years carried forward.

Other reserves include changes in value recognised directly in equity and are comprised of the following (see also amendments to IAS 19):

K EUR	Pension liabilities	Foreign Currency Translation	**Total other Reserves**
Position as of 1 January 2012 (as originally stated)	**0**	**1,079**	1,079
thereof from discontinued operations	0	1,079	1,079
Changes in valuation methods	2,119	0	2,119
Position as of 1 January 2012 (revised)	**2,119**	**1,079**	3,198
thereof from discontinued operations	0	1,079	1,079
Total result directly recognised in equity	-4,377	-1,079	-5,456
Position as of 31 December 2012 (revised)	**-2,258**	**0**	-2,258
Total result directly recognised in equity	706	-180	526
Position as of 31 December 2013	**-1,552**	**-180**	**-1,732**

With the consent of the Supervisory Board, the Articles of Association authorise the Management Board to increase the Company's subscribed capital once or several times until 28 February 2016, by up to € 2,925,550 by issuing new bearer shares in exchange for contributions in cash and/or in kind (Authorised Capital 2011). The Management Board did not exercise this right during the 2013 fiscal year. With the consent of the Supervisory Board, the Management Board is authorised to determine the further details of capital increases from the Authorised Capital 2011 as well as their execution. The profit entitlement of the new shares may differ from that of § 60 para. 2 AktG. In the Articles of Association, § 13 applies to the Supervisory Board's authorisation to adjust the version of the Articles of Association upon utilisation of the Authorised Capital 2011 and/or at the expiry of its term.

By resolution of the extraordinary Annual General Meeting of 14 June 2011, the Management Board was given authorisation to issue bearer and/or registered convertible bonds, bonds with warrants, participation rights and/or profit participation bonds (and combinations of these instruments), on one or several occasions, for a total nominal amount of € 125,000,000.00 (in words: one hundred and twenty-five million euros) with or without limited maturity. The Board also received authorisation to grant to or impose conversion rights or option rights on no parvalue bearer shares in the Company upon the holders or creditors of bonds, with a proportionate share in the subscribed 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 more the detailed provisions of the terms and conditions of the bonds. The bonds are to be issued in exchange for cash payment. In principle, shareholders are entitled to a statutory subscription right to the aforementioned bonds in proportion to their interest in the subscribed capital. However, with the consent of the Supervisory Board, the Management Board is authorised to exclude the shareholder's subscription right in whole or in part in specific cases which are explained in more detail in the resolution of the Annual General Meeting. The extraordinary Annual General Meeting of 14 June 2011, created contingent capital amounting to € 2,925,550.00 (Contingent Capital 2011) to serve the aforementioned conversion and option rights and conversion obligations issued by the Company.

Changes in the balance sheet resulting from the first-time adoption of IAS 19 "Employee Benefits"

As a result of the revised IAS 19 "Employee Benefits" standard, the corridor approach, previously used by the Group, has been abolished and the actuarial gains and losses are now recognised as other comprehensive income within equity. As at 1 January 2012, an amount of € 2,119 thousand, net of deferred taxes, was reclassified to equity as a result of this change. In fiscal year 2013, the amount recognised in equity was € 706 thousand, net of deferred taxes. With IAS 19 (revised), changes in the level of benefits with retroactive effect on entitlements already earned which result from adjustments to the plan, are no longer spread over the time period until they become vested. The retroactive adjustment of the benefits are directly recognised in EBIT in the year in which the plan is adjusted. The impact on the income statement of € 66 thousand is presented on page 110.

Without the consideration of IAS 19 (as amended), the pension provision as at 31 December 2013 would have been € 2,207 thousand lower, the equity would have been € 1,552 thousand higher, and the deferred tax assets would have been € 622 lower. The net income of the period would not have changed significantly.

(8) Pension accruals and similar obligations

Pension accruals and similar obligations include pension accruals of € 24,488 thousand (previous year: € 25,830 thousand), including death benefits of € 126 thousand (previous year: € 116 thousand).

The company pension plan is mainly based on direct defined benefit plans. As a rule, the benefits are measured in accordance with the duration of service rendered by the employee. The previous company pension plan is not applicable for new employees starting on or after 1 January 1999. In contrast to this earlier plan, employees now must pay half of the plan contributions themselves.

The pension plans are funded by recognising pension accruals and, in some cases, liability insurance policies were concluded. The corresponding plan assets are reported under "other non-current financial assets" (cf. Note 2).

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

The following assumptions have been made:

	2013	2012
Pension increase rate	2.00 %	2.00 %
Interest rate	3.10 %	2.75 %

Employees receive a fixed payment, regardless of their salary. Therefore, changes to the salary trend are not assumed. Any adjustments required by law are carried out by adjusting the trend in pension levels. The projected benefit obligation shows the employees' pension entitlements measured according to the situation on the balance sheet date. This includes actuarial gains or losses resulting from differences between the expected risks and those that have occurred in individual cases.

