Annual Report 2021

Focus on sustainable mobility

INTELLIGENT SOLUTIONS

SHW

Key figures 2021

k €	2021	2020
Sales	427,323	392,931
EBITDA	34,681	25,337
as % of sales	8.1 %	6.4 %
EBIT	3,039	–4,729
as % of sales	0,7 %	-1.2 %
Net profit	-621	–5,059
Earnings per share [1]	-0.10	–0.79
Equity	127,371	124,652
Equity ratio	38.1 %	39.4 %
Operating free cash flow	–36,568	9,556
as % of sales	–8.6 %	2.4 %
Total free cash flow	–33,588	8,934
as % of sales	–7.9 %	2.3 %
Net cash / Net financial liabilities	–69,133	–36,101
Investments [2]	41,646	32,763
as % of sales	9.7 %	8.3 %
Net working capital	57,464	36,497
as % of sales	13.4 %	9.3 %
ROCE	1.3 %	–2.3 %
Number of employees (average) [3]	1,685	1,619

1) Based on an average number of 6,436,209 shares outstanding
2) Additions to property, plant and equipment and intangible assets
3) Excluding trainees and hired temps

Sales
427.3
€ million

EBITDA
34.7
€ million

Employees
1,685

Contents

THOMAS KARAZMANN

Chief Financial Officer

KLAUS RINNERBERGER

Chairman of the Supervisory Board

WOLFGANG PLASSER

Chief Executive Officer

Foreword of the Management Board

DEAR SHAREHOLDERS,

The COVID-19 pandemic kept the global economy in a state of suspense for another year. Although there were signs of a significant recovery in the first six months of 2021, the second half of the year put a dampener on these expectations. Case rates rose rapidly, throttling production and causing disruptions to logistics. Global supply bottlenecks were the result, which weighed down the economic upturn and slowed the pace of recovery.

We also saw this development at SHW. Happily, in spite of the tight situation, our total revenue rose by 8.8 per cent to € 427 million thanks to a very good first six months. Sales growth in the reporting year was dampened by the scarcity of semiconductors on the market and the associated drop in automobile production. Nevertheless, our EBITDA came to € 34,7 million and therefore lies within the forecast corridor of 8 to 11 per cent, albeit at the lower end of the scale.

Looking ahead, there are also signs of uncertainty: The global impacts of the pandemic are still being keenly felt in the year 2022. Supply chains are still not working perfectly and the sustained scarcity of semiconductors is leading to sudden reductions in call-off volumes. Likewise, the war between Russia and Ukraine will place additional burdens on supply chains due to the closure of production facilities in Ukraine and sanctions on Russia which will also lead to rising prices for energy and commodities.

The world is changing... and SHW is too!
The transformation in our sector is leading to diversification of powertrain technologies and, at the same time, the trend towards sustainable production is unstoppable. In such an environment it is vital to confront these changes with open eyes and take an active role in shaping them. There are no simple solutions. In the course of a comprehensive strategy process we have found the answer that works for us: **The SHW Strategy 2030!**

In the SHW Strategy 2030 we have aligned our product portfolio towards sustainability. The focus lies on developing and manufacturing intelligent product and system solutions for sustainable mobility. We have also optimised our organisational structures.

The facility in Hermsdorf, which produces complex miniaturised electronics and micro-systems technology, was sold to a subsidiary of Pierer Industrie AG in the fourth quarter 2021 to better realise synergies within the Group.

The shares were delisted from the m:access segment in Munich effective 31 March 2021 and withdrawn from free trade on the open market at the end of day, 30 December 2021.

All in all, we look back on a challenging year that, despite the setbacks, we managed to master together with the entire SHW workforce. The task now is to look ahead, exploit the opportunities afforded by the transformation and follow the guidelines set by the SHW Strategy 2030.
We are ready!

We are happy that you have chosen to support us on the journey into a sustainable future.

Many thanks for the faith you have placed in us!

Aalen, March 2022

Wolfgang Plasser
Chief Executive Officer

Thomas Karazmann
Chief Financial Officer


CO2

SHW –

A COMPANY SHAPES THE FUTURE

SHW in 2021 was once again able to cement its international leadership in the field of CO_2 optimised pumps and engine components for all kinds of powertrain concepts and expand its technology leadership in high-performance brake discs. With approximately 1,700 employees spread over a total of eight locations, SHW generates sales of € 427.3 million.

Customers around the globe – be they in the automobile industry, the truck and off-highway market, such as agricultural machinery or construction machines – have placed their faith in the market leader for decades now.

The focus in 2021 was on electromobility and the continued development of the product offering in a shift towards electrification. SHW has laid the foundation for its viability over the coming decade.

TAKING LARGE STEPS WITH A SMALL FOOTPRINT

The reporting year was instrumental for establishing a product portfolio at SHW that is fit for the future. Working together, teams from all three divisions – Powder Metallurgy, Brake Discs and Pumps – developed strategic guidelines for the company.

The focus of the strategy SHW 2030 is on the development and production of intelligent product solutions for sustainable mobility – on a broad and competitive basis – in keeping with the motto, “Shaping Future Mobility”.

Our history –
INNOVATIONS AT THE FOREFRONT OF TECHNOLOGY

Founded in 1365, SHW has undergone many changes over its long history spanning centuries with a great tradition. From mining to trading in commodities to manufacturing the products of today, the company has always proven itself to be flexible, innovative and with its finger on the pulse. It is not without reason that SHW today counts among the oldest industrial operations in Germany and it has a successful history to match.

Over 650 years
LIVING AND BREATHING THE SPIRIT OF DEVELOPMENT

As with the SHW Strategy 2030, previous generations always endeavoured to guide the company into the next decade with a spirit of openness and innovation. Countless milestones along the way underscore the fact that SHW identifies trends at an early stage and aligns itself accordingly.

2021

Setting strategic guidelines for the future – SHW Strategy 2030

2018

Pierer Industrie AG acquires over 50 per cent of the shares in SHW becoming the industrial anchor shareholder

2011

Parent company is reorganised as a stock corporation – IPO of SHW AG

2010

The first electrical system went into series production in 2010 already. With a focus on assembly, millions of systems were shipped to customers over the term of the project. The product line has been consistently optimized and refined by SHW over time. 10 years later these products n ow exhibit much higher depth of production and use SHW software. They are shipped to various customers for series production worldwide.

2005

Spin-off of the non-automotive businesses and associated entities from the SHW Group

1978

Manufacture of SHW hydraulic pumps

1963

Fabrication of sintered moulded parts commences

1950

Production of brake discs starts

1925

SHW manufactures a car prototype that incorporates numerous innovations – aluminium body, single-wheel suspension and numerous technical specialities

1921

Foundation of Schwäbische Hüttenwerke GmbH (SHW GmbH) – the business activities comprise mining, operating iron works and trading in raw materials

1365

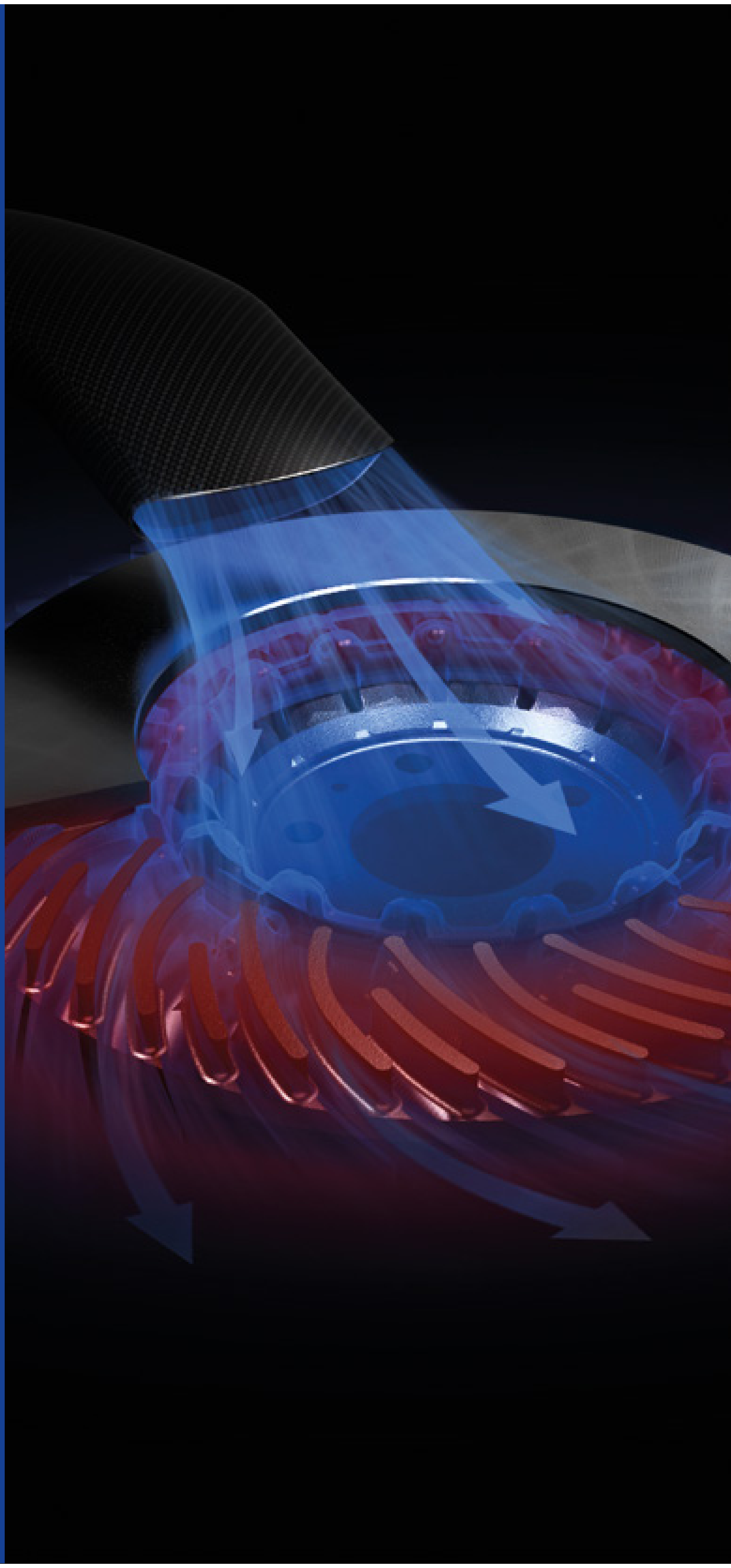
Origin of SHW lies in mining ores and smelting operations around Königsbronn

