Interim Report 1 January to 30 September 2016

# FOCUS ON EFFICIENCY

# Contents



# Company profile

The Company was established in 1365, making it one of the oldest industrial companies in Germany. Today, SHW AG is a leading automotive supplier, providing products that make a substantial contribution to reducing fuel consumption and, consequently, to lowering $CO_2$ emissions. In its Pumps and Engine Components business segment, the SHW Group develops and produces pumps for passenger vehicles and industry applications (e.g. trucks, agricultural and construction vehicles, stationary engines and wind farms) as well as engine components. The Brake Discs business segment develops and produces monobloc ventilated brake discs made of cast iron and composite brake discs made of a combination of an iron friction ring and an aluminium pot. The SHW Group's customers include renowned automobile manufacturers, manufacturers of commercial, agricultural and construction vehicles as well as other suppliers to the automotive industry. Currently, the SHW Group has four production sites in Germany located in Bad Schussenried, Aalen-Wasseralfingen, Tuttlingen-Ludwigstal and Neuhausen ob Eck, one site in Brazil (São Paulo) and China (Kunshan) and has a sales and development centre in Toronto, Canada. In addition, SHW Automotive GmbH holds a 51 per cent interest in the joint venture SHW Longji Brake Discs (LongKou) Co., Ltd., in Longkou, China. With just over 1,250 employees, the Company generated Group sales of € 463 million in fiscal year 2015. Further information is available at: www.shw.de

# Highlights

- EBITDA margin increased to 10.4 per cent in first nine months of 2016
- Major order from world's leading manufacturer of fully electric vehicles
- Sales and earnings forecast for 2016 confirmed

# Key performance indicators for the SHW Group

| K EUR | Q3 2016 | Q3 2015 | Q3 Change | Q1-Q3 2016 | Q1-Q3 2015 | Q1-Q3 Change |
|---|---|---|---|---|---|---|
| Sales | 96,956 | 118,343 | -18.1% | 312,219 | 358,454 | -12.9% |
| EBITDA adjusted | 10,714 | 10,025 | 6.9% | 32,469 | 32,996 | -1.6% |
| as % of sales | 11.1% | 8.5% | - | 10.4% | 9.2% | - |
| EBIT adjusted | 4,567 | 4,064 | 12.4% | 14,126 | 16,540 | -14.6% |
| as % of sales | 4.7% | 3.4% | - | 4.5% | 4.6% | - |
| ROCE | - | - | - | 11.6% | 14.3% | - |
| Net income for the period | 3,371 | 2,735 | 23.3% | 9,907 | 12,351 | -19.8% |
| Earnings per share (EUR) | 0.52 | 0.42 | 23.3% | 1.54 | 1.95 | -21.1% |
| Investments | 6,773 | 4,988 | 35.8% | 16,651 | 19,325 | -13.8% |
| as % of sales | 7.0% | 4.2% | - | 5.3% | 5.4% | - |
| Working capital as % of sales | - | - | - | 14.1% | 11.7% | - |
| Equity ratio | - | - | - | 51.2% | 46.6% | - |
| Operating free cash flow | -3,548 | -130 | - | -13,511 | -3,598 | 275.5% |
| Net liquidity / Net financial debt | - | - | - | -7,777 | -9,044 | -14.0% |

# The SHW share

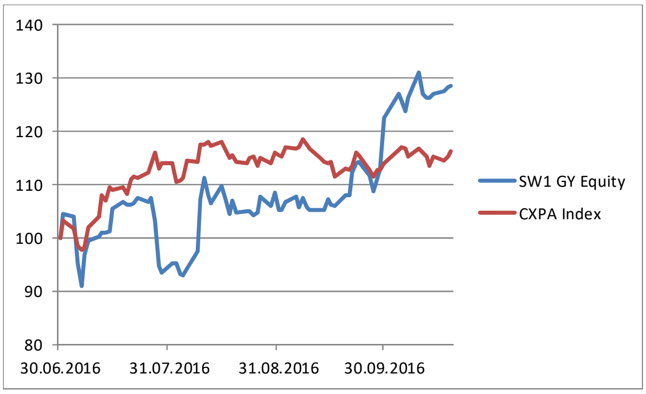
## Diminishing fears over potential Brexit effects ensure positive sentiment on the stock markets

Diminishing fears over the possible effects of the unexpected outcome of the UK's referendum on its membership in the EU ("Brexit"), improving economic data in China, the US Federal Reserve's decision to leave its key interest rates unchanged, the Bank of England's interest-rate cut, robust labour market data in the USA and a lively M&A sector ensured price gains on the international stock markets. Concerns over the stability of the eurozone's banking sector, the lack of increased monetary stimulus measures from the ECB, the attacks in Nice, Munich and Ansbach and the attempted coup in Turkey put only temporarily pressure on the stock markets.

Against this background, the key international market indexes consistently registered price gains. Germany's DAX index led the way, with growth of 8.6 per cent.

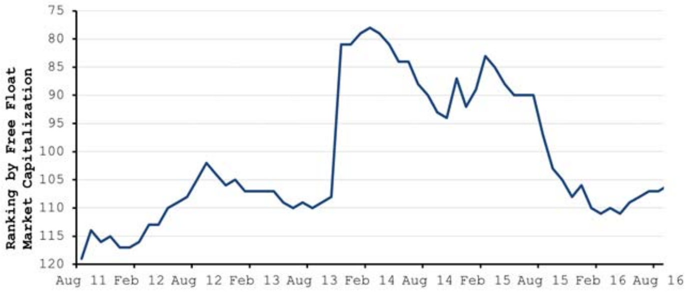
In the third quarter of 2016, sentiment for automobile shares was positively influenced in particular by the growing discussion about electromobility and the electrification of the powertrain as featured at the Paris Motor Show (1 to 16 October). Moreover, the highly robust new registration figures in China were supporting the positive underlying sentiment and overcompensated the weakness on the North American market. Overall, the stock prices of the constituents of the DAXsector Automobile Performance index (CXPA) rose by 13.9 per cent to 1,357 points. In the third quarter of 2016, the SHW share performed much better than the benchmark index, finishing the quarter on a share price of € 32.80, thus outperforming the DAXsector Automobile Performance index by 8.5 percentage points. The SHW share is currently pricing at € 34.55 (as at 25 October 2016).

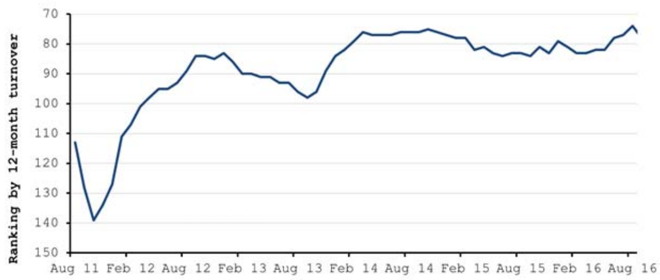
## Price trend for SHW share and DAXsector Automobile Performance index (CXPA) in the period from July 2016 to October 2016




## Clear improvement in MDAX/SDAX ranking

In line with the positive share price trend, also SHW AG's free float market capitalisation has registered a significant improvement over the past few months. Alongside order book sales, this is the second parameter which is relevant for the Company's MDAX/SDAX ranking. As at the reporting date 30 September 2016, SHW AG was in 106th position in terms of its free float market capitalisation ranking and in 78th position in its liquidity ranking. To be readmitted to the SDAX through regular entry, SHW would need to achieve at least 100th position in both of these areas. SHW would qualify for fast entry if it reached 95th position in both rankings.




## Significantly higher interest on the part of value-oriented investors

SHW Investor Relations aims to ensure a fair evaluation of the SHW share by the capital market. It does so on the basis of a continuous and open dialogue with all market participants and by providing precise and valuation-relevant information.

As a capital market-oriented industrial firm listed on the Frankfurt Stock Exchange's Prime Standard segment, SHW AG mainly satisfies market participants' information requirements by means of its quarterly financial reports published three times a year and by actively participating in investor conferences and roadshows.

In the third quarter of 2016, the Management Board and the Investor Relations team of SHW AG once again provided detailed responses to questions from institutional investors by attending a management roadshow organised by Kepler Cheuvreux on 6 and 7 July in London and Edinburgh, Commerzbank's Sector Conference Week held on 31 August in Frankfurt, Bankhaus Lampe's Small Cap Conference on 15 September in Düsseldorf and the German Corporate Conference jointly hosted by Berenberg Bank and Goldman Sachs on 21 September in Munich. SHW also recorded a continuing heightened level of interest on the part of value-oriented investors in individual talks and plant visits.

In the fourth quarter of 2016, on 6 December, SHW AG will attend the Berenberg European Corporate Conference in Pennyhill Park (south-west of London). Early next year, the Company will participate at Kepler Cheuvreux's German Corporate Conference on 17 January.

Further management and investor relations roadshows are currently in the very early planning stages for 2017.

The Company's Investor Relations team will be pleased to assist you with any questions you may have in relation to SHW AG. The Company's IR website offers initial guidance (www.shw.de/cms/en/investor_relations). Please feel free to request any further information which you may require. SHW Investor Relations looks forward to hearing from you.