The accruals for pension obligations also take actuarial gains and losses into account in accordance with the revised version of IAS 19. They are now shown in other comprehensive income within equity.

Sensitivity analysis

An increase or decrease in the key actuarial assumptions would have resulted in the following obligations for the present value of the obligation (Defined Benefit Obligation (DBO)).

K EUR	
DBO	24,488
Change in interest rate -0.5 %	25,972
Change in interest rate +0.5 %	22,873
DBO	24,488
Inflation rate 1.5 % (-0.5 %)	23,164
Inflation rate 2.5 % (+0.5 %)	25,598
DBO	24,488
Life expectancy +1 year	25,429

The development of pension accruals was as follows:

K EUR	
As at 1 Jan 2012	-20,032
Current service costs	-167
Interest costs	965
Pension payments / other	-1,430
Actuarial gains and loses recognized in equity	6,096
Accruals as at 31 Dec 2012	25,830
Current service costs	286
Interest costs	690
Pension payments / other	-1,433
Actuarial gains and losses recognised in equity	-984
Other	99
Accruals as at 31 Dec 2013	**24,488**

The net pension expenses for pension commitments were composed as follows:

K EUR	2013	2012
Current service costs	286	167
Interest costs	690	965
Net pension cost	**976**	**1,132**

Liabilities from defined benefit plans were as follows:

K EUR	2013	2012
Individual pension obligations to active employees	387	526
Labour-management agreement on pensions	5,329	5,528
Former employees with vested rights	1,201	1,130
Pensions / other	17,571	18,646
DBO (Defined Benefit Obligation)	**24,488**	**25,830**

Development of DBOs in previous years:

K EUR	2013	2012	2011	2010	2009
DBO 31.12.	24,488	25,830	20,032	20,512	20,614
Adjustments based on experience	-148	-43	203	206	10

The current service costs are included in cost of sales, selling expenses, general administration expenses, and research and development costs. Interest is recognised in interest expenses. In 2014, the expected pension payments amount to € 1,452 thousand. The pension plan costs for 2014 will amount to € 1,018 thousand. Experience-based adjustments to plan liabilities as at 31 December 2013 amounted to € 148 thousand (previous year: € 43 thousand; 2011 € 203 thousand; 2010 € 206 thousand). Since 1 January 2013, the corridor method may no longer be applied according to the revised version of IAS 19. The accrual is recorded in the amount of the DBO and the actuarial loss of € 3,210 thousand was reclassified to equity, net of deferred taxes as per 31 December 2012.

(9) Other accruals

K EUR	As at 31 Dec 2012	Utilisation	Reversals	Additions	As at 31 Dec 2013
Warranties	2,078	-197	-599	69	1,351
Other business-related obligations	3,088	-3,035	-3	1,594	1,644
Obligations to employees	2,949	-118	-6	563	3,388
Other accruals	3	-3	0	15	15
	8,118	**-3,353**	**-608**	**2,241**	**6,398**
Of which non-current accruals	2,948	-117	-6	563	3,388

Other non-current accruals

Other non-current accruals of € 3,388 thousand (previous year: € 2,948 thousand) include accruals for obligations to employees for anniversary bonuses of € 1,808 thousand (previous year: € 1,380 thousand), and for phased early retirement schemes of € 1,580 thousand (previous year: € 1,568 thousand).

Warranties

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

Other business-related obligations

Other business-related obligations primarily include contingent losses of € 126 thousand (previous year: € 199 thousand), and disputed credit items of € 1,518 thousand (previous year: € 1,582 thousand).

Obligations to employees

Obligations to employees are mainly comprised of € 1,808 thousand in accruals for anniversary bonuses (previous year: € 1,380 thousand), and € 1,580 thousand for phased early retirement schemes (previous year: € 1,568 thousand).

(10) Liabilities

K EUR	2013	2012
Non-current liabilities to banks	3,676	0
Non-current other financial liabilities	206	100
Non-current liabilities	3,882	100
Current liabilities to banks	2,042	0
Trade payables	47,881	40,695
Current other financial liabilities	7,027	4,221
Income tax liabilities	1,176	1,016
Other liabilities	8,266	5,745
Current liabilities	66,392	51,677
Total	**70,274**	**51,777**

The loan and collateral pooling agreement with UniCredit Bank AG (formerly known as the Bayerische HypoVereinsbank AG) concluded on 20 March 2008 was terminated on 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 until 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 economic equity ratio. Both covenants were met as at 31 December 2013. By the year's end, € 960 thousand of the working capital loan had been utilised. In addition, on 10 December 2012, 19 December 2012, and on 11 July 2013, the Group had taken out two KfW development loans via KSK Ostalb, Aalen, for € 3,900 thousand and € 858 thousand, respectively. The loans are free from redemption in the first year. The interest rate is fixed over the entire term of the loan. The loan is used for the long-term financing of the new logistics centre at our plant in Bad Schussenried and for two processing machines. The loans had been drawn down in full as at 31 December 2013.