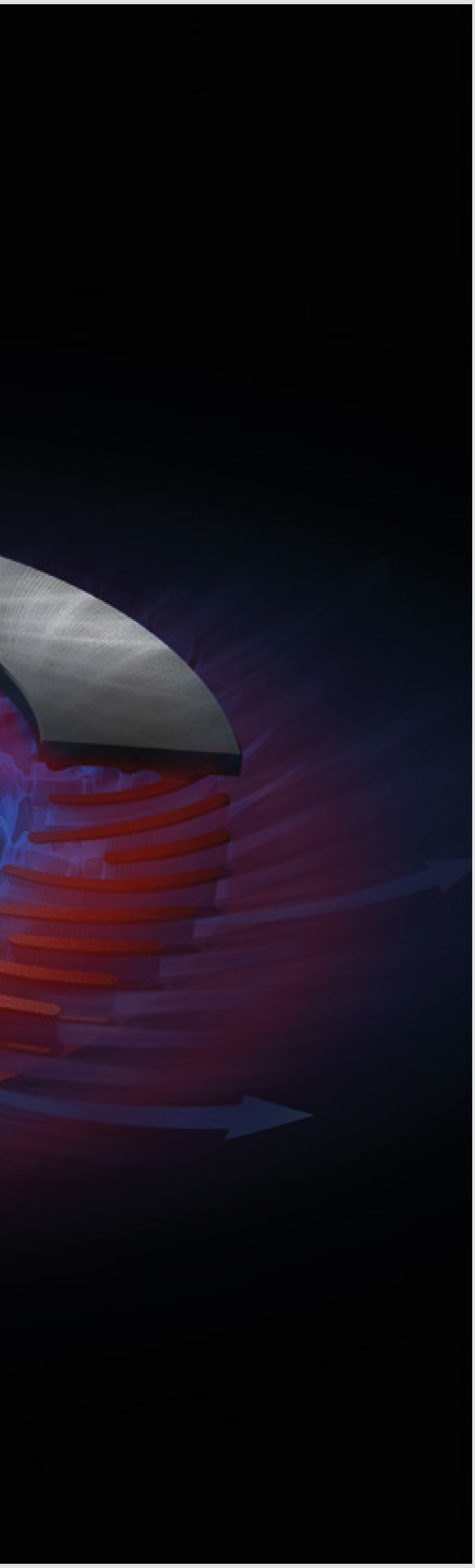
2021 - Accelerating the transformation

Clear market drivers and future trends involve the advancing electrification and transformation of powertrain technologies, growing demands for sustainability and globalisation. SHW is seen as a leader in the field of e-mobility, investing in the associated R&D activities and customer projects. The over-arching goal is to focus on the future and be seen as the clear market leader in innovation and as the best-in-class supplier in e-mobility across all divisions.

As electromobility grew in significance over recent years, the year 2021 marks the date when SHW began consequently accelerating the transformation of all its product lines towards an electric future. Sustainability measures in the operating activities of SHW also play a great role in parallel.

Other goals attained in 2021 include the expansion of the Truck & Off-Highway business and the aftersales market for brake discs.





Powder metallurgy – high precision and depth of production

The Power Metallurgy segment comprises the manufacture of high-precision sintered parts made of sintered steel and aluminium for engines, transmissions and chassis, such as gearwheels for pumps, chainwheels, rotors and much more. An advantage for customers is that SHW possesses highly-integrated production competence and a high degree of automation. Expertise in facetting or process development also count among the strengths of the SHW team.

The plan is to enhance operational excellence – further extending the existing depth of production, improving efficiency and optimising operations.

Brake discs – top quality & innovative

Whether as composites or as hybrid drum brakes, the brake components from SHW all display absolute top quality. Automobile manufacturers worldwide have placed their trust in solutions of the company for their high-performance vehicles.

Electrification and autonomous vehicles are topical issues, both today and, most of all, for the future. In addition to reducing particulates from the braking process, the goal of obtaining carbon-neutral production also stands centre-stage. In parallel to improving sustainability, the strategy is to diversify the portfolio, reduce production costs and keep expanding, step for step.

AROUND
4.1 million
MANUFACTURED
PARTS PER YEAR

AROUND
6.5 million
PARTS PER YEAR

Pumps – functional & variable

The pump segment at SHW, which manufactures pumps for engines, transmissions and cooling systems, is driven by the factors of functionality, weight reduction and downsizing. Whether it involves pumps for engines or transmissions, vacuum pumps, e-pumps or variable water pumps, all of them are subsumed within the goal of the SHW Strategy 2030 of finding intelligent solutions for sustainable mobility.

The key trend in this segment is also the electrification of various component levels and the development of the product portfolio to incorporate innovations and exploit internal synergies within the Group. In this way the SHW Group is bundling its development resources and is working intensively on expanding its product spectrum.

Core competence – automotive expertise

In all three of its divisions, SHW possesses an extensive suite of competencies, all of which were analysed in 2021 in terms of their strategic potential. Using this as a foundation, the company is managing to continuously build on its competitive edge.

The expertise gathered by the company in the field of mechanical and electrical pumps, its high level of automation and rapid response times are compelling arguments for customers in the automotive sector. The Powder Metallurgy division has won industry recognition for its sintering of aluminium parts for the automotive sector, its process expertise and the depth of its production competencies. The Brake Discs division leads the market in the production of pin-mounted brake discs and leaves the competition behind in terms of its flexibility in its processing configurations and the specialisation available to small to medium sized production runs.

INNOVATION IS LIVED AND BREATHED EACH DAY AT SHW

Inventiveness and innovation are the forces driving the SHW team. SHW is designing new and complex thermal management modules for the car and truck segments. Momentum also comes from the corporate culture that is open to new ideas and investments in advanced and basic training for employees.

Internationality – network with a global reach

As in the years before, SHW was once again able to keep strengthening its international network in 2021. In addition to intensifying global cooperation, the company has successfully entered into the aftermarket for brake discs and has already posted notable successes in the year 2021.

In line with the SHW Strategy 2030, a number of projects are in the pipeline – such as the global networking with the largest customers in North and South America, further bundling of development resources, driving forward the aftermarket business for brake discs or the more intensive use of our own supply chain. These and many other measures enable SHW to successfully defend its position on the global market.

Synergies
CROSS-BORDER
USE OF RESOURCES

EIGHT LOCATIONS CURRENTLY SERVE THE MOST IMPORTANT GLOBAL MARKETS:

Aalen-Wasseralfingen / Germany

Bad Schussenried / Germany

Kunshan / China

Toronto / Canada

São Paulo / Brazil

Timişoara / Romania

Tuttlingen / Germany

Neuhausen ob Eck / Germany

Future – SHW Strategy 2030

Shaping Future Mobility – words which set the course for a successful future, for they are the guidelines underlying the SHW Strategy 2030. Roughly speaking, the task is to refine the product portfolio for the coming years – full speed ahead towards electrification and expansion in the field of electric powertrain components.

A second main focus is placed on building system expertise in the development and production of complex thermal management modules.

Becoming more digital and more global – another strategic pillar of the plan. In this way SHW has manifest competitive strengths and is making sensible use of its internal potentials. Developing its skills and competencies and securing the future viability of its production are other key premises.

Finally, sustainability and continuous reduction of the carbon footprint takes precedence over all other elements of the strategy.

REPORT OF THE SUPERVISORY BOARD

General remarks

In the previous year, our group of companies was once again confronted by challenges on a difficult market, most of which arose from the COVID-19 pandemic and the chip crisis in the automobile industry. We managed to meet the adjusted guidance we issued on 28 September 2021 for Group sales and EBITDA margin, in the lower range in both cases.

The Supervisory Board supports the Management Board with the task of managing the operating business, especially with the continuous implementation of the strategy to consistently pursue the creation of a foundation for long-term success. We continue to expand our portfolio of electrified and CO_2 relevant products and have won further large-volume series contracts for electric pumps and brake discs for electric vehicles. SHW AG remains on track, even in times of fundamental change. We are shaping the technological transformation, even in difficult times, with decisiveness, courage, passion and professional excellence.

In the reporting year 2021, the Supervisory Board fulfilled its duties as required by law, the Articles of Association and the Rules of Procedure. The Supervisory Board addressed the situation of the Company in depth and continuously monitored and advised the Management Board.

The Management Board regularly, promptly and comprehensively informed the Supervisory Board in both writing and orally about all relevant issues related to corporate strategy, planning, business development, the risk position, risk management and compliance, and involved it in all decisions of particular significance. To this end, the Management Board drew up a monthly report which contains, among other items, detailed information about the economic and financial position of SHW AG and its subsidiaries (the SHW Group). In addition, comprehensive management reports of the Management Board were presented to the regular meetings of the Supervisory Board at which the impacts of the pandemic, the course of business, the planning and the corporate strategy were discussed with the Management Board. The members of the Supervisory Board also remained in contact with the Management Board outside the regular meetings of the board, in particular via the respective chairmen of the two boards. In this way, the Supervisory Board was promptly informed of the latest business developments and any significant transactions at all times.

In those cases where the approval of the Supervisory Board or one of its committees was required by the law, the Articles of Association or the Rules of Procedure, a corresponding resolution was passed. In addition to the information provided orally, written explanations were prepared by the Management Board, where needed, containing the information required for decision-making on those measures requiring the approval of the Supervisory Board.

During the reporting period the Supervisory Board carefully reviewed the reports of the Management Board and the draft resolutions prepared for meetings and discussed these in detail at the meetings. Other than the documents provided to the Supervisory Board, there was no need to inspect other documents of the Company during the reporting period.

Generally, the Supervisory Board only passes resolutions at its meetings. If needed, resolutions are also passed outside of meetings in the course of telephone conferences or in circulation proceedings. Moreover, when needed, the Supervisory Board meets without the Management Board.