Investor Relations contacts:

Michael Schickling
Telephone: +49 7361 502 - 462
Fax: +49 7361 527 9020 - 462
Email: michael.schickling@shw.de

# Interim Group Management Report

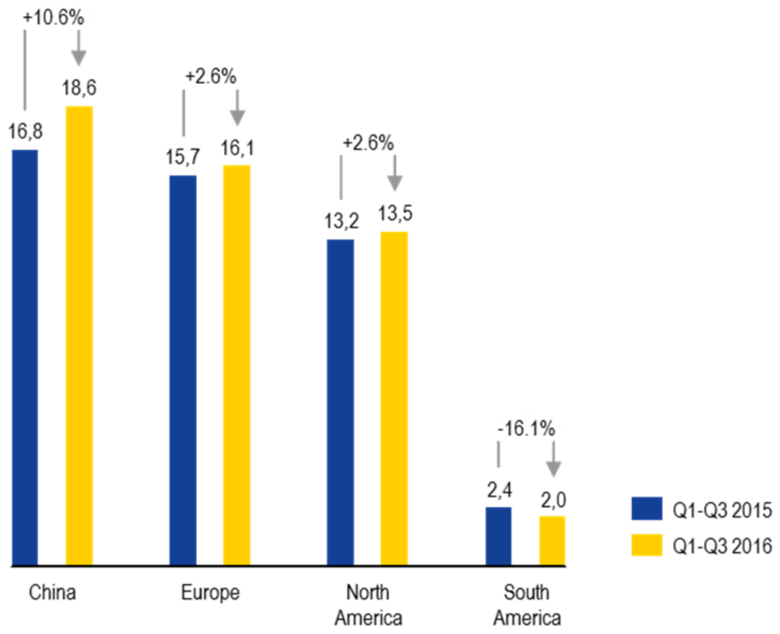
## Industry environment

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

### Continued growth in automobile production

In the period from January to September 2016, according to the most recent surveys conducted by the research firm IHS production of light vehicles (vehicles < 6 tonnes) increased worldwide by 3.4 per cent, from 65.4 million units to 67.7 million units. The trend continued to vary considerably in the world's key regions.

Production of light vehicles by region (millions of units)




Source: IHS – October 2016

Production figures in China increased by 10.6 per cent to 18.6 million vehicles due to the VAT rate for compact cars with displacement of up to 1.6 litres being halved, initially until the end of 2016.

In Europe (including Russia), production figures increased by 2.6 per cent, from 15.7 million vehicles to 16.1 million vehicles. The main sources of this volume growth were Spain (+7.6 per cent to 2.2 million units), the UK (+10.7 per cent to 1.4 million units), France (+5.4 per cent to 1.5 million units) and Italy (+10.7 per cent to 0.8 million units). The production figures for Russia continued to slump (-9.4 per cent to 0.9 million vehicles).

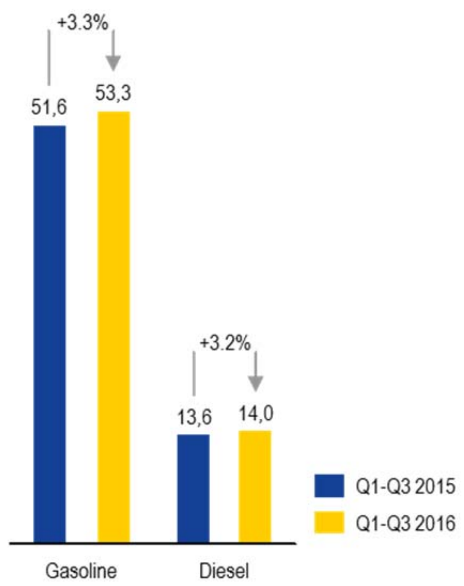
Based on relatively robust consumer demand, North America recorded a production increase from 13.2 million to 13.5 million vehicles (+2.6 per cent).

Vehicle production in South America continued to decline significantly. Light vehicle production fell by 16.1 per cent to 2.0 million units, particularly in light of an ongoing serious recession in Brazil.

## Demand for diesel engines remains stable

In the first nine months of 2016, the production of gasoline engines for light vehicles (< 6 tonnes) increased worldwide by 3.3 per cent to 53.3 million units. Diesel engine production increased by 3.2 per cent to 14.0 million units, with particularly strong growth in Europe, in spite of the ongoing debate surrounding emissions. With 0.3 million units, electric motors continued to play a very minor role.

Engine production worldwide (millions of units)




Source: IHS – October 2016

Engine production in China increased by a total of 10.0 per cent to 18.5 million units between January and September 2016. 17.1 million of these were gasoline engines (+10.2 per cent) and 1.2 million were diesel engines (+1.7 per cent).

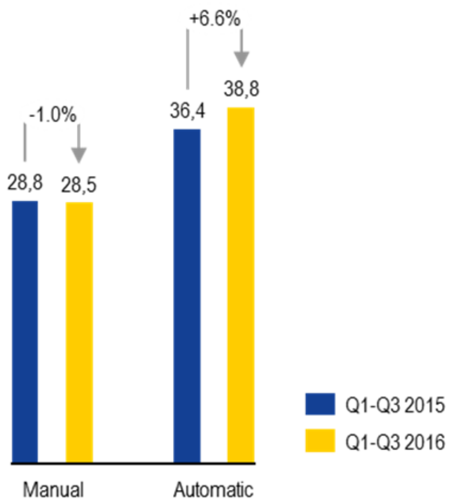
In Europe (including Russia), a total of 17.4 million engines were manufactured (+2.4 per cent on the previous year). Production of diesel engines increased by 4.3 per cent to 8.4 million units, while production of gasoline engines was up by 0.5 per cent to 8.9 million units.

North America, which has always been a gasoline market, recorded a 4.9 per cent increase in production to 12.2 million engines in the first nine months of 2016. Production of gasoline engines reached 11.7 million units (+5.2 per cent), while production of diesel engines declined by 1.2 per cent to 0.4 million units.

## Automatic transmissions continue to gain ground

In the first nine months of 2016, transmission production increased worldwide by 3.4 per cent to 67.7 million units. Production of automatic transmissions increased at an above-average rate of 6.6 per cent, from 36.4 million units to 38.8 million units. Their share of overall production therefore rose from 55.7 per cent to 57.4 per cent. China continued to be the main growth driver, with a 24.3 per cent increase in automatic transmissions to 6.2 million units. North America and Europe likewise recorded increases in automatic transmission production. Production in Europe rose by 3.8 per cent to 6.4 million units – these transmissions' share of overall production increased by approx. 0.7 percentage points from 37.5 per cent to 38.3 per cent. In North America, 11.0 million automatic transmission units were manufactured, 5.2 per cent more than in the first nine months of 2015. The share of overall production amounted to 98.3 per cent.

Transmission production worldwide (millions of units)




Source: IHS – October 2016

# Business performance and results of operations, net assets and financial position of the SHW Group

## Key performance indicators for the SHW Group

| | Q3 | | | Q1-Q3 | | |
|---|---|---|---|---|---|---|
| K EUR | 2016 | 2015 | Change | 2016 | 2015 | Change |
| Sales | 96,956 | 118,343 | -18.1% | 312,219 | 358,454 | -12.9% |
| EBITDA adjusted | 10,714 | 10,025 | 6.9% | 32,469 | 32,996 | -1.6% |
| as % of sales | 11.1% | 8.5% | - | 10.4% | 9.2% | - |
| Depreciation (excl. PPA) | 6,147 | 5,961 | 3.1% | 18,343 | 16,456 | 11.5% |
| as % of sales | 6.3% | 5.0% | - | 5.9% | 4.6% | - |
| EBIT adjusted | 4,567 | 4,064 | 12.4% | 14,126 | 16,540 | -14.6% |
| as % of sales | 4.7% | 3.4% | - | 4.5% | 4.6% | - |
| ROCE | - | - | - | 11.6% | 14.3% | - |
| Net income for the period | 3,371 | 2,735 | 23.3% | 9,907 | 12,351 | -19.8% |

## Results of operations

### Decline in sales in the first nine months

As at 30 September 2016, SHW AG reported Group sales of € 312.2 million (previous year € 358.5 million). As well as the decline in sales in the Pumps and Engine Components business segment, sales in the Brake Discs business segment were depressed by weaker unit sales and lower scrap prices on account of reduced material surcharges.

### Cost of sales ratio slightly down year-on-year

In the reporting period, the cost of sales decreased by 13.3 per cent, from € 322.6 million to € 279.7 million. The cost of sales ratio thus declined from 90.0 per cent to 89.6 per cent.

The negative effects of the lower total output were more than made up for on the earnings side through productivity gains achieved through the efficiency measures implemented in Powder Metallurgy at the Company's Aalen-Wasseralfingen plant and the associated elimination of operational and logistical bottlenecks in pump assembly at its Bad Schussenried plant. Despite the decline in sales, the gross profit margin increased in the reporting period from 10.0 per cent to 10.4 per cent.

### Selling and administrative expenses influenced by internationalisation

In the first nine months of the fiscal year 2016, general selling and administrative expenses increased from € 13.8 million to € 14.3 million. In particular, this increase reflects the establishment and expansion of the Company's international sites.

## Research and development costs stable

At around € 5.3 million, research and development costs in the first nine months of 2016 were at the previous year's level. In addition, development costs of € 0.7 million (previous year € 0.7 million) were capitalised. Further development services were billed within the scope of customer orders. The R&D ratio (including capitalised development costs) accordingly amounts to 1.7 per cent of sales (previous year 1.5 per cent). Transmission oil pumps and the electrification of pumps were the core areas of development in the Pumps and Engine Components business segment. The Brake Discs business segment is focusing on the ongoing development of high-quality composite brake discs and other lightweight concepts.

## Other operating income and expenses

The balance of other operating income and other operating expenses in the first nine months of 2016 was above the previous year's level at € 1.1 million.