The payment obligations for material purchases are secured by the retention of title, which is customary for the industry.

Other current financial liabilities mainly include liabilities for expenses where the underlying services were received in fiscal year 2013 but the invoice was only recognised in the 2014 fiscal year.

Personnel-related liabilities primarily include liabilities for management bonuses of € 948 thousand (previous year: € 737 thousand), vacation of € 1,286 thousand (previous year: € 1,130 thousand), wage taxes of € 2,330 thousand (previous year: € 650 thousand), overtime and working hours carried forward of € 1,929 thousand (previous year: € 1,580 thousand), and € 271 thousand for employer's liability insurance (previous year: € 162 thousand).

(11) Segment reporting

Since 2009, segment reporting has been based on the "management approach". Operating segments are determined on the basis of internal reports as defined by IFRS 8 which are used regularly by the Chief Operation Decision Maker to decide on the distribution of resources and assess profitability. The profitability of individual segments is established on the basis of the operating result (EBIT) and EBITDA. The EBIT of the segments is determined in accordance with IFRS, as is the operating result of the Group. The assets and liabilities of each segment are also established on the basis of IFRS. The EBITDA of the segments and the Group is derived with the inclusion of the respective depreciation/amortisation. Financial expenses, financial income, and income taxes are administered at the Group level. The Pumps and Engine Components segment manufactures oil and water pumps as well as sintered metallurgy products for the automotive industry. The Brake Discs segment produces unprocessed and processed brake discs for the automotive industry. Transactions between the divisions are generally based on standard 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 provides an overview of the sales and results of the various business segments.

BUSINESS SEGMENTS 2013

K EUR	Pumps and Engine Components	Brake Discs	Other Elimination / Consolidation Effects	**Group**
Segment sales	274,160	91,479	0	365,639
Segment EBIT	18,675	4,466	-2,534	20,607
Segment EBITDA	29,114	7,915	-2,249	34,780
Financial result	0	0	-1,685	-1,685
Earnings before taxes	18,675	4,466	-4,219	18,922
Scheduled segment depreciatio / amortisation	10,439	3,449	285	14,173
Segment capital investments	27,344	4,629	827	32,800
Segment assets	128,621	47,305	11,382	187,308
Material segment expenses *	163	17	723	903
Number of customers with sales >10 % of total	3	1		
VW Group	97,230	47,948		145,178
Daimler	60,002	264		60,266
BMW Group	33,894	6,227		40,121

*) Concerns expenses in the context of consulting services for SAP Post Go-Live support and a changes in the Board.

BUSINESS SEGMENTS 2012

K EUR	Pumps and Engine Components	Brake Discs	Other Elimination / Consolidation Effects	**Group**
Segment sales	237,908	87,465	0	325,373
Segment EBIT	19,662	3,621	-1,025	22,258
Segment EBITDA	26,252	6,927	-833	32,346
Financial result	0	0	-2,031	-2,031
Earnings before taxes	19,662	3,621	-3,056	20,227
Scheduled segment depreciatio / amortisation	6,590	3,306	192	10,088
Segment capital investments	17,690	1,689	1,780	21,159
Segment assets	107,673	42,892	30,314	180,879
Material segment expenses *	1,525	0	0	1,525
Number of customers with sales >10 % of total	3	1		
VW Group	81,736	42,668		124,404
Daimler	47,103	488		47,591
BMW Group	32,183	7,933		40,116

*) Concerns expenses in the context of the delayed delivery and launch of operation of a new assembly line in the context of a production start-up.

GEOGRAPHIC SEGMENTS 2013

K EUR	Germany	Rest of Europe	America	Other	**Total**
External sales	232,780	127,674	4,422	763	365,639
Other segment information					
Non-current segment assets	94,584	0	1,457	0	96,041

GEOGRAPHIC 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

NOTES TO THE INCOME STATEMENT

The following table describes the effects of the revised IAS 19 standard. The comments on the individual functional costs refer to the respective restated amounts.

K EUR	31.12.2012 revised	31.12.2012 as reported
Sales	325,373	325,373
Cost of sales	-285,461	-285,461
Gross profit	**39,912**	**39,912**
Selling expenses	-4,202	-4,202
General administration expenses	-7,386	-7,386
Research and development costs	-5,030	-5,030
Other operating income	4,292	4,292
Other operating expenses	-5,328	-5,262
Operating result	**22,258**	**22,324**
Financial income	6	6
Financial expenses	-2,037	-2,037
Earnings before taxes	**20,227**	**20,293**
Deferred taxes	-837	-856
Current income tax	-5,152	-5,152
Income after tax from continued operations	**14,238**	**14,285**

(12) Selling expenses

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

(13) General administration expenses

Administration costs include all administrative expenses, which cannot be directly allocated to other functional areas. This includes expenses for general administration, management, and other higher-ranking departments (see also the Group management report, page 41).