Meetings of the Supervisory Board and main issues

In the reporting year an ordinary meeting was held with the members attending in person and three ordinary meetings were held virtually in a digital format plus one extraordinary meeting. Two resolutions were passed by the Presidential Committee of the Supervisory Board of SHW AG by written circulation proceedings in the reporting period.

The Supervisory Board was comprehensively informed about all relevant issues related to e-mobility, the COVID-19 pandemic, liquidity planning, corporate strategy, other planning, business developments, the risk position, risk management and compliance within the SHW Group by the Management Board in the form of both written and oral reports at the ordinary meetings in the year 2021 which were held on 30 March 2021, 11 May 2021, 21 September 2021 and 16 December 2021, and the extraordinary meeting held on 5 March 2021. Among other items, the Management Board explained the latest impacts of the pandemic, liquidity, development of revenue and earnings of the SHW Group and addressed the course of business at the individual divisions in great detail, taking account of the respective competitive environment.

In other respects, recurring matters discussed at the meetings of the Supervisory Board were the implementation and continued development of the strategic objectives, the planning of the SHW Group and the business development of the Pumps and Engine Components segment and the Brake Discs segment, which has been spun off into an independent legal entity. The Supervisory Board obtained information on personnel matters at regular intervals. Regular reports were also made on risk management, quality assurance and outstanding customer-related risks. Thereafter the Supervisory Board discussed the budget submitted by the Management Board of SHW AG for the year 2022 and addressed the mid-range planning in great detail. In addition the Supervisory Board approved the amendments to the corporate service contracts with Mr. Plasser and Mr. Karazmann and also regarding pension entitlements. Moreover, the Supervisory Board approved the termination of the profit and loss transfer agreement between SHW AG and Schwäbische Hüttenwerke Automotive GmbH and also approved the decision of the Management Board to sell Lust Hybrid Technik GmbH. The Supervisory Board also addressed the proposal of the Management Board to hold the 2021 Annual General Meeting online as a virtual AGM without any physical attendance required from the shareholders. The Supervisory Board also set further details and passed resolutions on the proposed resolutions for the agenda of the virtual AGM 2021, including approval of the proposal for the appropriation of profit.

At its meeting to discuss the Annual Financial Statements, the Supervisory Board ratified the Annual Financial Statements for the year ended 31 December 2020 and approved the Consolidated Financial Statements and the Group Management Report of SHW AG for the year ended 31 December 2020. Moreover, the Supervisory Board also addressed the proposal for the appropriation of profits made by the Management Board and decided on the proposed resolutions for the agenda of the Annual General Meeting (AGM) on 11 May 2021, which was held virtually, and the report of the Supervisory Board for the fiscal year 2020. It also passed resolutions granting discharge to the general managers of the subsidiaries.

At the extraordinary meeting, the Supervisory Board of SHW AG addressed the application of the Management Board to delist the SHW share from the free trade segment of the Munich stock exchange (including m:access) and passed the corresponding resolution approving the move.

Audit of the Annual Financial Statements and the Consolidated Financial Statements

The Annual Financial Statements and Management Report of SHW AG prepared in accordance with the German Commercial Code (Handelsgesetzbuch – HGB) and the Consolidated Financial Statements prepared in accordance with IFRSs, as endorsed by the European Union, as well as the Group Management Report for the fiscal year 2021 were audited by the external auditor of the Company, KPMG AG Wirtschaftsprüfungsgesellschaft, 89073 Ulm, who issued an unqualified audit opinion thereon.

In this period, Dr. Katja Faul and Ms. Nadine Müller have taken responsibility as signatories of the audit opinions on the audits of the Annual Financial Statements and Consolidated Financial Statements of SHW AG. The audit firm assigned to audit the Annual Financial Statements and the Consolidated Financial Statements is engaged for the duration of one fiscal year in each case.

The Supervisory Board inspected the above documents in detail. All of the financial reporting documents as well as the audit reports issued by the external auditor were provided to the members of the Supervisory Board in good time. The Annual Financial Statements and Consolidated Financial Statements as well as the Group Management Report were initially discussed in depth by the Audit Committee and thereafter by the entire Supervisory Board, in each case in the presence of the responsible external auditor. The external auditors reported on the key findings of their audit. Moreover, the external auditors described the scope, focus and costs of the audit.

There were no circumstances that indicated the external auditors were biased in any way. The external auditors confirmed their independence in a declaration made to the Audit Committee.

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

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

Pankl AG, Kapfenberg, Austria – a subsidiary of Pierer Industrie AG, Wels, Austria – held 77.43 per cent of the voting rights in SHW AG and thus a majority of the voting rights, as at 31 December 2021. Pierer Industrie AG itself held another 11.04 per cent of the voting rights, making for a sum total of 88.47 per cent of the voting rights.

The Management Board has therefore drawn up a report for the past year on its relations to affiliated companies (dependent company report) in accordance with Section 312 AktG. KPMG AG Wirtschaftsprüfungsgesellschaft, 89073 Ulm, as the external auditor, reviewed the dependent company report of the Management Board and issued an audit report thereon pursuant to Section 313 AktG.

The external auditor rendered the following unqualified audit opinion in accordance with Section 313 (3) AktG:

"Based on the final result of our audit, no objections in the sense of Section 313 (4) AktG were found concerning the dependent company report issued by the Management Board. We therefore issue the following unqualified audit opinion on the dependent company report issued by the Management Board on dealings with the affiliated companies of SHW AG, Aalen, in accordance with Section 313 (3) AktG:

To SHW AG, Aalen

Based on our duly performed audit and assessment, we confirm that

1. the factual disclosures in the report are accurate, and

2. the consideration made by the Company for the transactions listed in the report was not unreasonably high."

3. in the case of the measured listed in the report, there are no circumstances that would support a materially different assessment than that made by the Board of management."

The Supervisory Board reviewed the dependent company report of the Management Board and the associated audit report and approved it in accordance with Section 314 AktG. After concluding its review, the Supervisory Board did not have any objections to the dependent company report and the final declaration of the Management Board it contains, or to the auditor's report.

Composition of the Management Board and Supervisory Board

There was no change to the composition of the Management Board in the 2021 reporting year.

At the Annual General Meeting of SHW AG on 11 May 2021, nine members were elected to the Supervisory Board during the regular election process. The Annual General Meeting re-elected six of the sitting members of the Supervisory Board, i.e. Mr. Josef Blazicek, Mr. Alfred Hörtenhuber, Mr. Eugen Maucher, Mr. Stefan Pierer, Mr. Klaus Rinnerberger and Mr. Friedrich Roithner. As new appointments, Ms. Michaela Friepeß was appointed in the place of Prof. Dr. Jörg Franke, Mr. Karl Holzner in the place of Mr. Edgar Kühn and Mr. Isni Aliji in the place of Mr. Frank Meißner. Prof. Dr. Jörg Franke, Mr. Edgar Kühn and Mr. Frank Meißner did not put themselves up for re-election. Consequently, they stepped down from the Supervisory Board at the end of the Annual General Meeting on 11 May 2021. The term of office of all elected members of the Supervisory Board expires upon the close of the Annual General Meeting that passes a resolution discharging them for events in the fiscal year 2025.

At its founding meeting held immediately after the Annual General Meeting on 11 May 2021, Mr. Klaus Rinnerberger was elected Chairman of the Supervisory Board and Mr. Alfred Hörtenhuber Deputy Chairman of the Supervisory Board. Moreover, Ms. Michaela Friepeß and Mr. Friedrich Roithner were appointed to the Audit Committee along with Mr. Rinnerberger, who was elected its chairman. Mr. Alfred Hörtenhuber and Mr. Eugen Maucher were appointed to the Presidential Committee, along with Mr. Klaus Rinnerberger, who was elected its chairman.

The Supervisory Board would like to thank all the members of the Management Board and Supervisory Board as well as all employees for their dedication and their efforts in a very extraordinary year, as they enabled the business of SHW AG to remain stable despite the circumstances. The Supervisory Board would like to take this opportunity to express its thanks to the members stepping down from the Supervisory Board for all their work in the interests of the Company: Prof. Dr. Jörg Franke, Mr. Edgar Kühn and Mr. Frank Meißner.

Aalen, 30 March 2022

Yours sincerely, on behalf of the Supervisory Board

Klaus Rinnerberger

Chairman of the Supervisory Board

THE SHW SHARE

Pleasing year on the stock exchange in 2021

Following a volatile year in 2020, developments on the international stock exchanges in the year 2021 were pleasing. The leading German stock index, the DAX, rose by 15.8 per cent and the S&P 500 by 26.9 per cent over the year. However, the trend was not always steadily upwards. There were dips in the market due to the Delta and Omicron variants of the coronavirus as well as the crisis on the Chinese real estate market and disruptions to global supply chains, which were rapidly overcome. In the USA, the tech sector saw particular growth. An outlier on world stock markets was China, with the market losing ground on account of the tightening of monetary policy and new government regulations. The Hang Seng was down 14.1 per cent. The Dow Jones closed the trading year with growth of 18.7 per cent and the Nikkei 4.9 per cent.

Benchmark index outperforms the SHW share

Overall, the stock prices of the constituents of the DAXsector Automobile Performance index (CXPA) rose by 34.7 per cent. The SHW share ended the trading year 2021 at a share price of €19.20, up €0.55 per share in comparison to 4 January 2021 and corresponding to performance of 2.9 percentage points for the year 2021.

Delisting

The Management Board of SHW passed a resolution on 5 March 2021 to delist the shares of SHW AG from the m:access segment of the Munich stock exchange and discontinue free trading in the shares. The Munich Stock Exchange approved the application on 11 March 2021. The shares were withdrawn from the m:access segment at the end of day on 31 March 2021 and withdrawn from free trade on the open market at the end of day on 30 December 2021.

Pierer Industrie AG submitted a voluntary public purchase offer of €19.00 per share to the shareholders. The fourth and last tranche of the offer ends on 31 March 2022.

PANKL AG is the majority shareholder.

With a stake of 77.43 per cent in issued capital and the voting rights, PANKL AG is the majority shareholder for SHW AG. It is a subsidiary of Pierer Industrie AG, Wels, Austria. Pierer Industrie AG itself holds 11.04 per cent.