## EBITDA margin increased to 10.4 per cent

In the first nine months of the fiscal year 2016, adjusted consolidated earnings before interest, taxes, depreciation and amortisation (EBITDA adjusted) amounted to € 32.5 million (previous year € 33.0 million). The EBITDA margin increased from 9.2 per cent to 10.4 per cent.

The Pumps and Engine Components business segment recorded adjusted earnings of € 27.1 million (previous year € 26.0 million). Adjusted earnings in the Brake Discs business segment amounted to € 6.6 million (previous year € 7.8 million).

## Adjusted EBIT declined due to significant increase in depreciation

Due to the 11.5 per cent investment-related increase in depreciation from € 16.5 million to € 18.3 million, adjusted income before interest and tax (EBIT adjusted) decreased from € 16.5 million to € 14.1 million. The adjusted EBIT margin decreased to 4.5 per cent, compared to 4.6 per cent in the previous year.

Of the adjusted EBIT figure, € 12.4 million (previous year € 12.9 million) relates to the Pumps and Engine Components business segment and € 3.2 million (previous year € 4.6 million) to the Brake Discs business segment.

## ROCE influenced by internationalisation, working capital and high level of depreciation

The return on capital employed (ROCE) decreased from 14.3 per cent to 11.6 per cent in the first nine months of 2016.

| K EUR | 30.09.2016 | 30.09.2015 |
|---|---|---|
| Goodwill | 7,055 | 7,055 |
| Other intangible assets | 9,054 | 11,638 |
| Property, plant and equipment | 95,240 | 95,959 |
| Deferred tax assets | 5,025 | 4,659 |
| Joint ventures accounted for according to the equity method | 15,974 | 16,535 |
| Other (financial) assets (non-current) | 1,199 | 1,054 |
| Inventories | 46,704 | 39,960 |
| Trade receivables | 46,293 | 61,763 |
| Other (financial) assets (current) | 3,257 | 2,475 |
| **Capital employed asset item** | 229,801 | 241,098 |
| Deferred tax liabilities | -2,639 | -3,263 |
| Other accruals (non-current) | -4,078 | -3,652 |
| Other financial liabilities (non-current) | -103 | -106 |
| Trade payables | -34,345 | -47,298 |
| Other financial liabilities (current) | -9,072 | -6,220 |
| Income tax liabilities | -1,728 | -1,163 |
| Other accruals (current) | -7,569 | -9,534 |
| Other liabilities (current) | -9,440 | -12,060 |
| **Capital employed liability item** | -68,974 | -83,296 |
| Capital employed | 160,827 | 157,802 |
| EBIT adjusted (12 months) | 18,614 | 21,059 |
| Net income from joint ventures accounted for according to the equity method (12 months) | 120 | 1,466 |
| EBIT adjusted including net income from joint ventures accounted for according to the equity method (12 months) | 18,734 | 22,525 |
| **ROCE** | **11.6%** | **14.3%** |

## Financial result and income from investments

In the period from January to September 2016, the balance of financial income and expenses – excluding income from investments – was slightly lower than in the previous year. In particular, this reflects a lower average level of financial debt compared to the previous year.

Net income from joint ventures accounted for according to the equity method relates exclusively to the Chinese joint venture SHW Longji Brake Discs (LongKou) Co., Ltd., which has been included in the consolidated financial statements of SHW AG since 1 April 2015. Of the previous year's figure of € 1.5 million, € 1.2 million relates to the recording through profit or loss of negative goodwill from the company's initial recognition in the second quarter of 2015.

### Income taxes

Income taxes decreased by € 0.8 million to € 3.6 million, due to the lower pre-tax earnings in the first nine months of the fiscal year 2016. At 26.7 per cent, the Group's tax ratio is slightly above the previous year's level of 26.4 per cent.

### Net income for the period

Earnings after tax decreased by € 2.4 million to € 9.9 million in the first nine months of the fiscal year 2016 due to the decrease in sales. In the first nine months of 2016, earnings per share reached € 1.54, compared with € 1.95 in the previous year.

## Development of the business segments

### Pumps and Engine Components business segment

### Key performance indicators – Pumps and Engine Components

| | Q3 | | | Q1-Q3 | | |
|---|---|---|---|---|---|---|
| K EUR | **2016** | **2015** | Change | **2016** | **2015** | Change |
| Sales | 74,833 | 93,275 | -19.8% | 245,438 | 284,034 | -13.6% |
| EBITDA adjusted | 8,392 | 7,759 | 8.2% | 27,145 | 25,982 | 4.5% |
| as % of sales | 11.2% | 8.3% | - | 11.1% | 9.1% | - |
| Depreciation (excl. PPA) | 4,970 | 4,757 | 4.5% | 14,781 | 13,069 | 13.1% |
| as % of sales | 6.6% | 5.1% | - | 6.0% | 4.6% | - |
| EBIT adjusted | 3,422 | 3,002 | 14.0% | 12,364 | 12,913 | -4.3% |
| as % of sales | 4.6% | 3.2% | - | 5.0% | 4.5% | - |
| ROCE | - | - | - | 17.1% | 17.0% | - |

### Declining sales trend in line with expectations

The Pumps and Engine Components business segment reported sales of € 245.4 million in the first nine months of 2016 (previous year € 284.0 million). Sales in the Passenger Car division declined from € 237.7 million to € 203.7 million. This decline in sales is due in particular to the termination of a contract for camshaft phasers for diesel vehicles as part of a customer's changeover to the urea injection system (SCR technology).

The Industry division contributed € 20.7 million to sales (previous year € 22.0 million).

The Powder Metallurgy division closed the first nine months of 2016 with consolidated sales of € 21.0 million (previous year € 24.3 million).

### EBITDA margin increased to 11.1 per cent

Despite the decline in sales, the Pumps and Engine Components business segment recorded improved adjusted EBITDA of € 27.1 million in the period under review (previous year € 26.0 million). The EBITDA margin increased from 9.1 per cent to 11.1 per cent.

Following the timely conclusion of measures to boost powder metallurgy productivity at the plant in Aalen-Wasseralfingen at the end of the first quarter of 2016, the operational and logistical bottlenecks in pump production in Bad Schussenried were likewise eliminated. Lower costs for external processing, finishing and expedited freights have made a significant contribution to the improved EBITDA margin.

The business of the foreign subsidiaries in Canada and China developed as planned. Expenses for the forward-looking establishment and expansion of these two foreign plants are incorporated in the operating segment earnings.

### EBIT influenced by higher depreciation due to investments

Due to the 13.1 per cent increase in depreciation to € 14.8 million, the segment’s adjusted earnings before interest and tax (EBIT adjusted) decreased from € 12.9 million to € 12.4 million. The adjusted EBIT margin of 5.0 per cent was half a percentage point above the previous year’s level.

## Development of the Brake Discs business segment

### Key performance indicators – Brake Discs

| | Q3 | | | Q1-Q3 | | |
|---|---|---|---|---|---|---|
| K EUR | 2016 | 2015 | Change | 2016 | 2015 | Change |
| Sales | 22,123 | 25,068 | -11.7% | 66,781 | 74,420 | -10.3% |
| EBITDA adjusted | 2,817 | 2,710 | 3.9% | 6,579 | 7,805 | -15.7% |
| as % of sales | 12.7% | 10.8% | - | 9.9% | 10.5% | - |
| Depreciation (excl. PPA) | 1,102 | 1,127 | -2.2% | 3,336 | 3,180 | 4.9% |
| as % of sales | 5.0% | 4.5% | - | 5.0% | 4.3% | - |
| EBIT adjusted | 1,715 | 1,583 | 8.3% | 3,243 | 4,625 | -29.9% |
| as % of sales | 7.8% | 6.3% | - | 4.9% | 6.2% | - |
| ROCE | - | - | - | 6.9% | 13.0% | - |

### Sales influenced by falling unit sales and lower material surcharges

In the Brake Discs business segment, sales declined by 10.3 per cent to € 66.8 million in the first nine months of the 2016 fiscal year. This was mainly due to the decline in sales of single-piece brake discs, which could not be completely offset by higher sales of composite brake discs. Sales were also depressed – during most of the first nine months – by lower cost prices for scrap and correspondingly reduced material surcharges which were passed on to the customers.

### EBITDA margin of 9.9 per cent

The lower capacity utilisation was partially compensated by the disciplined implementation of productivity-boosting measures and the ramp-up of composite brake discs. Adjusted EBITDA in the Brake Discs business segment therefore declined by just € 1.2 million in the first nine months to € 6.6 million. The EBITDA margin decreased from 10.5 per cent to 9.9 per cent. There was briefly a significant spike in cost prices for scrap in the second quarter of 2016. This price increase could not be passed on to the customers until the third quarter of 2016.

### EBIT adjusted influenced by higher depreciation

Due to a further 4.9 per cent increase in depreciation to € 3.3 million, adjusted earnings before interest and tax (EBIT adjusted) decreased from € 4.6 million to € 3.2 million. The adjusted EBIT margin accordingly decreased to 4.9 per cent, compared to 6.2 per cent in the previous year.

## Net asset position

### Fixed assets

Other intangible assets and property, plant and equipment totalled € 104.3 million as at 30 September 2016, € 3.3 million below the previous year's level. Depreciation considerably outstripped asset additions in the past nine months.