(14) 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). In addition, an amount of € 2.4 million (previous year: € 3.0 million) in development costs has been capitalised.

(15) Other operating income

Other operating income includes, among others, services rendered amounting to € 190 thousand (previous year: € 328 thousand), and € 1,003 thousand for the reversal of accruals and impairment (previous year: € 769 thousand), income from derecognised customer receivables of € 348 thousand (previous year: € 25 thousand), and income from compensation payments of € 1,338 thousand (previous year: € 47 thousand), and income from the disposal of assets of € 25 thousand (previous year: € 2 thousand). Income from the reversal of accruals and liabilities resulted mainly from the reversal of specific warranty provisions. During the previous year, goods provided for a subcontractor amounting to € 2,715 thousand were recognised in this item, which were then offset by an equal amount of expenses.

(16) Other operating expenses

Other operating expenses include, among others, accruals for bonus payments to employees amounting to € 492 thousand (previous year: € 360 thousand), restructuring costs of € 0 thousand (previous year: € 225 thousand), and € 548 thousand for employee severance payments (previous year: € 558 thousand), as well as € 308 thousand for legal and consulting fees (previous year: € 104 thousand). In the previous year, goods provided for a subcontractor of € 2,715 thousand were recognised in this item, which were then offset by an equal amount of income.

(17) Financial result

The financial result is composed as follows:

K EUR	2013	2012
Financial income	7	6
Financial expenses		
Interest and similar expenses	-1,002	-1,072
Interest portion in the addition to pension accruals	-690	-965
	-1,692	-2,037
Financial result	**-1,685**	**-2,031**

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

Other interest and similar expenses refer primarily to interest and borrowing costs of € 640 thousand (previous year: € 473 thousand) from the syndicated loan recognised using the effective interest rate method (see Note 10 “Liabilities”).

The following table shows the net result of financial instruments divided according to valuation category:

K EUR	Net result		Of which expense / income from the value adjustment	
	2013	2012	2013	2012
Loans and receivables (LaR)	7	6		
Available-for-sale assets (AfS)	-8	-119	-8	-119
Financial liabilities measured at amortised cost (FLAC)	-1,692	-1,926		
Total	**-1,693**	**-2,039**	**-8**	**-119**

(18) Income taxes

a) Tax recognised in profit or loss

K EUR	2013	2012
Current taxes	-4,916	-5,152
Deferred taxes		
Deferred taxes recognised on temporary differences and reversals thereof	-611	-837 *
Total	**-5,527**	**-5,989**

*) Previous year restated as a result of IAS 19.

The revaluation of defined benefit obligations resulted in deferred tax expenses of € 278 thousand (previous year: income of € 1,719 thousand) which were recognised directly in equity.

b) Reconciliation of effective tax rate

K EUR	2013	2012
Earnings before tax	18,922	20,227 *
Expected income tax	5,336	5,704
Tax-free income, non-deductible expenses	32	254
Taxes from previous years	0	-149
Reduction in assessed value	-12	-12
Additions (pursuant to § 8 of the German Trade Tax Act, Gewerbesteuergesetz, GewStG)	39	40
Unrecognized deferred tax assets from loss carry forwards	124	0
Other	8	152
Income tax (effective tax rate: 29.2 %, previous year: 29,6 %)	**5,527**	**5,989**

*) Previous year restated as a result of IAS 19.

In 2013, the calculated corporate income tax in Germany totalled 15.8 percent and was based on earnings before taxes by applying the corporate income tax rate of 15 percent plus a solidarity surtax of 5.5 percent of the corporate income tax. Trade tax amounted to 12.4 percent with an average multiplier of 354 percent.

This resulted in a total statutory tax burden of 28.2 percent.

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

No deferred taxes were calculated on so-called "outside basis differences" amounting to € 6,892 thousand (previous year: € 7,636 thousand) since SHW is able to control the timing of their release.

c) Composition of deferred taxes

	Consolidated balance sheet	
K EUR	**2013**	2012
Deferred income tax liabilities		
Other intangible assets	2,878	2,275
Tangible assets (property, plant, and equipment)	362	561
Inventories	116	0
Current assets	147	166
Current liabilities and accruals	116	117
	3,619	**3,119**
Deferred income tax assets		
Inventories	0	196
Pension accruals and similar obligations	2,474	3,084 *
Other non-current liabilities and accruals	367	56
Other current liabilities and accruals	147	41
Total	**2,988**	**3,377**

*) Adjustment due to IAS 19

d) Deferred taxes recognised directly in equity

K EUR	before tax	Tax income/ expense	after tax
2013			
Foreign currency translation differences	-180	0	-180
Changes in the amount of actuarial gains and losses	984	-278	706
Total	**804**	**-278**	**526**
2012			
Foreign currency translation differences	-1,079	0	-1,079
Changes in the amount of actuarial gains and losses	-6,096	1,719	-4,377
Total	**-7,175**	**1,719**	**-5,456**

*) Adjustment due to IAS 19

e) Unrecognised deferred tax assets

No deferred tax assets were recognised for tax-losses amounting to € 746 thousand (previous year: € 219 thousand.