Please do not hesitate to request any further information which you may require. SHW Investor Relations looks forward to hearing from you.

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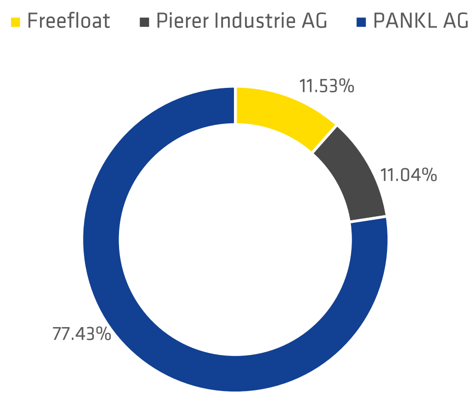
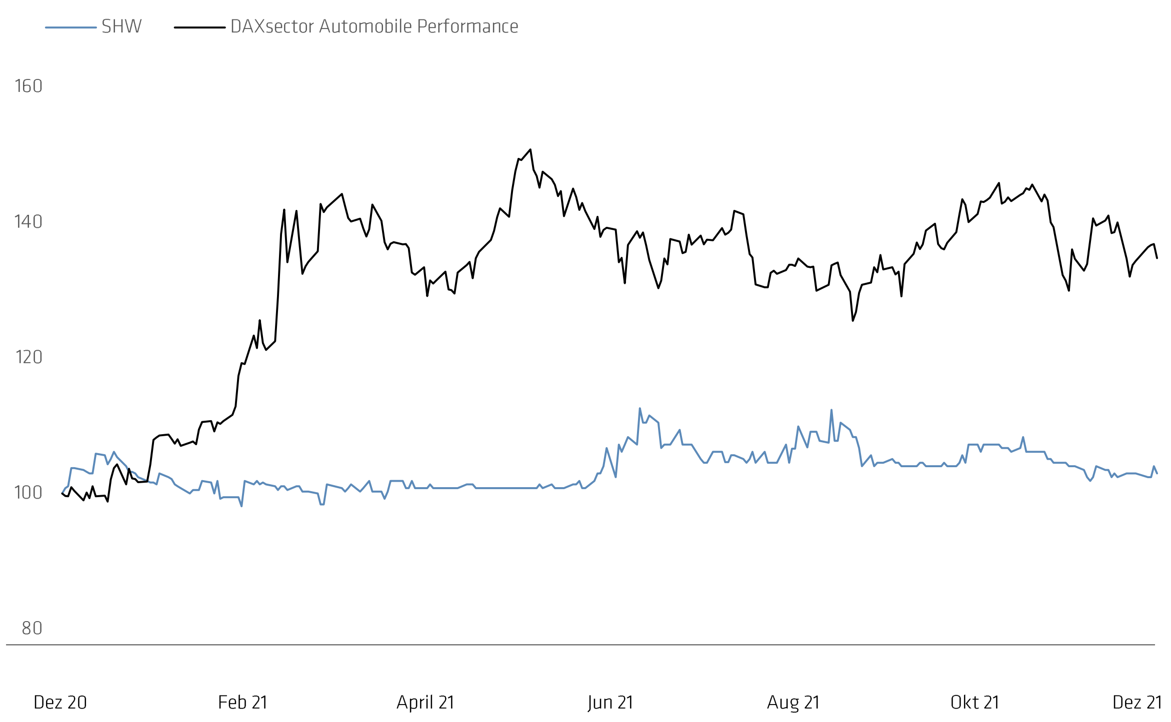
SHAREHOLDER STRUCTURE



31st December 2021

PRICE TREND FOR SHW SHARE AND DAXSECTOR AUTOMOBILE



Quelle: Stifel Europe Bank AG

GROUP MANAGEMENT REPORT

GROUP MANAGEMENT REPORT

BACKGROUND OF THE SHW GROUP

Business model of the Group

A group focused on reducing CO_2

In its business activities, the SHW Group focuses on the development and manufacturing of products which help to reduce fuel consumption and therefore CO_2 emissions in the automotive industry. Most of the sales comes from the business with renowned manufacturers of automobiles, commercial vehicles, agricultural machines and construction machines as well as with other automotive suppliers. The Group currently has eight facilities in five countries.

Organisational structure of the Group

The operational business is divided into two business segments:

- Pumps and Engine Components
- Brake Discs

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

The Pumps and Engine Components business segment

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

The Pumps and Engine Components business segment is organised into three divisions. The Passenger Car division focuses on the production of variable engine oil pumps, transmission oil pumps, oil / vacuum pumps with or without balancer shafts and e-pumps. The second division, Truck & Off-Highway produces engine oil, transmission oil and fuel pumps for trucks, agricultural and construction machinery, stationary engines and wind turbines at the Bad Schussenried facility.

PUMPS & ENGINE COMPONENTS			BRAKE DISCS
BAD SCHUSSENRIED / TIMIŞOARA / KUNSHAN / SÃO PAULO / TORONTO		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 with / without balancer shaft	Fuel pumps	Sintered components for engines and transmissions	Composite brake discs
E-pumps	E-pumps		

The third division, Powder Metallurgy produces sintered engine and transmission components at the Aalen-Wasseralfingen plant. The product portfolio comprises chain wheels and rotors for variable oil pumps offering reduced consumption, camshaft phasers out of steel and aluminium powder and geared balancer shaft systems. The Powder Metallurgy division supplies external customers and also the Bad Schussenried plant.

The facility in Hermsdorf, which produces complex miniaturised electronics and micro-systems technology, was sold to a subsidiary of Pierer Industrie AG in the fourth quarter 2021 to leverage synergies within the Group.

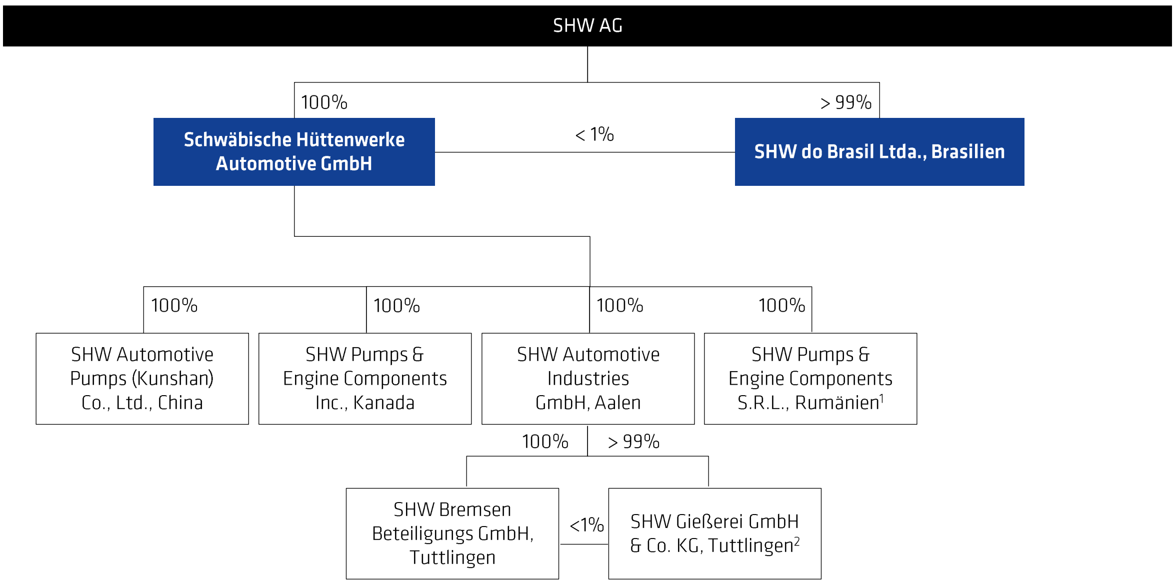
The Brake Discs business segment

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

Legal structure

SHW AG is the parent and holding company of the SHW Group and holds all the shares in SHW Automotive GmbH with its registered offices in Aalen and branches in Aalen-Wasseralfingen and Wilhelmshütte (Bad Schussenried). SHW Brake Systems GmbH in Tuttlingen (Ludwigstal) is a wholly-owned subsidiary of SHW Automotive GmbH with its first-tier subsidiaries, SHW Gießerei GmbH & Co. KG and SHW Bremsen Beteiligungs GmbH. Its shareholdings are presented in the following chart. The operating activities are conducted by SHW Automotive GmbH and its subsidiaries as well as by SHW do Brasil Ltda.

OVERVIEW OF GROUP SUBSIDIARIES

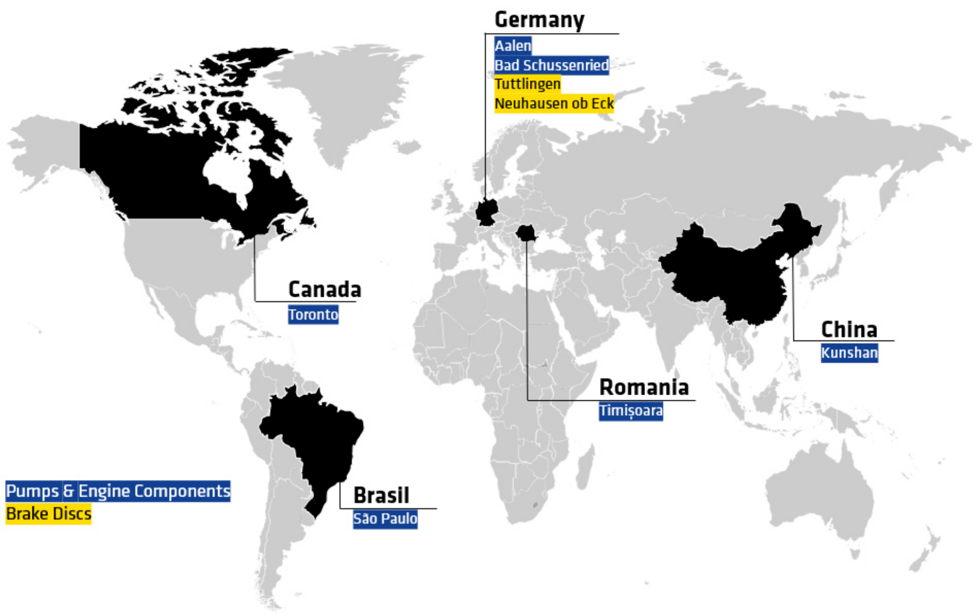


Sales markets

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

External factors

In the European Union, protecting the climate is currently one of the most important political points on the agenda with the goal of limiting the negative impact of climate change. At the end of 2018 the European Commission laid out its vision for "A Clean Planet for All" – leading the way to a climate neutral EU by 2050. There are binding CO_2 targets in all major automobile markets, which necessitate substantial reductions from manufacturers and suppliers in the coming years.