### Working capital ratio above target value

| K EUR | **30.09.2016** | **30.09.2015** | Change in absolute terms | Change as % |
|---|---|---|---|---|
| Inventories | 46,704 | 39,960 | 6,744 | 16.9% |
| Trade receivables | 46,293 | 61,763 | -15,470 | -25.0% |
| Trade payables | -34,345 | -47,298 | 12,953 | -27.4% |
| Working capital | 58,652 | 54,425 | 4,227 | 7.8% |
| as % of sales | 14.1% | 11.7% | - | - |

As at 30 September 2016, working capital increased by € 4.2 million compared to the previous year and amounted to € 58.7 million. At 14.1 per cent, the working capital ratio – referring to the Group sales over the past twelve months – was 2.4 percentage points above the previous year's level and therefore also above the long-term target of 11.0 per cent.

As at the end of the third quarter of 2016, inventories increased by € 6.7 million compared to their volume as at 30 September 2015. This rise is largely attributable to an increase in inventories of finished goods resulting from a reduction in delivery backlogs and the corresponding improvement in delivery readiness.

The 25.0 per cent decrease in trade receivables to € 46.3 million compared to 30 September 2015 is particularly high compared to the 12.9 per cent decline in sales and is mainly attributable to a targeted accounts receivable management system.

Trade payables decreased by around € 13.0 million on the same quarter in the previous year to € 34.3 million. In addition to the lower business volume in the first nine months of 2016, this development is in particular attributable to comparatively low asset additions.

### Equity ratio above 50 per cent

Equity increased by € 6.2 million to € 119.5 million compared to 30 September 2015. In particular, net income over the past twelve months totalling € 11.9 million boosted the Company's equity. This contrasts with a dividend payment of € 6.4 million. A reduction in the balance sheet total of € 9.4 million to € 233.4 million led the equity ratio to increase from 46.6 per cent as at 30 September 2015 to 51.2 per cent as at 30 September 2016.

### Other liabilities

The increase in other current financial liabilities relates to the second purchase price instalment still outstanding for the joint venture SHW Longji Brake Discs (LongKou) Co., Ltd., which translates to € 6.6 million.

## Financial position

### Free cash flow in the first nine months of 2016 influenced by increase in working capital and lower investments

| | Q3 | | Q1-Q3 | |
|---|---|---|---|---|
| K EUR | **2016** | **2015** | **2016** | **2015** |
| Cash flow from operating activities | 3,193 | 4,849 | 2,913 | 18,021 |
| Cash flow from investing activities (intangible assets and property, plant and equipment) | -6,741 | -4,979 | -16,424 | -21,619 |
| **Free operating cash flow** | **-3,548** | **-130** | **-13,511** | **-3,598** |
| Cash flow from investing activities (financial assets) | 0 | 0 | 0 | -8,931 |
| **Total free cash flow** | **-3,548** | **-130** | **-13,511** | **-12,529** |
| Other items (in particular, capital increase/dividend payments) | -9 | -54 | -6,594 | 17,841 |
| **Change in net liquidity** | **-3,557** | **-184** | **-20,105** | **5,312** |

Over the first nine months of the fiscal year 2016, the SHW Group generated cash flow from operating activities in the amount of € 2.9 million (previous year: € 18.0 million). On the basis of a € 2.4 million decrease in net income for the period, higher depreciation (€ +1.8 million) and other non-cash effective expenses and income (€ +2.2 million), had a particularly positive influence on the operating cash flow. This was in particular offset by cash-effective changes in inventories, receivables, other assets and liabilities (€ -8.1 million) and a decline in provisions (€ -7.6 million).

As a result, working capital increased by € 4.2 million compared to the same period in the previous year and was therefore the major cause of the reduction in operating cash flow.

In the first nine months of 2016, cash flow from investing activities relating to intangible assets and property, plant and equipment was significantly lower than the previous year's figure of € -30.6 million at € -16.4 million. Of the fixed asset additions in the first nine months of the reporting year, € 11.6 million related to the Pumps and Engine Components business segment and € 4.8 million to the Brake Discs business segment.

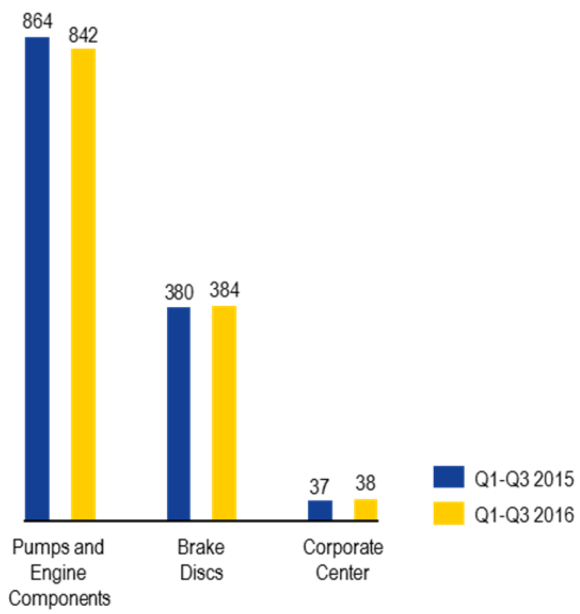
### Net financial liabilities reduced by € 1.3 million

Net financial liabilities amounted to € 7.8 million at the end of the first nine months. This represents an improvement of € 1.3 million on the previous year's figure.

## Employees

In the first nine months of the fiscal year 2016, the Group's average number of employees decreased on the previous year from 1,281 to 1,264. The Pumps and Engine Components business segment's German plants mostly accounted for this reduction in employees. The number of employees at international plants increased to 26.

### Average number of employees




## Report on risks and opportunities

No significant changes have resulted in the assessment of the risks and opportunities for the SHW Group compared to the comments on risks and opportunities provided in the Company's Annual Report for 2015 (pages 63 to 70 and 73 to 74).

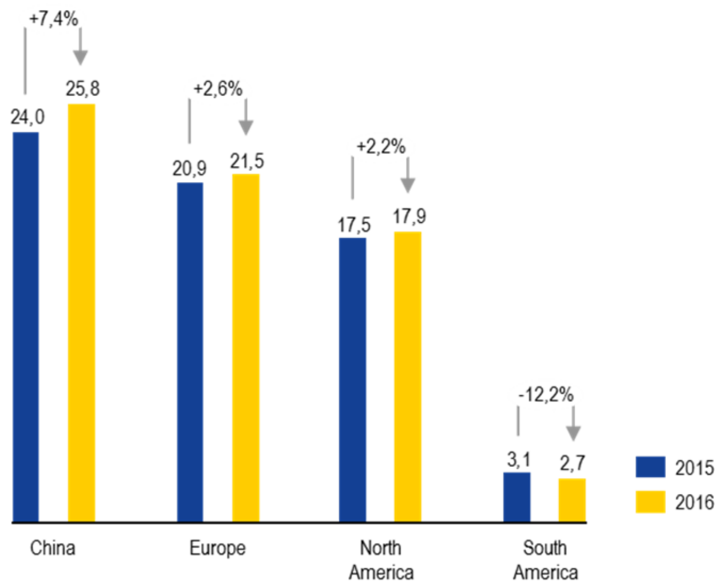
# Forecast

## Outlook for the industry

### Moderate growth rates anticipated for 2016

Based on the most recent forecasts, the IHS market research institute expects global light vehicle production (vehicles < 6 tonnes) to increase by 3.0 per cent in 2016, from 88.7 million vehicles to 91.4 million vehicles. The key growth drivers here are the increases in production in China and Europe (including Russia). IHS assumes growth of 7.4 per cent to 25.8 million vehicles for China (incl. Taiwan), and for Europe an increase of 2.6 per cent to 21.5 million vehicles. IHS still expects to see a significant downturn in production of 12.2 per cent to 2.7 million vehicles in South America.

Production of light vehicles by region (millions of units)



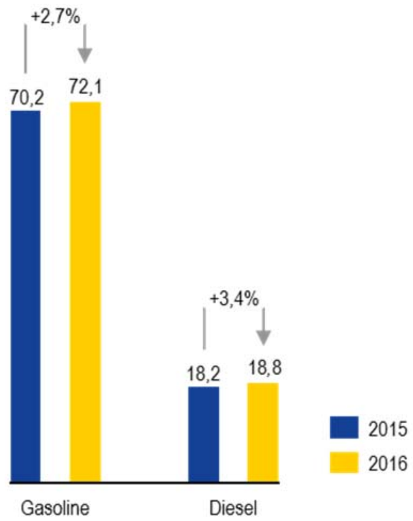

Source: IHS – October 2016

IHS's experts are anticipating a 2.6 per cent increase in production in Europe in 2016. This growth will mainly be supported by increases in production in Spain (+6.6 per cent to 2.9 million vehicles), the UK (+9.2 per cent to 1.8 million vehicles), France (+5.7 per cent to 2.1 million vehicles) and Turkey (+8.5 per cent to 1.4 million vehicles).

### Further growth in combustion engines

Based on the IHS research institute's analyses, the assumption is that global engine production will increase by 3.0 per cent to 91.4 million units in 2016. The gasoline engine remains the leading engine type, with a global market share of 78.9 per cent (previous year 79.1 per cent). The industry experts predict slight growth of 3.4 per cent for diesel engines worldwide in 2016, to 18.8 million units. This would represent a market share of 20.5 per cent (previous year 20.5 per cent). Electric motors continue to play a subordinate role, accounting for 0.5 per cent of global engine production.

Engine production worldwide (millions of units)




Source: IHS – October 2016

China's expected volume growth of 7.0 per cent to 25.7 million units mainly relates to the production of gasoline engines (+6.8 per cent). Diesel engines will remain a long way behind, with a market share of 6.7 per cent.