(19) Other notes to the income statement

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

COST OF MATERIALS

K EUR	**2013**	2012
Cost of raw materials and supplies and of purchased merchandised	-220,129	-202,580
Cost of purchased services	-18,941	-6,833
Total cost of materials	**-239,070**	**-209,413**

Depreciation and amortisation

Depreciation and amortisation of intangible assets and tangible assets totalled € 14,173 thousand (previous year: € 10,088 thousand).

PERSONNEL EXPENSES

K EUR	2013	2012
Wages and salaries	-57,493	-55,124
Social security charges and pension costs	-11,900	-10,013
Total personnel expenses	**-69,393**	**-65,137**

Pension expenses comprise the addition of € 287 thousand (previous year: € 106 thousand) to pension accruals (excluding an interest component). Statutory pension insurance expenses totalled € 5,428 thousand (previous year: € 4,861 thousand).

Annual average number of employees in Germany:

K EUR	2013	2012
Wage earners	848	830
Salaried employees	210	192
	1,058	**1,022**

OTHER INFORMATION

(20) Contingent liabilities

There were no contingent liabilities in fiscal years 2012 and 2013.

(21) Financial instruments

The Group does not hedge its interest risk under the new syndicated loan agreement using transactions with banks. Management is informed of interest positions on a regular basis. The two interest swaps were terminated upon repayment of the syndicated loan in fiscal year 2012.

Assets and liabilities carried at fair value in the balance sheet are to be categorised according to the three levels of the fair value hierarchy as a result of the amendments to IFRS 7 to be applied since fiscal year 2009. This hierarchy reflects the significance of the input data used for measurement and can be divided as follows:

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

The interests in SHW Automotive Pumps (Shanghai), SHW Automotive CZ s.r.o., SHW Industries GmbH, and in SHW Pumps & Engine Components Inc. are measured at amortised cost since they are not traded on an active market. Therefore, they are categorised as Level 3.

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

K EUR	Measurement category	Carrying amount as at 31 Dec 2013	Fair value as at 31 Dec 2013	Recognised at		
				Amortised cost	Fair value through equity	Fair value through profit or loss
ASSETS						
Other non-current financial assets						
Participating investments	AfS	238	–	238	–	–
Asset value of the reinsurance cover	AfS	343	343	–	–	343
Trade receivables	LaR	42,101	42,101	42,101	–	–
Other receivables	LaR	69	69	69	–	–
Cash and cash equivalents	LaR	2,837	2,837	2,837	–	–

In the near future, the Company does not plan to sell or derecognise any significant portions of the available-for-sale financial assets recorded as at 31 December 2013.

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	–	–
Cash and cash equivalents	LaR	19,629	19,629	19,629	–	–

K EUR	Measurement category	Carrying amount as at 31 Dec 2013	Fair value as at 31 Dec 2013	Recognised at		
				Amortised cost	Fair value through equity	Fair value through profit or loss
EQUITY AND LIABILITIES						
Liabilities to banks	FLAC	5,718	5,718	5,718		
Trade payables	FLAC	47,881	47,881	47,881	–	–
Other non-current financial liabilities						
Other non-interest-bearing liabilities	FLAC	72	72	72	–	
Other current financial liabilities						
Other non-interest-bearing liabilities	FLAC	7,027	7,027	7,027	–	–

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	–	–

AfS: Available for Sale LaR: Loans and Receivables FLAC: Financial Liabilities measured at Amortized Cost HfT: Held for Trading

The following overview of maturities illustrates how the cash flows from liabilities (not discounted) affect the Group's liquidity situation as at 31 December 2013:

K EUR	Total	2014	2015	2016	2017	2018
Liabilities to banks	3,749	0	1,227	1,214	1,200	108
Trade payables	47,881	47,881	0	0	0	0
Other non-current liabilities	206	58	58	57	9	8
Current liabilities						
to banks	2,093	2,093	0	0	0	0
Other	0	0	0	0	0	0
Total	**53,929**	**50,032**	**1,285**	**1,271**	**1,209**	**116**

The situation as at 31 December 2012 can be summarised as follows:

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**

Capital management

The primary objective of capital management is to ensure that the Group maintains a strong credit rating and healthy equity ratio in order to support its business activity. The Group manages its capital structure and adjusts it to the respective economic conditions. There is no externally set target for its net financial liabilities. The Group monitors its capital structure on the basis of its net financial liabilities and its target ratios in accordance with the covenant provisions. A monthly report is prepared in this regard and discussed at the Management Board meetings. The Group's equity is managed and controlled through a targeted retention of earnings which is defined by a shareholders' resolution. The following table shows the composition of the net financial liabilities as at the respective balance sheet dates.