Control parameters

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

The business activities of the SHW Group focus on the sustainable increase of its enterprise value and on capital-efficient growth. In addition to the development of sales, the most significant financial performance indicators used for the internal management of the SHW Group are EBITDA (defined as consolidated earnings before interest, tax and depreciation of property, plant and equipment and amortisation of intangible assets (including impairments)) and the EBITDA margin (EBITDA divided by Group sales). This measures the quality of the Company's sales trend and indicates the level of efficiency achieved in the management of its operating business. The operating result (EBIT) shown in the consolidated income statement is used as the initial value for the calculation of EBITDA. Furthermore, ROCE (return on capital employed) is firmly anchored in internal management. Besides earnings indicators, liquidity-related indicators are highly significant. Consequently, the SHW Group continuously monitors and steers the main factors affecting ROCE (measured as EBIT divided by average capital employed). Particular attention is paid to capital efficiency – especially so, given the challenging market environment.

SHW's control system also includes financial management indicators. In this regard, the group of companies analyses liquidity, capital structure and potential market price risks, primarily interest rates and foreign exchange rates. In addition, the net working capital ratio is also relevant.

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

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

Employees

Headcount slightly above previous year's level

Our employees make a vital contribution to the success of our company. For this reason we view HR management as a core activity to win suitable employees, foster their personal development within the organisation and retain them for the long term.

As an annual average, the SHW Group had 1,685 employees and thus 66 more employees than in the previous year. This corresponds to an increase of 4.1 per cent.

Securing young talent: our future managers

As part of its endeavour to win young talent, the company offers school-leavers a wide range of interesting apprenticeships. At the end of 2021, we have 50 apprentices training for the following professions:

- Industrial mechanics
- Mechatronics
- IT specialist for system integration
- Technical product design
- Industrial business administration
- Warehouse logistics
- Plant and machinery operator
- Machinist
- Electronics for operating technologies

The training offer is aligned to our needs and oriented towards the strategic goals of the company. Apprenticeships in three new vocations were added to the training portfolio in fiscal year 2021.

Developing, supporting and accompanying value-based personnel and organisation development

Strategic personnel and organisational development at SHW is gathering increasing momentum. Junior management talent at SHW and the personal development programme with which junior talent and potential candidates are given targeted training and promotion kicked off its third round in October 2021 with 16 participants. Project tasks have been derived from the holistic SHW strategy. The project groups actively support this SHW strategy and make an important contribution to networking the SHW locations.

New issues being addressed by the personnel and organisational development of SHW include strategic succession planning and further digitalisation in the form of implementing a learning management system and, in connection with this, the use of e-learning to train employees and managers.

The continuous management development programme for managers of all levels across all locations is being continued to make SHW management fit for the challenges facing SHW in future.

Employee retention

We motivate our employees by offering them interesting benefits. The company bicycle model is one such success story. An important indicator for employee satisfaction is loyalty to the organisation.

Research and development

Electrically driven pumps for engine and transmission applications

Two trends have emerged in powertrain development for automobiles and commercial vehicles: On the one hand, the development of new purely electrically-powered axles for battery electric vehicles (BEV) and electric powertrains for plug-in hybrid electric vehicles (PHEV). On the other, optimisation of the existing internal combustion engines to meet the more stringent emission standards.

In addition to developing the existing product portfolio, which consists of oil pumps, low-pressure pumps and fuel pumps for internal combustion engines and automatic transmissions, SHW is focussing its activities on the development of electrically-powered oil and water pumps as well as complete thermal management modules that can be used in electric and hybrid powertrains.

The performance of electric pumps can be regulated, depending on engine speed, vehicle velocity or operating conditions. It therefore constitutes an additional element in the suite of tools used to optimise the overall efficiency of the powertrain.

The innovation of lightweight brake discs

The Brake Discs business segment has been researching lightweight construction for years. As early as 1994 SHW produced the first composite brake disc, for the BMW M5. The idea is to separate the actual brake friction ring from the “pot”, and to produce this pot using aluminium. By using aluminium, a weight reduction of up to 8 kg per vehicle can be achieved. This means a reduction in the unsprung and rotating masses which positively influences the vehicle’s driving dynamics while also reducing fuel consumption and CO_2 emissions and increasing the range of electric vehicles. The focus of development activities lies on the development of cheaper lightweight brake disc concepts to counter the cost pressure on the market.

Moreover, SHW researches and develops technical solutions within the framework of predevelopment and basic research projects to examine such trends as the growing demands placed on future brake discs from electrification. As in the past, the focus here lies on improving the corrosion resistance of brake discs and reducing particulates caused by braking.

Intellectual property safeguarded on a long-term basis

The SHW Group protects its intellectual property relating to pumps and engine components, brake discs, alloys and sintered metal parts through a large number of industrial property rights such as patents, utility models and brands and by filing registrations for these industrial property rights. The intellectual property is primarily registered in Europe, North America and Asia. In isolated cases, patents are jointly held with customers but may be unrestrictedly used by both parties.

BUSINESS REPORT

Macroeconomic environment

The global economy at a glance

The COVID-19 pandemic kept the global economy in a state of suspense once again in the year 2021. A significant recovery of the global economy could be discerned in the first six months of 2021. Economic stimulus packages and vaccination campaigns initially managed to give tailwind to the global economy. However the outbreak of additional variants of the virus dampened economic activity in the second half of the year. Case rates rose rapidly, throttling production and causing disruptions to logistics. Global supply bottlenecks were the result, which weighed down the economic upturn and slowed the pace of recovery. Extraordinary impacts of the pandemic, the blockage of the Suez Canal, the high demand for goods and the expansive monetary and fiscal policies, were all factors leading to rising prices in both Europe and the USA in the year 2021, with the inflation rate clambering to new highs.

The restrictions brought about by the pandemic continued in the year 2021. Nevertheless, global growth of 4.1 per cent on the previous year was recorded by the end of the year.

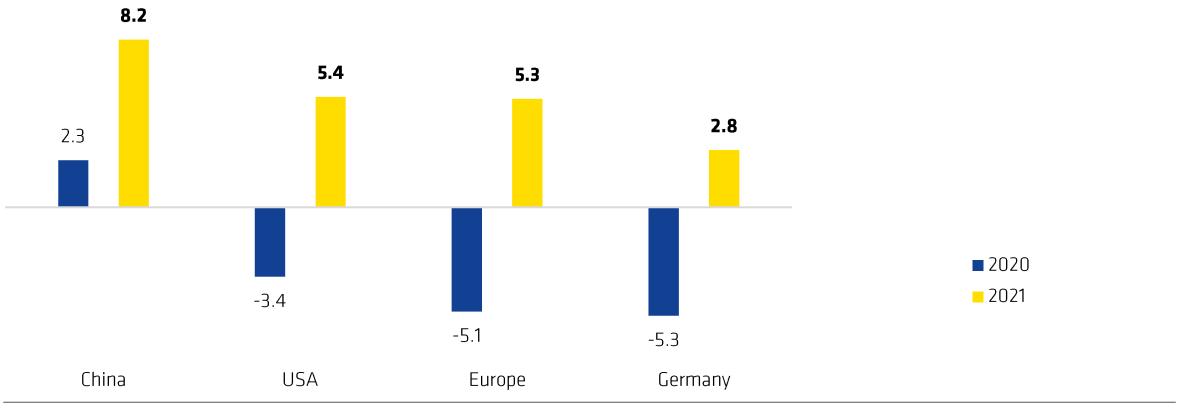
In the **United States**, GDP rose by 5.4 per cent in the year 2021. Strong growth was recorded in the second quarter in particular in the wake of government economic stimulus packages and the easing of corona restrictions. However, private consumption declined in the third quarter, putting a dampener on the upturn.

The **euro zone** also recorded growth of 5 per cent. However, the rapid growth seen in the first half of 2021 lost steam as a result of new waves of corona infections, high energy prices and supply bottlenecks.

GDP growth in **Germany** came to 2.8 per cent in 2021. In the middle of the year growth of over 3 per cent had been forecast on the back of the economic upturn. German production was, however, heavily impacted in the second half of the year by a scarcity of upstream products, such as microchips, components and commodities, with the economy failing to reach the 3 per cent growth forecast.

China was one of the first countries affected by COVID-19 and was also one of the first to return to a growth trajectory in the year 2020. Despite the stringent measures to contain the new variants of the virus, which culminated in temporary closures of container ports, the economy recorded growth of 8.2 per cent in the year 2021.

GDP GROWTH BY REGION IN %



Source: IHS Markit

Industry environment

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

Global automobile production slightly up on the previous year

According to data from the research institute IHS Markit, production of light vehicles (vehicles of less than six tonnes) increased slightly by 1.2 per cent worldwide from 74.6 million units in the previous year to 75.5 million units in 2021.

China recorded a production volume of 23.9 million vehicles, representing moderate growth of 1.4 per cent on the previous year.

Europe recorded a decrease of 5.4 per cent to 15.7 million units. This reduction in production volume is partly attributable to Germany, where production fell by 14.1 percentage points to 3.2 million units. In addition to Germany, production slumped in Spain by 6.1 per cent to 2.1 million units and by 5.9 per cent in the UK to 0.9 million units.

In North America production volume of light vehicles slid from 13.0 million units to 12.9 million units (-0.6 per cent). South America, by contrast, saw growth in 2021, with production volumes rising to 2.5 million vehicles, an increase of 13.6 per cent. Japan and South Korea suffered a decrease in vehicle production of 0.4 million units. Southern Asia recorded growth of 23.6 per cent in light vehicle production from 6.2 million units to 7.6 million units.