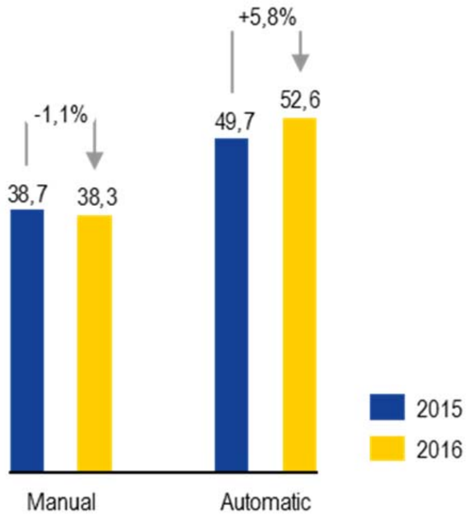
In Europe, diesel engines are expected to register slightly increased production figures, with 11.2 million units (+4.0 per cent). Gasoline engines are expected to account for 11.9 million units (+1.3 per cent).

North America remains a gasoline market and the production of gasoline engines there is expected to realise above-average growth of 4.0 per cent, amounting to 15.5 million units. In North America, the diesel engine will remain a peripheral phenomenon in 2016, with a market share of 3.2 per cent.

### Global increase of around 6 per cent expected for automatic transmissions

For 2016, IHS predicts global transmission production growth of 3.0 per cent to 91.4 million units. This volume growth is exclusively attributable to the automatic transmission segment, whose share of global production is expected to increase by a further 1.5 percentage points, from 56.0 per cent to 57.5 per cent. The growth drivers here are the production plants in China (+21.5 per cent to 8.8 million units) and North America (+3.4 per cent to 14.5 million units). Automatic transmission production is also forecast to increase in Europe, by 3.8 per cent to 8.5 million units.

Transmission production worldwide (millions of units)




Source: IHS – October 2016

## Outlook for the Group

The outlook for 2016 as a whole remains unchanged on the financial report for the first six months of the year as at 29 July 2016. Assuming a stable order situation, SHW AG expects Group sales in the lower end of the € 410 million to € 430 million range for 2016. It is forecasting sales of between € 320 million and € 340 million in the Pumps and Engine Components business segment and sales of around € 90 million in the Brake Discs business segment (previous year € 98 million), taking into account the lower material surcharges.

The Company continues to expect a year-on-year improvement in the EBITDA margin and adjusted EBITDA at the lower end of the € 43 million to € 47 million range in 2016. In particular, this reflects the positive effects of the implementation of the efficiency-boosting measures to improve business process structures in both business segments.

Aalen, 26 October 2016

The Management Board of SHW AG

| | | |
|---|---|---|
| Dr Frank Boshoff | Andreas Rydzewski | Martin Simon |
| Chief Executive Officer | Member of the Management Board | Chief Financial Officer |

# Interim Consolidated Financial Statements in accordance with IFRS as at 30 September 2016

## Consolidated Income Statement (unaudited) for the period from 1 January to 30 September 2016

| K EUR | Q3 2016 | Q3 2015 | Q1-Q3 2016 | Q1-Q3 2015 |
|---|---|---|---|---|
| Sales | 96,956 | 118,343 | 312,219 | 358,454 |
| Cost of sales | -86,534 | -106,491 | -279,685 | -322,557 |
| Gross profit | 10,422 | 11,852 | 32,534 | 35,897 |
| Selling expenses | -1,707 | -1,670 | -5,149 | -4,650 |
| General administrative expenses | -3,103 | -3,215 | -9,110 | -9,167 |
| Research and development costs | -1,845 | -2,068 | -5,261 | -5,307 |
| Other operating income | 1,509 | 137 | 3,094 | 1,561 |
| Other operating expenses | -709 | -1,010 | -1,982 | -2,075 |
| Operating result | 4,567 | 4,026 | 14,126 | 16,259 |
| Financial income | 1 | 5 | 11 | 10 |
| Financial expenses | -276 | -324 | -827 | -944 |
| equity method | 73 | 144 | 203 | 1,466 |
| Earnings before tax | 4,365 | 3,851 | 13,513 | 16,791 |
| Deferred taxes | 616 | 129 | 955 | -45 |
| Current income tax | -1,610 | -1,245 | -4,561 | -4,395 |
| Earnings after tax | 3,371 | 2,735 | 9,907 | 12,351 |
| **Net income for the period** | **3,371** | **2,735** | **9,907** | **12,351** |
| Earnings per share in EUR (basic and diluted) | 0.52 | 0.42 | 1.54 | 1.95 |

# Consolidated Statement of Comprehensive Income (unaudited) for the period from 1 January to 30 September 2016

| | Q3 | | Q1-Q3 | |
|---|---|---|---|---|
| K EUR | **2016** | **2015** | **2016** | **2015** |
| **Net income for the period** | 3,371 | 2,735 | 9,907 | 12,351 |
| **Items that will not be reclassified to the income statement in future periods** | | | | |
| Actuarial gains/losses from pension accruals and similar obligations before tax | 0 | 0 | 0 | 0 |
| Tax effect | 0 | 0 | 0 | 0 |
| **Items that may be reclassified to the income statement in future periods** | | | | |
| Currency translation differences | 42 | -139 | 663 | -57 |
| Tax effect | 0 | 0 | 0 | 0 |
| Unrealised gains/losses from currency translation for joint ventures accounted for according to the equity method | -217 | -719 | -898 | -1,140 |
| Tax effect | | 0 | 0 | 0 |
| Other earnings after tax | -175 | -858 | -235 | -1,197 |
| **Total comprehensive income after tax** | **3,196** | **1,877** | **9,672** | **11,154** |
| Net income for the period attributable to | | | | |
| - shareholders of SHW AG | 3,371 | 2,735 | 9,907 | 12,351 |
| - holders of non-controlling interests | 0 | 0 | 0 | 0 |
| Total comprehensive income attributable to | | | | |
| - shareholders of SHW AG | 3,196 | 1,877 | 9,672 | 11,154 |
| - holders of non-controlling interests | 0 | 0 | 0 | 0 |

# Consolidated Balance Sheet (unaudited) as at 30 September 2016

**ASSETS**

| K EUR | 30.09.2016 | 31.12.2015 | 30.09.2015 |
|---|---|---|---|
| Goodwill | 7,055 | 7,055 | 7,055 |
| Other intangible assets | 9,054 | 11,346 | 11,638 |
| Property, plant and equipment | 95,240 | 94,810 | 95,959 |
| Deferred tax assets | 5,025 | 4,668 | 4,659 |
| Joint ventures accounted for according to the equity method | 15,974 | 16,669 | 16,535 |
| Other financial assets | 341 | 341 | 362 |
| Other assets | 858 | 577 | 692 |
| **Non-current assets** | 133,547 | 135,466 | 136,900 |
| Inventories | 46,704 | 41,630 | 39,960 |
| Trade receivables | 46,293 | 34,388 | 61,763 |
| Other financial assets | 526 | 401 | 118 |
| Other assets | 2,731 | 3,764 | 2,357 |
| Cash and cash equivalents | 3,629 | 14,814 | 1,737 |
| **Current assets** | 99,883 | 94,997 | 105,935 |
| **Total assets** | **233,430** | **230,463** | **242,835** |

**EQUITY AND LIABILITIES**

| K EUR | 30.09.2016 | 31.12.2015 | 30.09.2015 |
|---|---|---|---|
| Subscribed capital | 6,436 | 6,436 | 6,436 |
| Capital reserves | 38,510 | 38,510 | 38,510 |
| Revenue reserves | 79,529 | 76,058 | 74,058 |
| Other reserves | -4,999 | -4,764 | -5,745 |
| **Equity** | 119,476 | 116,240 | 113,259 |
| Pension accruals and similar obligations | 26,083 | 26,274 | 27,698 |
| Deferred tax liabilities | 2,639 | 3,237 | 3,263 |
| Other accruals | 4,078 | 3,972 | 3,652 |
| Other financial liabilities | 933 | 7,855 | 7,816 |
| Liabilities to banks | 405 | 1,297 | 1,594 |
| **Non-current liabilities and accruals** | 34,138 | 42,635 | 44,023 |
| Liabilities to banks | 11,001 | 1,189 | 9,187 |
| Trade payables | 34,345 | 43,484 | 47,298 |
| Other financial liabilities | 15,733 | 7,088 | 6,311 |
| Income tax liabilities | 1,728 | 2,013 | 1,163 |
| Other accruals | 7,569 | 9,984 | 9,534 |
| Other liabilities | 9,440 | 7,830 | 12,060 |
| **Current liabilities and accruals** | 79,816 | 71,588 | 85,553 |
| **Total equity and liabilities** | **233,430** | **230,463** | **242,835** |