K EUR	2013	2012
Liabilities to banks	5,718	0
Trade payables	47,881	40,695
Cash and cash equivalents	-2,837	-19,629
Net financial liabilities	**50,762**	**21,066**

Credit risk

Credit risk results from the possibility of the full or partial default of a counterparty and also exists in the context of cash investments. Impairments of trade receivables and other receivables and assets are recognised according to uniform Group rules and cover all recognisable creditworthiness risks. Accordingly, impairments are recognised if there are objective indications of impairments in value, i.e., in the case of a customer insolvency, or when receivables have been overdue for a certain period of time. The Group mainly delivers to renowned automotive manufacturers and suppliers. Credit insurance has been purchased to cover the receivables of SHW Automotive GmbH. Receivables from car manufacturers are not covered by this insurance policy. High levels 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, is limited by the carrying amount of the respective assets of € 35,967 thousand (previous year: € 26,797 thousand). There are no significant risks of default in terms of trade receivables of the SHW Group due to the customer structure.

Liquidity risk

Liquidity risk represents the risk of not being able to meet present or future payment commitments or only being able to do so at unfavourable conditions. The Group monitors the liquidity risk with the assistance of monthly financial plans for the proceeds and expenditures of the forthcoming months. The Group strives to be in a position to meet its financial obligations at all times and seeks the most optimum balance of short-term cash deposits and use of borrowing. This means that the Group seeks a minimum level of liquidity, which is derived from the monthly financial plans, whereby it should be ensured that the Group's capital requirements for current business and planned investments is sufficiently secured in the most cost-effective manner possible. Available cash and liquidity that is not required in the near term are invested e.g., in call-money accounts. A further aim of the Group is to keep its level of working capital as low as possible. A revolving credit facility of € 60 million is available to the Group for borrowing. To date, this facility has been drawn down by € 1.1 million through securities. For further information on the maturities of liabilities, please refer to the explanations under Note (10), “Liabilities”.

Market price risk

The Group is mainly exposed to foreign exchange risks and changes in interest rates. Risks from exchange rate fluctuations originate from capital investments, financing measures, and operating activities in regions using a foreign currency. Interest risks arise from financial instruments bearing a variable interest rate, which have an impact on the Group's interest expenses when the interest rate changes. The management of market price risks is tasked with mitigating the impact of fluctuations in foreign exchange rates and interest rates.

The Group's interest rate risk primarily resulted from the loan agreement concluded on 25 October 2012. The Group has decided not to hedge its interest-rate risk.

Currently, foreign exchange risks exist only to a limited extent at our Brazilian subsidiary and were not material for the Group in the past fiscal year.

The Group's interest rate risk was not material in the past fiscal year.

Collateral issued

At the time of the termination of 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. A land charge of € 2,000 thousand was entered in favour of Kreissparkasse Ostalb by means of a notarised agreement on 19 December 2012. This land charge served as collateral for two KfW development loan of € 4,758 thousand.

(22) Other financial obligations

Financial obligations to third parties arising from initiated investment projects were within the normal scope of business.

K EUR	2013	2012
Obligations from rent and lease agreements:	2,906	3,949
of which due within one year	1,127	2,110
of which due in between one and five years	1,779	1,839
of which due in more than five years	0	0

SHW Automotive GmbH leases cars under a vehicle lease arrangement and also leases five warehouses, a telephone system, and computer hardware. SHW do Brasil leases one warehouse. Machinery leased under the terms of the sale-and-lease-back agreement resulted in € 1,098 thousand (previous year: € 1,098 thousand) in final lease instalments. This agreement has an overall term of 60 months and ended on 31 December 2013. The lease expense for other machinery amounted to € 455 thousand (previous year: € 416 thousand). Expenses from rent and tenancy agreements amounted to € 447 thousand in the 2013 fiscal year (previous year: € 251 thousand).

(23) Auditor's fee

K EUR	2013	2012
Services relating to the audit of the financial statements	131	160
Other assurance services	2	9
Tax consultancy services	0	21
Other services	20	116

Tax advisory services were not provided by our auditor.

(24) Total remuneration of the members of the Management Board and Supervisory Board

K EUR	2013	2012
Short-term benefits (remuneration)	787	829
Long-term benefits (remuneration)	144	219
Post-employment benefits	272	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 amounted to € 240 thousand (previous year: € 240 thousand). The corresponding pension obligations for these persons were covered by accruals of € 2,111 thousand (previous year: € 2,177 thousand).

The total remuneration of the Supervisory Board amounted to € 154 thousand during the fis-cal year (excluding the reimbursement of expenses). In addition, we refer to the remarks in the section titled "Remuneration Report" in the Combined Group Management Report and Management Report.

(25) Cash flow statement

The cash flows shown in the cash flow statement are divided into three categories: operating activities, investing activities, and financing activities. Other non-cash-effective expenses included within the cash flow from operating activities in the 2013 fiscal year were primarily related to non-cash interest expenses, as in the previous year. As at the balance sheet date, there were investments of € 2.8 million in tangible assets for which no cash outflows had occurred during the fiscal year.