Diesel engines continue to disappear from the market

The production of power trains for light vehicles (of less than six tonnes) increased worldwide by 1.2 per cent to 75.5 million units in 2021. Production of gasoline engines decreased slightly by 1.1 per cent to 59.8 million units as compared to the previous year. The production of diesel engines failed to match the level of the previous year by 0.5 million units or 4.3 per cent. By contrast, electric engines enjoyed a growth rate of 93.4 per cent to 4.4 million units and, due to the low absolute production figures played a subordinated role.

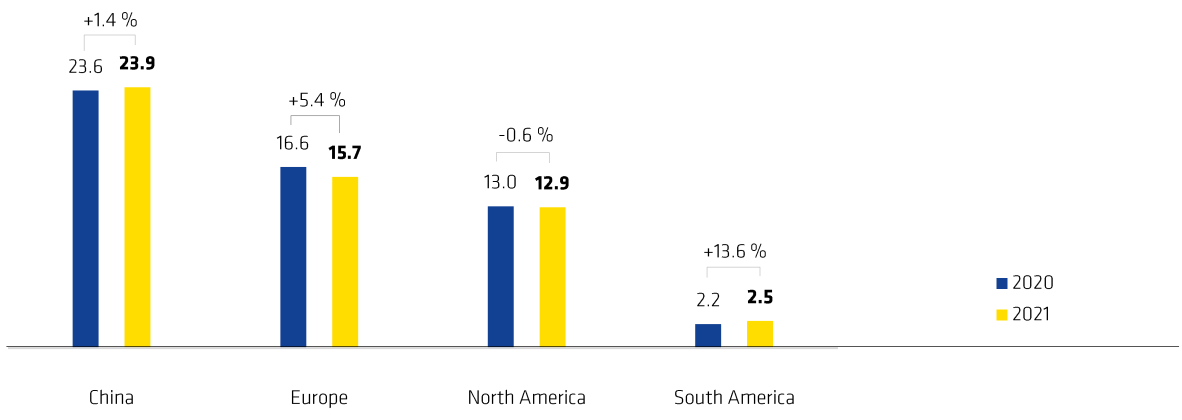
Hybrid/electric vehicles record the highest growth rates

Production of automatic transmissions fell by 2.2 per cent, from 48.2 million units in the previous year to 47.2 million units. Their share of the market also slid from 64.7 per cent in 2020 to 62.5 per cent.

Hybrid and electric vehicles recorded the highest growth rates, with growth of 60.6 per cent. As a result, their market share rose from 6.8 per cent in the year 2020 to 10.8 per cent.

In Europe production of automatic transmissions matched the level of the previous year at 7.7 million units (growth of 0.2 per cent). The number of manual transmissions in Europe fell by 5.2 per cent to 6.7 million units.

LIGHT VEHICLE PRODUCTION BY REGION (IN M UNITS)



Source: IHS – January 2022

Goal attainment in 2021

The Group sales of €427.3 million reported by SHW AG, up 8.8 per cent on the previous year, lay at the lower end of the range expected for fiscal year 2021 of between €420 million and €460 million forecast in the Group management report for 2020.

In terms of the EBITDA margin, the Group management report for 2020 forecast a corridor of between 8 per cent and 11 per cent for the fiscal year 2021, which was also reached, albeit at the lower end.

EBITDA of €34.7 million (previous year €25.3 million) is also within the corridor forecast in the Group management report for 2020 for fiscal year 2021 of between €33.6 million and €50.6 million.

In an ad hoc announcement issued on 22 April 2021, SHW had raised its guidance for the above financial indicators for fiscal year 2021. However, in another ad hoc announcement issued on 28 September 2021 it reduced the guidance back to the original forecast as issued in the Group management report for 2020 to reflect the global scarcity in semiconductors and the associated reduction in customers' call-off volumes in the second half of the year.

Course of business

Events of particular significance

Delisting

The Management Board of SHW AG passed a resolution on 5 March 2021 to delist the shares of SHW AG from the m:access (free trade) segment of the Munich stock exchange and discontinue free trading in the shares. The Munich stock exchange approved this application on 11 March 2021. The shares were delisted from the m:access segment effective 31 March 2021 and withdrawn from free trade on the open market of the Munich stock exchange at the end of day, 30 December 2021.

Pierer Industrie AG submitted a voluntary public purchase offer of €19.00 per share to the outstanding shareholders.

Financial performance

Group sales up 8.8 per cent

Group sales amounted to €427.3 million in 2021, 8.8 per cent above the previous year's figure of €392.9 million.

Cost of sales ratio up slightly on the previous year

The cost of sales increased to €376.7 million (previous year €344.7 million). At 88.4 per cent (previous year 87.7 per cent) the cost of sales ratio is up slightly on the previous year. The gross margin (defined as gross profit divided by sales) dipped slightly to 11.6 per cent (previous year 12.3 per cent).

Selling and administrative expenses influenced by internationalisation

Selling expenses increased in fiscal year 2021 by €1.5 million compared to the previous year to €14.1 million. The ratio of selling expenses to sales of 3.3 per cent lies at roughly the same level as the previous year. General administrative expenses decreased by €1.8 million to €20.4 million. The ratio of administrative expenses to sales therefore fell slightly from 5.6 per cent to 4.8 per cent.

Research and development costs increased

Research and development costs expensed through profit and loss of €13.5 million in fiscal year 2021 were €1.9 million above the level of the previous year. In addition, development costs of €3.7 million (previous year €3.5 million) were capitalised as intangible assets, as it is more likely than not that they will be amortised in the price of parts that have already gone into serial production or are about to. The ratio of R&D expenses (including capitalised development costs) to sales of 4.0 per cent (previous year 3.8 per cent) were slightly up on the level of the previous year. Amortisation of capitalised development costs amounted to €2.2 million in fiscal year 2021 (previous year €1.4 million). Additional development services were billed within the scope of individually contracted customer orders. The core area of development in the Pumps and Engine Components business segment lies on electrically-driven oil and water pumps and complete thermal management modules. The focus of the Brake Discs business segment lies on the continued development of high-quality composite brake discs and additional lightweight concepts, improved corrosion protection and the reduction of particulates released during braking.

Other operating income and expenses

At €1.5 million, the net balance of other operating expenses and other income is €8.1 million up on the level of the previous year of € -6.6 million. Positive factors include, in particular, insurance indemnification payments of €3.4 million and reversals of provisions and other liabilities of €2.8 million. Expenses from losses on financial assets (LHT) of €1.6 million and losses on the disposal of assets of €1.2 million placed a negative burden on the net balance.

In the previous year, legal expenses and consulting fees of €6.8 million and impairment losses of €1.0 million resulted in higher other operating expenses.

KEY PERFORMANCE INDICATORS: SHW GROUP

K EUR	2021	2020	Change %
Sales	427,323	392,931	8.8%
EBITDA	34,681	25,337	36.9%
as % of sales	8.1%	6.4%	-
EBIT	3,039	-4,729	-164.3%
as % of sales	0.7%	-1.2%	-
Net profit	-621	-5,059	-87.7%
Equity	127,371	124,652	2.2%
Equity ratio	38.1%	39.4%	-
Net working capital	57,464	36,497	57.4%
as % of sales	13.4%	9.3%	-
Investments	41,646	32,763	27.1%
as % of sales	9.7%	8.3%	

EBITDA up €9.4 million on previous year

Consolidated EBITDA (including impairments) came to €34.7 million in fiscal year 2021 compared to €25.3 million in the previous year. The EBITDA margin is above the previous year's figure of 6.4 per cent.

At €31.6 million, depreciation and amortisation was €2.6 million or 9.0 per cent above the level of the previous year.

The operating result (EBIT) rose from € -4.7 million to €3.0 million. The EBIT margin amounts to 0.7 per cent, compared to -1.2 per cent in the previous year.

Higher financial expenses

The net financial result comes to a net expense of €2.4 million (previous year €2.5 million). The reduction of €0.1 million is due to higher interest income.

Sharp rise in the tax rate

Income taxes amounted to an expense of €1.2 million in 2021 (previous year income of €2.2 million). The SHW Group's tax rate amounted to 199.5 per cent for fiscal year 2021, compared to 30.4 per cent in the previous year. The increase is due to the tax impact of the sale of LHT. We refer to the tax reconciliation and the disclosures on income taxes (note 21) and the disclosures on the sale of LHT (note 8) in the notes to the consolidated financial statements.

Group's net profit improved on the previous year

The net profit of the Group after tax improved by €4.4 million to € -0.6 million (previous year € -5.1 million). Earnings per share come to € -0.10 compared to € -0.79 in the previous year. The weighted average number of shares used to calculate earnings per share remained unchanged on the previous year at 6,436,209 shares in fiscal year 2021.

Business segments

Pumps and Engine Components

Sales at €303.1 million

The Pumps and Engine Components segment generated sales of €303.1 million in 2021, up 4.8 per cent on the sales of the previous year (€289.2 million). The positive development is primarily due to the German locations.

At €21.5 million, EBITDA is significantly below the previous year's figure of €26.0 million. The EBITDA margin sank from 9.0 per cent (previous year) to 7.1 per cent in fiscal year 2021.

Brake Discs

Sales at €124.3 million

The Brake Discs segment saw a very pleasing development, with sales rising by 19.7 per cent to €124.3 million (previous year €103.8 million).

EBITDA rose significantly by €9.0 million (previous year) to €14.0 million in fiscal year 2021. The EBITDA margin increased as a result from 8.7 per cent to 11.3 per cent.

Financial position

NET ASSET POSITION

K EUR	2021	2020	Change absolute	Change %
Non-current assets	**208,426**	**194,042**	**14,384**	**7.4%**
of which other intangible assets	18,131	16,948	1,183	7.0%
of which property, plant and equipment	160,632	150,218	10,414	6.9%
thereof deferred tax assets	16,428	14,611	1,817	12.4%
of which other (financial) assets	6,180	5,210	970	18.6%
Current assets	**125,721**	**122,289**	**3,432**	**2.8%**
of which inventories	70,329	49,547	20,782	41.9%
of which trade receivables	36,769	40,575	-3,806	-9.4%
of which liquid funds	8,838	14,697	-5,859	-39.9%
of which held for sale	0	8,906	-8,906	-100.0%
Total assets	**334,147**	**316,331**	**17,816**	**5.6%**

Total assets increased by 5.6 per cent

At the end of the fiscal year 2021 total assets were 5.6 per cent up on the previous year, a rise of €17.8 million.