# Consolidated Cash Flow Statement (unaudited) for the period from 1 January to 30 September 2016

| K EUR | Q1-Q3 2016 | 2015 |
|---|---|---|
| **1. Cash flow from operating activities** | | |
| Net income for the period | 9,907 | 12,351 |
| Depreciation / amortisation (+) of fixed assets | 18,343 | 16,569 |
| Income tax expenses through profit or loss (+) | 4,561 | 4,395 |
| Income taxes paid (-) | -4,923 | -3,642 |
| Financing costs through profit or loss (+) | 827 | 944 |
| Interest paid (-) | -219 | -352 |
| Financial investment income through profit or loss (-) | -11 | -10 |
| Interest received (+) | 11 | 10 |
| Increase (+) / decrease (-) in accruals | -2,937 | 4,699 |
| Change in deferred taxes | -955 | -57 |
| Other non-cash effective expenses (+) / income (-) | 1,845 | -376 |
| Gain (-) / loss (+) from the disposal of assets | 45 | 264 |
| Net income from joint ventures accounted for according to the equity method | -203 | -1,466 |
| Increase (-) / decrease (+) in inventories, trade receivables and other assets | -18,181 | -13,632 |
| Increase (-) / decrease (+) in trade payables and other liabilities | -5,197 | -1,676 |
| **Cash flow from operating activities** | **2,913** | **18,021** |
| **2. Cash flow from investing activities** | | |
| Cash received (+) from the disposal of tangible assets | 227 | 9 |
| Cash paid (-) for investments in tangible assets | -15,712 | -20,050 |
| Cash paid (-) for investments in intangible assets | -939 | -1,578 |
| Cash paid (-) for investments in financial assets | 0 | -8,931 |
| **Cash flow from investing activities** | **-16,424** | **-30,550** |

| K EUR | Q1-Q3 2016 | 2015 |
|---|---|---|
| **3. Cash flow from financing activities** | | |
| Cash received (+) from the assumption of financial liabilities | 9,811 | 0 |
| Cash paid (-) for the redemption of financial liabilities | -891 | -3,867 |
| Cash received (+) from the issue of shares | 0 | 24,315 |
| Dividends paid (-) to shareholders | -6,436 | -6,436 |
| Cash paid (-) for finance leasing | -98 | 0 |
| **Cash flow from financing activities** | **2,386** | **14,012** |
| **4. Cash and cash equivalents at the end of the period** | | |
| Cash-effective changes in cash and cash equivalents (sum of positions 1–3) | -11,125 | 1,483 |
| Exchange rate-related changes in cash and cash equivalents | -60 | -67 |
| Cash and cash equivalents at the beginning of the period | 14,814 | 292 |
| Changes in cash from scope of consolidation related changes | 0 | 29 |
| **Cash and cash equivalents at the end of the period** | **3,629** | **1,737** |

# Statement of Changes in Group Equity (unaudited) as at 30 September 2016

| K EUR | Subscribed capital | Capital reserves | Revenue reserves | Other reserves | **Total equity** |
|---|---|---|---|---|---|
| Position as at 1 January 2015 | 5,851 | 14,780 | 68,424 | -4,548 | 84,507 |
| Changes from actuarial gains and losses | 0 | 0 | 0 | 0 | 0 |
| Unrealised gains/losses from currency translation for joint ventures accounted for according to the equity method | 0 | 0 | 0 | -1,140 | -1,140 |
| Foreign currency translation differences | 0 | 0 | 0 | -57 | -57 |
| Income recognised directly in equity | 0 | 0 | 0 | -1,197 | -1,197 |
| Net income for the period – Q1-Q3 of 2015 | 0 | 0 | 12,351 | 0 | 12,351 |
| Total comprehensive income for the period | 0 | 0 | 12,351 | -1,197 | 11,154 |
| First-time consolidation of subsidiaries previously non-consolidated for reasons of materiality | 0 | 0 | -281 | 0 | -281 |
| Issue of shares | 585 | 23,730 | 0 | 0 | 24,315 |
| Dividends paid | 0 | 0 | -6,436 | 0 | -6,436 |
| **Position as at 30 September 2015** | **6,436** | **38,510** | **74,058** | **-5,745** | **113,259** |

| K EUR | Subscribed capital | Capital reserves | Revenue reserves | Other reserves | **Total equity** |
|---|---|---|---|---|---|
| Position as at 1 January 2016 | 6,436 | 38,510 | 76,058 | -4,764 | 116,240 |
| Changes from actuarial gains and losses | 0 | 0 | 0 | 0 | 0 |
| Unrealised gains/losses from currency translation for joint ventures accounted for according to the equity method | 0 | 0 | 0 | -898 | -898 |
| Foreign currency translation differences | 0 | 0 | 0 | 663 | 663 |
| Income recognised directly in equity | 0 | 0 | 0 | -235 | -235 |
| Net income for the period – Q1-Q3 2016 | 0 | 0 | 9,907 | 0 | 9,907 |
| Total comprehensive income for the period | 0 | 0 | 9,907 | -235 | 9,672 |
| Dividends paid | 0 | 0 | -6,436 | 0 | -6,436 |
| **Position as at 30 September 2016** | **6,436** | **38,510** | **79,529** | **-4,999** | **119,476** |

# Notes to the Interim Consolidated Financial Statements (unaudited) for the period from 1 January to 30 September 2016

## Principles and methods applied in the Interim Consolidated Financial Statements

These abridged, unaudited Interim Consolidated Financial Statements of SHW AG, Wilhelmstrasse 67, 73433 Aalen, as at 30 September 2016 have been prepared in compliance with the provisions of the International Accounting Standards on interim reporting (IAS 34) and in application of Section 315a of the German Commercial Code (HGB) in conjunction with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as applicable in the European Union (EU) as at the reporting date for the interim financial statements.

In accordance with IAS 34, the Interim Consolidated Financial Statements do not include all of the disclosures which are required in Consolidated Financial Statements as at the end of the fiscal year. Accordingly, these financial statements should be read in conjunction with the Consolidated Financial Statements for the fiscal year 2015.

SHW AG is a public limited company under German law and has been entered in the German commercial register under the no. HRB 726621. The Group's main activities are the manufacturing and sale of pumps and engine components as well as brake discs. Its customers mainly comprise manufacturers and suppliers in the automotive industry.

The Management Board forwarded these interim consolidated financial statements to the Audit Committee of the Supervisory Board on 20 October 2016. They cover the period from 1 January to 30 September 2016 compared to the same period in the previous year. The Interim Consolidated Financial Statements have been prepared in euros. Unless indicated otherwise, the figures shown in the Interim Consolidated Financial Statements are stated in thousand euros.

In the view of the Management Board, the Interim Consolidated Financial Statements include all of the standard, regular adjustments and accruals which are required for appropriate presentation of the results of operations, net assets and financial position of the Group. The accounting and valuation principles applied in the Interim Consolidated Financial Statements as at 30 September 2016 are essentially consistent with those applied in the Consolidated Financial Statements as at 31 December 2015. These principles are described in detail in the Notes to the Consolidated Financial Statements as at 31 December 2015.

Within the scope of the preparation of the Interim Consolidated Financial Statements in accordance with the IFRS, to a certain degree estimates and assessments must be made which relate to the assets and liabilities accounted for, the disclosures concerning contingent assets and liabilities as at the reporting date and the income and expenses indicated for the reporting period. The actual amounts may differ from the estimates.

In each interim period, income tax expense is recognised on the basis of the best estimate of the weighted average annual income tax rate which is expected for the fiscal year as a whole.

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and interpretations, which have been transposed by the EU into European law and were applied for the first time at the start of the fiscal year 2016.

| Standard/Interpretation | | To be applied from |
|---|---|---|
| AIP 2010–2012 | Annual Improvements Project (2010–2012) | 01.02.2015 |
| Amendments to IAS 19 | Defined Benefit Plans: Employee Contributions | 01.02.2015 |
| Amendments to IAS 16/IAS 41 | Agriculture: Bearer Plants | 01.01.2016 |
| Amendments to IFRS 11 | Acquisition of an Interest in a Joint Operation | 01.01.2016 |
| AIP 2012–2014 | Annual Improvements Project (2012–2014) | 01.01.2016 |
| Amendments to IFRS 10/IAS 28 | Sales or Contributions of Assets between an Investor and its Associate/Joint Venture | 01.01.2016 |
| Amendments to IAS 1 | Disclosure Initiative | 01.01.2016 |
| Amendments to IAS 27 | Equity Method in Separate Financial Statements | 01.01.2016 |
| Amendments to IAS 16/IAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation | 01.01.2016 |
| Amend. IFRS 10, IFRS 12, IAS 28 | Investment Entities Applying the Consolidation Exception | 01.01.2016 |
| IFRS 14 | Regulatory Deferral Accounts | 01.01.2016 |

The adoption of these new regulations and amendments did not have any effect, or else did not have any significant effect, on the Consolidated Financial Statements.

## Scope of consolidation

### Subsidiaries

Subsidiaries are fully consolidated from their date of acquisition, i.e. from the date as of which the Group directly or indirectly controls the entity as defined by IFRS 10. An entity is controlled if SHW AG is able to decide on the relevant activities of the subsidiary due to voting rights or other rights, if it receives the positive or negative variable returns generated by this subsidiary and if it may influence these returns by virtue of its decision-making authority. Subsidiaries are no longer included in the Consolidated Financial Statements as soon as the parent company ceases to control the subsidiary.

As well as SHW AG, the Interim Consolidated Financial Statements as at 30 September 2016 incorporate the financial statements of the German company SHW Automotive GmbH, Aalen, as well as the financial statements of SHW do Brasil Ltda., São Paulo, Brazil, SHW Pumps & Engine Components Inc., Ontario, Canada, and SHW Automotive Pumps (Kunshan) Co., Ltd., Kunshan, China.

SHW Automotive Industries GmbH, Aalen, is not currently operational and has not been included in the Consolidated Financial Statements on grounds of materiality.

### Joint ventures accounted for according to the equity method

Joint ventures as defined by IFRS 11 are accounted for according to the equity method in accordance with IAS 28. In the case of joint ventures, SHW AG pursues economic activities subject to joint control together with other parties. The controlling parties are entitled to the net assets surplus but not the assets and liabilities. Joint ventures are included in the Consolidated Financial Statements in accordance with the equity method from the date as at which joint control becomes applicable. On the basis of the acquisition costs for the shares in the jointly controlled entity, changes in equity recognised in income or equity for the investment measured using the equity method will be added to or subtracted from the carrying amount of the investment insofar as these changes relate to the shares attributable to SHW AG.