The amount of cash and cash equivalents shown in the cash flow statement is comprised of the cash and cash equivalents presented in the balance sheet. Overdrafts of € 960 thousand (previous year: € 0 thousand) existed as at the balance sheet date.

(26) Relationships with related parties

The consolidated financial statements of SHW AG, Aalen, include all major subsidiaries and joint ventures. The following presents the relationships with other related companies:

SHW Holding L.P., Bermuda

Until 7 November 2013, this Group was controlled by SHW Holding L.P., Bermuda, which had held 58.3 percent of the shares. As part of a placement, all shares held by SHW Holding L.P. were offered and the shares of SHW AG are now entirely in free float.

In December, following the successful placement of the 58.3 percent interest of the holding of SHW Holding L.P., the employees contractually received a bonus in the mid single-digit millions from the previous major shareholder and which was forwarded without effecting profit or loss. The execution was carried out through the SHW Automotive GmbH for the purposes of the deduction of income tax and social security contributions. With regard to one-time payments subsequently granted to members of the Management Board, please refer to the Remuneration Report in the combined Group management report and management report.

ISE Group

ISE Automotive GmbH was a company whose shares were also held by the ISE Holding L.P. The ISE Group was sold on 3 May 2013 to the Mexican Metalsa Group.

ISE Automotive GmbH, Bergneustadt, has hosted the SAP system for the SHW Group for a monthly fee of € 3,800 since March 2010.

Other IT support services are invoiced by ISE Automotive GmbH at a daily rate of € 800. In fiscal year 2013, the SHW Group paid € 21 thousand (previous year: € 14 thousand) for such services. The Company also incurred € 63 thousand for the purchase of software licenses.

Hosting and other IT support services provided by ISE Automotive GmbH ended and were terminated as at 31 December 2013. Hosting was transferred to another non-affiliated company in mid-2013.

The payments due from the SHW Group under the contractual relationships listed above, each represented appropriate and customary market-based compensation for the contractual services provided by ISE Automotive GmbH.

In fiscal year 2013, the Management Board of SHW AG was comprised of the following members:

Dr. Ing. Wolfgang Krause, Bad Schussenried (until 30 April 2013)
- Chief Executive Officer and Managing Director of SHW Automotive GmbH, responsible for the Pumps and Engine Components business segment

Dr. Ing. Thomas Buchholz, Leimen (as of 1 August 2013)
- Chief Executive Officer and Managing Director of SHW Automotive GmbH, responsible for the Pumps and Engine Components business segment

Oliver Albrecht, Ulm (until 7 May 2013)
- Chief Financial Officer and Managing Director of SHW Automotive GmbH, responsible for the head office

Sascha Rosengart, Aalen, as of (6 May 2013)
- Chief Financial Officer and Managing Director of SHW Automotive GmbH, responsible for the head office

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

The Supervisory Board members in fiscal year 2013 were:

Anton Schneider, Cologne
- Chairman (until 31 December 2013)
- Managing Director at Nordwind Capital

Further current mandates:
- Deputy Chairman of the Supervisory Board of Linz Textil AG, Austria
- Advisory Board member of Nordwind Erste Industriebeteiligungen GmbH
- Member of the Supervisory Board of GS – Tvornica masina Travinik d.d. slimena b.b., in Bosnia-Herzegovina

Georg Wolf, Dietzenbach
- Chairman (as of 1 January 2014)
- Most recently Chairman of the Management Board of ixetic GmbH, Bad Homburg v. d. Höhe (meanwhile: Magna Powertrain GmbH)

Further current mandates:
- Advisory Board member of Weber-Hydraulik GmbH

Dr. Martin Beck, Ingolstadt
- Deputy Chairman
- Managing Director of Nordwind Capital

Further current mandates:
- Managing Director of Nordwind Capital GmbH
- Managing Director of Nordwind Capital Erste Industriebeteiligungen GmbH
- Managing Director of Nordwind Team Verwaltungs GmbH
- Member of the Supervisory Board and Chairman of the Steering Committee of Shareholders of MEC Holding 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:
- Managing Director of Nordwind Capital GmbH
- Member of the Advisory Board and Managing Director of Nordwind Capital Erste Industriebeteiligungen GmbH
- Managing Partner of Nordwind Finance GmbH
- Member of the Administrative Board of SD Holding SE
- Member of the Supervisory Board of Cargobeamer AG
- Managing Director of the general partner of NCAH Albrecht GmbH & Co.

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

Further current mandates:
- Member of the Supervisory Board of BWK GmbH Unternehmensbeteiligungsgesellschaft
- Member of the Management Board 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
- Deputy Chairman of the Supervisory Board of Wüstenrot Holding AG
- Member of the Supervisory Board of Vorarlberger Landes- und Hypothekenbank AG
- Member of the Advisory 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, Wasseralfingen facility

Ernst Rieber, Bad Saulgau
- Chairman of the Works Committee at SHW Automotive GmbH, Bad Schussenried facility

(27) German Corporate Governance Code

The Management Board and Supervisory Board have submitted a Declaration of Conformity pursuant to § 161 AktG and have made it permanently available to shareholders by publication on the Company's website (www.shw.de).