In particular, internally generated intangible assets associated with development costs led to an increase of €1.2 million in other intangible assets.

Investments of €39.5 million (see the section on cash flows, investing activities) and the recognition of right-of-use assets of €2.1 million (IFRS 16) led to an increase in property, plant and equipment of €10.4 million. As at 31 December 2021 investment commitments amounted to €28.2 million. A disproportionate rise in inventories of €20.8 million was caused by sudden fluctuations in the calls made by customers on standing orders. The reduction in trade receivables on the reporting date originates primarily from optimised receivables management and the expansion of the factoring programme in comparison to the previous year. We refer to the cash flow statement for more information on the developments in cash and cash equivalents.

The balance of receivables sold came to €12.2 million as at the reporting date.

The sale of Lust Hybrid-Technik GmbH (LHT) effective 30 November 2021 resulted in the assets of this entity, which were classified as held for sale, being derecognised. Reference is made to the presentation in the notes to consolidated financial statements (Note 8).

Cash flows

In August 2017 SHW AG entered into a new syndicated loan agreement securing credit lines totalling €80.0 million and providing it a solid cash basis. The syndicated loan agreement has an agreed term of five years and an option for renewal, that was exercised in 2019. The loan expires in August 2024. As at 31 December 2021, the credit promised under the existing syndicated loan agreement was drawn on by an amount of €40.0 million in the form of four short-term loans, overdrafts of €6.9 million and bank guarantees totalling €2.3 million.

SHW uses derivative financial instruments in the form of interest swaps for hedging purposes (cash flow hedge). The effects of this hedge were immaterial as at the reporting date.

FINANCIAL POSITION

K EUR	2021	2020	Change absolute	Change %
Equity	**127,371**	**124,652**	**2,719**	**2.2%**
Non-current liabilities and accruals	**75,934**	**78,520**	**–2,586**	**–3.3%**
of which liabilities to banks	22,921	24,433	–1,512	–6.2%
of which other financial liabilities	11,063	12,142	–1,079	–8.9%
Current liabilities and accruals	**130,842**	**113,159**	**17,683**	**15.6%**
of which liabilities to banks	55,050	24,845	30,205	121.6%
of which trade payables and contract liabilities	49,634	53,625	–3,991	–7.4%
of which other pensions	2,607	3,162	–555	–17.6%
of which held for sale	0	3,000	–3,000	–100.0%
Total assets	**334,147**	**316,331**	**17,816**	**5.6%**

Equity ratio at 38.1 per cent (previous year 39.4 per cent)

The Group's equity as at 31 December decreased on the previous year, largely on account of foreign exchange differences of €2.5 million. No profit distribution for fiscal year 2020 was performed. Due to the sharp rise in the balance sheet total, the equity ratio decreased from 39.4 per cent to 38.1 per cent.

Non-current liabilities, provisions and accruals decreased, mainly due to reclassifications to current liabilities, provisions and accruals.

With regard to current liabilities, provisions and accruals, liabilities to banks rose on account of reclassifications from non-current liabilities and drawings made on two short-term loans of €10.0 million each. The decrease in trade payables and contract liabilities results mostly from a decline in the calls made by customers on standing orders and the postponement of some investments into the following year. Due to the sale of LHT the current liabilities classified as "held-for-sale" were derecognised on 30 November 2021.

Net working capital ratio below the target corridor

The net working capital ratio, measured against Group sales of the last twelve months, increased from 9.3 per cent in the previous year to 13.4 per cent, generally on account of the rise in inventories, and therefore lies above the mid-term targeted corridor of 11 per cent to 12 per cent.

NET WORKING CAPITAL

K EUR	2021	2020	Change absolute	Change %
Inventories	70,329	49,547	20,782	41.9%
Trade receivables	36,769	40,575	–3,806	–9.4%
Trade payables	–49,232	–52,693	3,461	–6.6%
Contract liabilities	–402	–932	530	–56.9%
Net working capital	**57,464**	**36,497**	**20,967**	**57.4%**
as % of sales	13.4%	9.3%	-	-

Operating free cash flow significantly below the level of the previous year

At €3.6 million, cash flow from operating activities in fiscal year 2021 was significantly below the previous year's level of €37.8 million.

The cash flow from investing activities of €40.1 million, related to capital expenditure on property, plant, and equipment and intangible assets, is approximately €11.9 million above the figure of the previous year, primarily due to a postponement in investments from the previous year in response to the COVID-19 pandemic.

Therefore, operating free cash flow decreased by €46.2 million to € -36.6 million compared to the previous year (previous year €9.6 million).

Total free cash flow of € -33.6 million (previous year €8.9 million) results from the repayment of the loans of LHT in 2021.

DERIVATION OF THE CHANGE IN NET LIQUIDITY

K EUR	**2021**	2020
Cash flow from operating activities	3,566	37,807
Cash flow from investing activities (intangible assets and property, plant and equipment)	-40,134	-28,251
Operating free cash flow	**-36,568**	**9,556**
Cash flow from investing activities (subsidiaries, financial assets)	2,980	-622
Total free cash flow	**-33,588**	**8,934**
Other	-964	-2,423
Change in net liquidity	**-34,552**	**6,511**

Net financial liabilities of € -69.1 million

The change in net liquidity led to the SHW Group carrying net financial liabilities (defined as the balance of cash and cash equivalents and liabilities to banks) as at 31 December 2021 of € -69.1 million (previous year € -34.6 million).

In addition to the total free cash flow described above (€33.6 million), payments for leases (€ -2.2 million) resulted in a deterioration of €41.1 million in net liquidity.

As at 31 December 2021, the SHW Group had cash and cash equivalents of €8.8 million (previous year €14.7 million). Liabilities to banks of €78.0 million (previous year €49.3 million) consist of four short-term loans amounting to €40.0 million and overdrafts of €6.9 million drawn under the syndicated loan agreement as well as seven bullet loans amounting to €22.8 million and a loan of €8.3 million from the KfW development bank. We refer to Notes (34) and (38) in the notes to the consolidated financial statements for more information.

Increase in investments in property, plant and equipment

Additions to property, plant and equipment and intangible assets amounted to €41.6 million in fiscal year 2021 (of this amount €2.1 million is due to IFRS 16; previous year additions of €32.8 million). The discrepancy between the reported additions from property, plant and equipment and intangible assets and payments made in the consolidated cash flow statement reflects the deferral of payments beyond the reporting date and non-cash asset additions funded by leases.

Investments in the Pumps and Engine Components business segment rose by 14.6 per cent to €30.5 million (of which €1.7 million due to IFRS 16; previous year €26.6 million), including investments in development activities amounting to €3.7 million (previous year €3.5 million). These investments focused on development activities and new assembly lines. The investments in the Brake Discs business segment rose significantly by 83.9 per cent to a total of €10.3 million (of which €0.4 million due to IFRS 16; previous year €5.6 million). The focus lay mainly on investments to expand capacity and improve productivity.

In addition to the cash flow from operating activities planned for fiscal year 2022, there are also financing sources available from the syndicated bank loan to finance the investments already commissioned (purchase obligations for non-current assets) and the investments planned for fiscal year 2022.

ROCE significantly above previous year's level

ROCE

K EUR	2021	2020
Goodwill	7,055	7,055
Customer base	0	0
Other intangible assets	18,131	16,948
Property, plant and equipment	160,632	150,218
Deferred tax assets	16,428	14,611
Other (financial) assets (non-current)	6,180	5,210
Inventories	70,329	49,547
Trade receivables	36,769	40,575
Income tax assets	799	452
Other (financial) assets	8,986	8,112
Held for sale	0	8,906
Capital employed asset item	**325,309**	**301,634**
Deferred tax liabilities	-9,184	-7,747
Other pensions (non-current)	-29	-29
Other financial liabilities (non-current and non-interest bearing)	-536	-744
Other liabilities (non-current)	-58	-197
Trade payables	-49,232	-52,693
Contract liabilities	-402	-932
Other financial liabilities (current and non-interest bearing)	-10,651	-15,287
Income tax liabilities	0	-1,004
Other pensions (current)	-2,607	-3,162
Other liabilities (current)	-9,984	-10,053
Liabilities associated with held-for-sale assets	0	-3,000
Capital employed liability item	**-82,683**	**-94,848**
Capital employed	242,626	206,786
EBIT	3,039	-4,729
ROCE	**1.3%**	**-2.3%**

The return on capital employed (ROCE) increased from -2.3 per cent to +1.3 per cent in fiscal year 2021.

The increase in ROCE is largely attributable to the increase in EBIT.

Overall statement on the economic position

Given the circumstances, the Management Board of SHW AG considers the Group's business performance in 2021 to be satisfactory on the whole.

In addition to the challenging transformation processes confronting the automobile industry, the development of financial performance, financial position and cash flows was dominated by the burdens placed on the Group by the COVID-19 pandemic.

With the aid of operative and financial countermeasures, we managed to fulfil the business targets in the reporting year.

At the time of issuing the Group management report, the Management Board of SHW AG is satisfied with the economic situation of the SHW Group and believes the Group, with its innovative product portfolio and the orders already placed, is well positioned to actively shape the transformation of the automotive sector. Moreover, the Group has various equity and debt instruments at its disposal to build on its market position in selected fields of business and regions, also via acquisitions and partnerships.

RISK REPORT

Risk management principles

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

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

To ensure that our risk management system is as effective as possible, we utilise a Group-wide integrated risk management system which identifies, assesses, manages, monitors and systematically reports risks. The risk management system is aligned towards identifying potential risks at an early stage by constantly monitoring the relevant markets, regions, customers and suppliers as well as internal processes in order to take effective counteraction.

The key objective of our risk management system is to safeguard and raise the Company's enterprise value and balance our cash management (to avoid liquidity bottlenecks).