Joint ventures accounted for according to the equity method exclusively relate to SHW Automotive GmbH's investment in the joint venture SHW Longji Brake Discs (LongKou) Co., Ltd. This joint venture launched its operating activities on 1 April 2015.

## Exchange rates

The exchange rates used for the translation of the main currencies of the Group are shown in the following table:

| | | Closing rate | | Average rate | |
|---|---|---|---|---|---|
| Country | Abbreviation | 30.09.2016 | 31.12.2015 | 01.01.-30.09.2016 | 01.01.-30.09.2016 |
| Brazil | BRL | 3.6494 | 4.3198 | 3.9378 | 3.4807 |
| Canada | CAD | 1.4734 | 1.5128 | 1.4741 | 1.4021 |
| China | RMB | 7.4780 | 7.0804 | 7.3420 | 6.8823 |

## Sales

The following overview shows the sales of the SHW Group by region. This is determined on the basis of where the recipient of the delivery or service in question is headquartered.

| | Q3 | | Q1-Q3 | |
|---|---|---|---|---|
| K EUR | 2016 | 2015 | 2016 | 2015 |
| Germany | 56,066 | 75,826 | 177,177 | 220,216 |
| Rest of Europe | 37,585 | 39,827 | 126,595 | 130,277 |
| America | 2,140 | 1,927 | 5,784 | 6,242 |
| Other | 1,165 | 763 | 2,663 | 1,719 |
| **Group** | **96,956** | **118,343** | **312,219** | **358,454** |

## Cost of materials

The cost of sales and the other functional costs comprise the following material expenses:

| | Q3 | | Q1-Q3 | |
|---|---|---|---|---|
| K EUR | **2016** | **2015** | **2016** | **2015** |
| Cost of raw materials and supplies and of goods purchased | 59,492 | 73,146 | 187,611 | 217,234 |
| Cost of purchased services | 2,876 | 4,513 | 9,885 | 13,231 |
| **Total cost of materials** | **62,368** | **77,659** | **197,496** | **230,465** |

## Personnel expenses

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

| | Q3 | | Q1-Q3 | |
|---|---|---|---|---|
| K EUR | **2016** | **2015** | **2016** | **2015** |
| Wages and salaries | 17,536 | 18,757 | 56,825 | 57,435 |
| Social security contributions and pension expenses | 3,728 | 3,653 | 10,784 | 10,680 |
| **Total personnel expenses** | **21,264** | **22,410** | **67,609** | **68,115** |

## Other operating income

Other operating income comprises, in particular, reversals of accruals and other liabilities and insurance compensation in the amount of € 2,581 thousand (previous year € 954 thousand).

## Other operating expenses

Other operating expenses include Annual Financial Statements costs and consulting fees of € 335 thousand (previous year € 211 thousand), € 319 thousand for employee severance payments (previous year € 317 thousand) and € 201 thousand for the remuneration of Supervisory Board members (previous year € 224 thousand).

## Financial result

The financial result is comprised as follows:

| | Q3 | | Q1-Q3 | |
|---|---|---|---|---|
| K EUR | 2016 | 2015 | 2016 | 2015 |
| **Financial income** | **1** | **5** | **11** | **10** |
| **Financial expenses** | | | | |
| Interest and similar expenses | -120 | -169 | -360 | -472 |
| Interest portion in the addition to pension accruals | -146 | -144 | -437 | -443 |
| Interest expense from finance leases | -10 | -11 | -30 | -29 |
| | **-276** | **-324** | **-827** | **-944** |
| **Financial result** | **-275** | **-319** | **-816** | **-934** |

## Income taxes

Income taxes for the period up to 30 September 2016 in the amount of € 3,606 thousand (previous year € 4,440 thousand) include current tax expenses in the amount of € 4,561 thousand (previous year € 4,395 thousand) as well as deferred tax benefits in the amount of € 955 thousand (previous year deferred tax expenses of € 45 thousand). Deferred tax benefits and expenses have occurred in particular due to changes in valuation differences for fixed assets and other accruals, and changes in deferred taxes on loss carryforwards. The Group’s tax ratio amounts to 26.7 per cent (previous year 26.4 per cent).

## Earnings per share

Earnings per share are determined in accordance with IAS 33.19 by dividing consolidated income by the weighted number of ordinary shares in circulation in the fiscal year. No dilutive effects were applicable in the first nine months of 2016 and 2015.

| | Q3 | | Q1-Q3 | |
|---|---|---|---|---|
| K EUR | 2016 | 2015 | 2016 | 2015 |
| Net income for the year attributable to shareholders of SHW AG | 3,371 | 2,735 | 9,907 | 12,351 |
| Average number of shares issued | 6,436,209 | 6,436,209 | 6,436,209 | 6,333,333 |
| **Earnings per share (basic and diluted) in EUR** | **0.52** | **0.42** | **1.54** | **1.95** |

## Intangible assets

The carrying amounts of intangible assets are comprised as follows:

| K EUR | 30.09.2016 | 31.12.2015 |
|---|---|---|
| Goodwill | 7,055 | 7,055 |
| Internally generated assets | 6,890 | 8,241 |
| Other intangible assets | 2,164 | 3,105 |
| **Total** | **16,109** | **18,401** |

Internally generated intangible assets relate to development costs in particular.

## Property, plant and equipment

The carrying amounts of property, plant and equipment are comprised as follows:

| K EUR | 30.09.2016 | 31.12.2015 |
|---|---|---|
| Land, land rights, and buildings | 29,012 | 27,170 |
| Technical equipment and machinery | 47,821 | 53,536 |
| Other equipment, operating and office equipment | 8,943 | 9,528 |
| Advance payments and assets under construction | 9,464 | 4,576 |
| **Total** | **95,240** | **94,810** |

## Joint ventures accounted for according to the equity method

Joint ventures accounted for according to the equity method in the amount of approximately € 16.0 million exclusively comprise the Chinese joint venture SHW Longji Brake Discs (LongKou) Co., Ltd. Since 1 April 2015, this joint venture has been included in the consolidated financial statements of SHW AG in accordance with the equity method. The still outstanding second purchase price instalment, which translates to € 6.6 million, is included in the other current financial liabilities.

| K EUR | 30.09.2016 | 31.12.2015 |
|---|---|---|
| Share in % | 51.0 | 51.0 |
| (carrying amount) | 15,974 | 16,669 |

| K EUR | 2016 | 2015 |
|---|---|---|
| Net income from joint ventures accounted for according to the equity method Q3 | 73 | 144 |
| Net income from joint ventures accounted for according to the equity method Q1-Q3 | 203 | 1,466 |

## Inventories

Inventories are comprised as follows:

| K EUR | 30.09.2016 | 31.12.2015 |
|---|---|---|
| Raw materials and supplies | 17,375 | 16,430 |
| Unfinished products | 16,096 | 12,979 |
| Finished products | 13,021 | 12,093 |
| Advance payments | 212 | 128 |
| **Total** | **46,704** | **41,630** |

As at 30 September 2016, impairments of inventories amounted to € 3,436 thousand (31 December 2015: € 3,304 thousand).

## Trade receivables

Trade receivables are comprised as follows:

| K EUR | 30.09.2016 | 31.12.2015 |
|---|---|---|
| Receivables from customers | 51,235 | 37,618 |
| Impairments | -83 | -83 |
| Impairments for uncleared items in process | -4,859 | -3,147 |
| **Total** | **46,293** | **34,388** |

## Financing of the Group

The debt financing of the SHW Group is mainly provided by means of a syndicated loan agreement with a volume of over € 60.0 million. The loan agreement has a term until 30 September 2017 and can be used in full as a working capital loan. The interest rate is variable and is based on EURIBOR plus a margin between 1.2 per cent and 2.0 per cent per annum, depending on the agreed covenants. The key covenants are the leverage ratio and the economic equity ratio. Both covenants were complied with as at 30 September 2016.

As at 30 September 2016, € 9,811 thousand of this working capital line of credit had been utilised. In addition, the Group has taken out two amortising loans with a total volume of € 4,758 thousand, of which € 1,595 thousand had been utilised as at 30 September 2016.

## Financial instruments

In accordance with IFRS 7, assets and liabilities carried at fair value in the balance sheet are to be categorised according to the three levels of the fair value hierarchy. This hierarchy reflects the significance of the input data used for measurement and can be divided up as follows:

a) (Unadjusted) prices that are quoted in active markets for identical assets or liabilities (Level 1);

b) Input data that are either directly (as prices) or indirectly observable (derived from prices) for the asset or liability, whereby the input data does not constitute quoted prices pursuant to Level 1 (Level 2);

c) Input data applied to the asset or liability which are not based on observable market data (non-observable input data) (Level 3).

Shares in the associated company SHW Industries GmbH are carried at amortised cost since they are not traded on an active market.