(28) Events after the balance sheet date

After the balance sheet date there were no significant events that had a material effect on the earnings, financial, or asset position.

LIST OF EQUITY INVESTMENTS PURSUANT TO § 313 PARA. 2 OF THE GERMAN COMMERCIAL CODE AS AT 31 DECEMBER 2013

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)
Schwäbischen Hüttenwerke Zweite Beteiligungs GmbH, Aalen-Wasseralfingen	100	EUR	1	74,611	0*
Schwäbischen 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
SHW Pumps & Engine Components Inc, Kanada	100	CAD	1,4722	4	0

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

Aalen, 11 March 2014

Dr. Ing. Thomas Buchholz
Chief Executive Officer

Sascha Rosengart
Chief Financial Officer

Andreas Rydzewski
Member of the Management Board

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by SHW AG, Aalen, comprising the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement, and the notes to the consolidated financial statements, including the group management report, which is combined with the management report of the company for the fiscal year from 1 January to 31 December 2013. The preparation of the consolidated financial statements and the combined group management report and management report in accordance with the IFRSs, as adopted by the EU, and the applicable supplementary provisions of the German commercial law pursuant to § 315a para. 1 HGB are the responsibility of the legal representatives of the Company. Our task is to express an opinion on the consolidated financial statements and the combined Group management report and management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB in consideration of German generally accepted standards for the audit of financial statements defined by the Institute of Public Auditors in Germany (IDW). Those standards require the audit to be planned and conducted in such a manner as to detect with adequate certainty any inaccuracies or infringements materially affecting the presentation of the net assets, financial position, and results of operations, as conveyed by the consolidated financial statements and the combined Group management report and management report, and in consideration of the applicable accounting principles. In determining the audit procedures, consideration was given to the knowledge of the business activities and the economic and legal environment of the Group, as well as to the possible errors likely to be encountered. In the course of the audit, the effectiveness of the accounting-based internal control system and proofs of the information contained in the consolidated financial statements and in the combined Group management report and management report were assessed primarily on the basis of random samples. The audit encompasses an assessment of the annual financial statements of those entities included in the consolidated financial statements, the determination of the entities to be included in the scope of consolidation, the accounting and consolidation principles applied, and of the principal assessments made by the legal representatives, as well as an evaluation of the overall presentation of the consolidated financial statements and of the combined Group management report and management report. We are of the opinion that our audit provides an adequately secure foundation on which to base our opinion.

Our audit has caused us to raise no objections.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with the IFRSs as adopted by the EU, and with the applicable supplementary provisions of the German commercial law pursuant to § 315a para. 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 Group management report and management report is consistent with the consolidated financial statements and overall presents an accurate image of the position of the Group and the opportunities and risks of future development.

Stuttgart, 11 March 2014

Ebner Stolz GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Christoph Brauchle	Christoph Lehmann
Auditor	Auditor

ASSURANCE OF THE LEGAL REPRESENTATIVES

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and statement of comprehensive income of the Group, and the Group management report and management report of SHW AG represent a fair view of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Aalen, 11 March 2014

Management Board of SHW AG

Dr. Ing. Thomas Buchholz
Chief Executive Officer

Sascha Rosengart
Chief Financial Officer

Andreas Rydzewski
Member of the Management Board

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.

Electric auxiliary pump for hybrids / start-stop system

The electric auxiliary pumps 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

17 March 2014	Annual report 2013
30 April 2014	Interim report for the 1st quarter of 2014
09 May 2014	Annual general meeting 2014 (Congress Centrum Heidenheim)
25 July 2014	Interim report for the 1st half of 2014
28 October 2014	Interim report for the 3rd quarter of 2014

IMPRINT

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

Forward-looking statements

This report contains forward-looking statements regarding SHW AG and the SHW Group. Such statements may be identifi ed by the use of such terms as “expects,” “intends,” “plans,” “assumes,” “pursues the goal,” and similar wording. Various factors, many of which are outside the control of SHW AG, could affect the Company’s business activities, success, business strategy and results. Forward-looking statements are not historical facts, and therefore incorporate known and unknown risks, uncertainties and other important factors that might cause actual results to differ from expectations. These forward-looking statements are based on current plans, goals, estimates and projections, and take account of knowledge only up to and including the date of preparation of this report. Given these risks, uncertainties and other important factors, SHW AG – subject to legal obligations – undertakes no obligation, and has no intent, to revise such forward-looking statements or update them to refl ect future events and developments. Although every effort has been made to ensure that the provided information and facts are correct, and that the opinions and expectations refl ected here are reasonable, SHW AG assumes no liability and offers no warranty as to the completeness, correctness, adequacy and/ or accuracy of any information or opinions contained herein.

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