The following tables provide an overview of the carrying amounts (CA) and the fair values (FV) of the financial assets and financial liabilities:

| 30 September 2016 | | CA | FV | Valuation | | |
|---|---|---|---|---|---|---|
| K EUR | Valua-tion category | | | Amortised cost | Fair value through equity | Fair value through profit or loss |
| ASSETS | | | | | | |
| Other non-current financial assets | | | | | | |
| Asset value of the reinsurance cover | AfS | 316 | *) | 316 | – | – |
| Shares in associated companies | AfS | 25 | *) | 25 | – | – |
| Trade receivables | LaR | 46,293 | *) | 46,293 | – | – |
| Other financial assets | LaR | 526 | *) | 526 | – | – |
| Cash and cash equivalents | LaR | 3,629 | *) | 3,629 | – | – |

*) The fair value approximately equals the carrying amount

| 31 December 2015 | | CA | FV | Valuation | | |
|---|---|---|---|---|---|---|
| K EUR | Valua-tion category | | | Amortised cost | Fair value through equity | Fair value through profit or loss |
| ASSETS | | | | | | |
| Other non-current financial assets | | | | | | |
| Asset value of the reinsurance cover | AfS | 316 | 316 | 316 | – | – |
| Shares in associated companies | AfS | 25 | *) | 25 | – | – |
| Trade receivables | LaR | 34,388 | *) | 34,388 | – | – |
| Other financial assets | LaR | 401 | *) | 401 | – | – |
| Cash and cash equivalents | LaR | 14,814 | *) | 14,814 | – | – |

*) The fair value approximately equals the carrying amount

In the near future, the Company does not plan to sell or derecognise any significant portions of the available-for-sale financial assets recorded as at 30 September 2016.

| 30 September 2016 | | CA | FV | Valuation | | |
|---|---|---|---|---|---|---|
| K EUR | Valua-tion category | | | Amortised cost | Fair value through equity | Fair value through profit or loss |
| EQUITY AND LIABILITIES | | | | | | |
| Liabilities to banks | FLAC | 11,406 | 11,406 | 11,406 | – | – |
| Trade payables | FLAC | 34,345 | 34,345 | 34,345 | – | – |
| Other non-current financial liabilities | | | | | | |
| Other non-interest-bearing liabilities | FLAC | 103 | 103 | 103 | – | – |
| Liabilities from finance leases | FLAC | 830 | 830 | 830 | – | – |
| Other current financial liabilities | | | | | | |
| Other non-interest-bearing liabilities | FLAC | 15,638 | 15,638 | 15,638 | – | – |
| Liabilities from finance leases | FLAC | 95 | 95 | 95 | – | – |

| 31 December 2015 | | CA | FV | Valuation | | |
|---|---|---|---|---|---|---|
| K EUR | Valua-tion category | | | Amortised cost | Fair value through equity | Fair value through profit or loss |
| EQUITY AND LIABILITIES | | | | | | |
| Liabilities to banks | FLAC | 2,486 | 2,486 | 2,486 | – | – |
| Trade payables | FLAC | 43,484 | 43,484 | 43,484 | – | – |
| Other non-current financial liabilities | | | | | | |
| Other non-interest-bearing liabilities | FLAC | 6,914 | 6,914 | 6,914 | – | – |
| Liabilities from finance leases | FLAC | 994 | 994 | 994 | – | – |
| Other current financial liabilities | | | | | | |
| Other non-interest-bearing liabilities | FLAC | 7,088 | 7,088 | 7,088 | – | – |

AfS Available for Sale
LaR Loans and Receivables
FLAC Financial Liabilities measured at Amortised Cost

## Other accruals

The other accruals are comprised as follows:

| K EUR | 30.09.2016 | 31.12.2015 |
|---|---|---|
| Warranties | 1,976 | 3,391 |
| Other business-related obligations | 5,585 | 6,585 |
| Obligations to employees | 4,078 | 3,972 |
| Other accruals | 8 | 8 |
| **Total** | **11,647** | **13,956** |
| Of which non-current accruals | 4,078 | 3,972 |

## Segment reporting

Segment reporting is based upon the “management approach”. Operating segments are determined on the basis of internal reports, as defined by IFRS 8, which are regularly used by the Chief Operation Decision Maker to decide on the distribution of resources and to 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 EBITDA of the segments and the Group are derived by taking into account the respective depreciation/amortisation. The assets of each segment are also established on the basis of IFRS. With the exception of net income from joint ventures accounted for according to the equity method – which is directly allocated to the Brake Discs segment – financial expenses, financial income and income taxes are managed at Group level. The Pumps and Engine Components segment manufactures pumps and engine components 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 business segments are essentially based on market conditions identical to those that apply to transactions with third parties.

## Segment information for the period from 1 January to 30 September

| K EUR | Pumps and Engine Components 2016 | Pumps and Engine Components 2015 | Brake Discs 2016 | Brake Discs 2015 | Other items/ eliminations/ consolidations 2016 | Other items/ eliminations/ consolidations 2015 | Group 2016 | Group 2015 |
|---|---|---|---|---|---|---|---|---|
| Segment sales | 245,438 | 284,034 | 66,781 | 74,420 | 0 | 0 | 312,219 | 358,454 |
| Segment EBIT | 12,364 | 12,883 | 3,243 | 4,542 | -1,481 | -1,166 | 14,126 | 16,259 |
| Segment EBITDA | 27,145 | 25,982 | 6,579 | 7,805 | -1,255 | -959 | 32,469 | 32,828 |
| Financial result | 0 | 0 | 0 | 0 | -816 | -934 | -816 | -934 |
| Net income from joint ventures accounted for according to the equity method | 0 | 0 | 203 | 1,466 | 0 | 0 | 203 | 1,466 |
| Period result before tax | 12,364 | 12,883 | 3,446 | 6,008 | -2,297 | -2,100 | 13,513 | 16,791 |
| Segment depreciation/amortisation | 14,781 | 13,099 | 3,336 | 3,263 | 226 | 207 | 18,343 | 16,569 |
| Segment capital investments | 11,645 | 13,802 | 4,768 | 5,158 | 238 | 365 | 16,651 | 19,325 |
| Material segment expenses | 0 | 0 | 0 | 0 | 0 | 168 [1] | 0 | 168 |
| Number of customers with sales > 10% of total sales | 3 | 2 | 1 | 1 | | | 2 | 2 |
| VW Group | 91,000 | 115,997 | 37,559 | 39,573 | | | 128,559 | 155,570 |
| Daimler Group | 49,441 | 64,147 | 102 | 114 | | | 49,543 | 64,261 |
| BMW Group | 25,783 | 23,879 | 3,814 | 4,027 | | | 29,597 | 27,906 |

[1] Change in the Management Board

## Segment information for the period from 1 July to 30 September

| K EUR | Pumps and Engine Components 2016 | Pumps and Engine Components 2015 | Brake Discs 2016 | Brake Discs 2015 | Other items/ eliminations/ consolidations 2016 | Other items/ eliminations/ consolidations 2015 | Group 2016 | Group 2015 |
|---|---|---|---|---|---|---|---|---|
| Segment sales | 74,833 | 93,275 | 22,123 | 25,068 | 0 | 0 | 96,956 | 118,343 |
| Segment EBIT | 3,422 | 2,992 | 1,715 | 1,555 | -570 | -521 | 4,567 | 4,026 |
| Segment EBITDA | 8,392 | 7,759 | 2,817 | 2,710 | -495 | -444 | 10,714 | 10,025 |
| Financial result | 0 | 0 | 0 | 0 | -275 | -319 | -275 | -319 |
| Net income from joint ventures accounted for according to the equity method | 0 | 0 | 73 | 144 | 0 | 0 | 73 | 144 |
| Period result before tax | 3,422 | 2,992 | 1,788 | 1,699 | -845 | -840 | 4,365 | 3,851 |
| Segment depreciation/amortisation | 4,970 | 4,767 | 1,102 | 1,155 | 75 | 77 | 6,147 | 5,999 |
| Segment capital investments | 4,510 | 3,456 | 2,069 | 1,393 | 194 | 139 | 6,773 | 4,988 |
| Material segment expenses | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Number of customers with sales > 10% of total sales | 3 | 2 | 1 | 1 | | | 2 | 2 |
| VW Group | 26,892 | 42,657 | 12,798 | 13,130 | | | 39,690 | 55,787 |
| Daimler Group | 16,419 | 19,784 | 12 | 91 | | | 16,431 | 19,875 |
| BMW Group | 7,996 | 7,681 | 1,276 | 1,228 | | | 9,272 | 8,909 |

### Relationships with related parties

Related parties include persons in key positions as well as their close relatives. The members of the Management Board and Supervisory Board of SHW AG active during the fiscal year are persons in key positions.

Related companies comprise the subsidiary SHW Automotive Industries GmbH, Aalen – which has not been included in the scope of consolidation, on grounds of materiality – and the joint venture SHW Longji Brake Discs (LongKou) Co., Ltd. Supplier and service provider relationships with related companies were only of minor significance as at 30 September 2016 and in the previous year.

### Collateral granted and other financial obligations

The collateral granted and other financial obligations shown in the Consolidated Financial Statements as at 31 December 2015 did not change significantly in the period from January to September 2016.

### Events after the balance sheet date

No significant events have occurred since the reporting date for the Interim Financial Statements which require additional explanatory disclosures.

## Assurance of the Legal Representatives

To the best of our knowledge, and in accordance with the applicable reporting principles for interim reporting, the Interim Consolidated Financial Statements give a true and fair view of the results of operations, net assets and financial position of the Group, and the Interim Group Management Report represents a fair view of the development and performance of the business and the position of the Group, together with a description of the key risks and opportunities associated with the expected development of the Group in the remainder of the fiscal year.

Aalen, 26 October 2016

The Management Board of SHW AG

| | | |
|---|---|---|
| Dr. Frank Boshoff | Andreas Rydzewski | Martin Simon |
| Chief Executive Officer | Member of the Management Board | Chief Financial Officer |

# Imprint

## Published by

SHW AG
Wilhelmstrasse 67
73433 Aalen (Germany)

Telephone: +49 7361 502 - 1
Fax: +49 7361 502 - 421
Email: info@shw.de
Website: www.shw.de

## Investor Relations & Corporate Communications

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

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

## Date of publication

26 October 2016