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

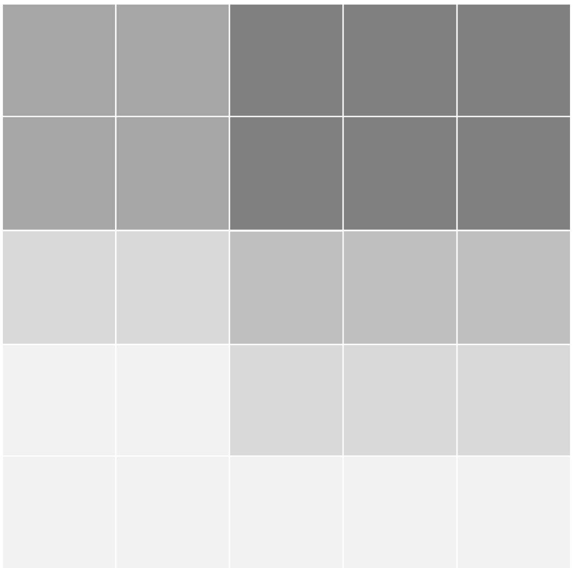
Risks are presented after considering risk mitigation measures (net presentation).

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

DEGREE OF FINANCIAL IMPACT	
existential damaging impact on business, financial performance, financial position and cash flows	> € 10.0 million
high substantial impact on business, financial performance, financial position and cash flows	≤ € 10.0 million
medium some impact on business, financial performance, financial position and cash flows	≤ € 1.0 million
low limited impact on business, financial Performance, financial position and cash flows	≤ € 0.25 million
insignificant Insignificant impact on business, financial performance, financial position and cash flows	< € 0.05 million

PROBABILITY

very low	low	medium	high	very high
< 10 %	≥ 10 % to < 30 %	≥ 30 % to < 60 %	≥ 60 % to < 80 %	≥ 80 %



Strategic risks

Macroeconomic and industry risks

Future development of the SHW Group' business is heavily dependent on the development of the global economy. In addition, risks can arise from political and social change.

The global impacts of the pandemic are still being keenly felt. Supply chains are not functioning properly yet and the scarcity of semiconductors is leading to a sudden reduction in the volumes called off on standing orders. The Russian-Ukrainian conflict will place an additional burden on supply chains due to the closure of production facilities in Ukraine and the sanctions imposed upon Russia.

As a supplier to the automobile industry, the business development of the SHW Group is substantially dependent upon the fundamental transition occurring in the automobile industry. This transformation is being driven by such trends as electrification and digitisation.

The Pumps and Engine Components business segment is dependent to a great extent on the production of vehicles, engines and transmissions by its customers in Europe, North and South America, China and on their export activity. The Brake Discs business segment is almost completely dominated by the vehicle production of its customers in Europe. The speed of implementation and the focal points chosen by our customers in the field of electromobility are affecting demand for our portfolio of pumps and our development focus. An economic downturn in these sales markets could have a negative impact on consumers' purchasing behaviour and dim the growth outlook of these business segments as a result. An international expansion of this division presents us with both opportunities and risks.

Market structure risks

The transformation in the automotive sector is towards increasingly powerful and simultaneously more fuel-efficient and less-polluting engines as well as alternative drive solutions, such as hybrid and electrical vehicles. In the short and medium term this will continue to give rise to structural changes on the market for internal combustion engines in Europe, North America and China. We anticipate strong growth in hybrid and electric vehicles in Europe. Market studies are pointing towards moderate growth in North and South America.

SHW's future success thus depends above all on the group of companies' ability to focus on the right developments and to translate these into new and improved low-carbon products for all drive technologies and to bring these to market rapidly and at high quality.

With its new 2030 corporate strategy SHW has identified the correct focal points for development in order to continuously align the product portfolio with the transformation of the automotive industry.

Risks of consolidation in the industry and competition

The reduction in the volumes called off standing orders on account of the scarcity of semiconductors has reduced the reliability of the mid to long-term planning. Market pressures are forcing greater consolidation of automotive suppliers in response to the transformation of the automobile industry. SHW is endeavouring to be perceived as a reliable supplier by pursuing a pro-active portfolio strategy.

Operating risks

Market penetration risks

SHW is driving forward the internationalisation of its business activities in the field of pumps and engine components by means of wholly-owned subsidiaries in Brazil, North America, China and Romania. This entails various risks for SHW. On the one hand, there is a danger of the Company not being awarded follow-up projects in these regions or only being awarded such projects to an inadequate extent. On the other hand, start-up costs may deviate from the budgeted figures, both in terms of timing and volume. Other risks could arise from the local requirements or potential intercultural problems.

The know-how SHW has gathered in this field during the many years of successful internationalisation allows SHW to precisely analyse the potential project risks during the start of production for new customer projects.

Customer risks

Customer risks arise due to SHW's dependence on key customers which are able to exploit their bargaining power. This can put considerable pressure on margins.

In the past fiscal year, the SHW Group generated sales with one customer which exceeded 10 per cent of Group sales. The share of sales realised with SHW's largest customer decreased from 36.8 per cent to 34.9 per cent. To reduce these risks, SHW aims to ensure that its sales are evenly distributed among its customers. In this regard, our strategic focus is on raising sales with new customers and expanding our product portfolio in the Truck & Off Highway segment.

In sum, as things currently stand and based on the existing contracts (which are mainly long-term) and the Company's long-established customer relationships, the complete loss (or even the partial loss) of one of the Company's key customers over the next few years is somewhat unlikely, especially since SHW supplies each individual customer with a large number of wide-ranging products for many different engine, transmission and vehicle types.

Delivery call-off risks

The first half of 2021 was dominated by a phase of recovery with a steady rise in call-off volumes. However, the crisis in the semiconductor sector led to a massive decline in calls on standing orders in the second half of the year. In sum, call-off volumes were higher in the reporting year than in the previous year.

In order to be able to react flexibly to such changes in levels of demand, the SHW Group takes on temporary workers as needed, as part of its capacity management.

On the other hand, the SHW Group is exposed to risks associated with unforeseeable increases in the volume of calls made on standing orders beyond the contractually agreed volumes. This can create significant problems throughout the supply chain and impose a considerable additional burden. The SHW Group seeks to secure compensation from customers for any resulting cost burdens.

New product launches and project risks

SHW is exposed to risks related to the planning, cost calculation, execution and completion of new product launches and projects. There is a danger of delays, unexpected technical complications, underestimated complexity, capacity problems, bottlenecks, quality problems or higher start-up costs or a failure to meet the budgeted production costs. Delays in obtaining approvals and setting billing dates may also eventuate.

To keep these risks under control, the relevant SHW departments (in particular, production, purchasing, sales, quality assurance and development) and the relevant customer and supplier departments maintain a close process of consultation and coordination during the start-up phase. Although these risks can be mitigated by means of professional project management, project milestones, reviews of the respective project phases, extensive quality management and appropriately structured contracts, they cannot be fully ruled out.

Cost risks

To produce pumps and engine components as well as brake discs, the SHW Group purchases materials including scrap iron, raw aluminium, aluminium and steel powder and coke from raw materials suppliers. Iron, aluminium and coke prices tend to be subject to strong price fluctuations. The prices of materials, for iron scrap, for instance, rose dramatically in the year 2021. Only some of these price increases could be passed on under the price escalation clauses arranged with customers. In many cases, the SHW Group has concluded agreements with the automobile manufacturers it supplies to adjust the sales prices of its products on a monthly, quarterly or semi-annual basis in line with short-term and medium-term fluctuations in raw material prices for raw aluminium, aluminium powder, steel powder and scrap iron. In these cases, in addition to the agreed sales prices, the SHW Group charges material surcharges to the automobile manufacturers.

After material expenses, personnel costs are the second-largest cost item for the SHW Group. In the event that wage and salary increases agreed on within the scope of future collectively bargained industrial agreements significantly exceed productivity gains, this might weaken the relative competitiveness of SHW and negatively affect its ability to reach its earnings goals.

Supplier risks

The SHW Group is dependent upon timely delivery of raw materials and of the components necessary for production from its suppliers. Late deliveries may have a significant impact on the business operations of the SHW Group.

SHW maintains long-lasting business relationships with most of its suppliers. SHW addresses possible risks resulting from delayed deliveries or the loss of key suppliers, particularly due to the transformation process that is sweeping the industry, by means of regular on-site reviews which include a credit assessment. At the same time, SHW maintains close contacts and business relationships worldwide with alternative suppliers for key purchased parts. The lessons learned from the COVID-19 pandemic have been incorporated in our supplier ratings and supplier selection process.

IT risks

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

The current threat scenarios in the field of cyber security demand extensive countermeasures in planning, implementation and the operation of the organisation's networks. The SHW Group has implemented a large number of measures in order to reduce these IT risks as far as possible. The IT department is working continuously on refining the security concepts and rolling them out to operations. The main focal points at present are the segmentation of the network, secure access to production machinery and secure remote working solutions using multifactor authentication and other measures to improve the protection of remote access. The measures to protect against ransomware are being continuously improved and expanded. User behaviour plays a key role in cyber security. Ongoing training measures and a reporting system for security incidents minimises the risk of a successful cyberattack.

Other important corporate data are mirrored in the remote computer centre and therefore backed-up. In addition, we protect ourselves against the risk of data loss using back-up systems. Moreover, the SHW Group has a cross-divisional contingency plan which temporarily safeguards the functionality of its production and logistics operations even without a connection to its IT system.

We steadily invest in security software to protect our IT systems from unauthorised external access. Internally, employee access to confidential corporate data is ensured by the ability to escalate authorisation rights.

Acquisition and integration risks

Acquisitions and possible partnerships are an important element of the growth strategy to improve the market position or to complement existing business and tap new fields of business. Potential targets and cooperations are assessed by means of standardised processes.

However, the objectives pursued by an acquisition or cooperation, namely, to exploit potential synergies and realise cost savings, might not be reached, or not to the extent expected. The integration of technologies, products, processes and employees bears risks. The integration process could prove to be more complicated, take more time and be more cost-intensive than initially assumed.

Environmental risks

In addition to environmental regulations, which include limits on emissions and standards for the handling, storage and management of waste and hazardous substances, the locations of SHW are being increasingly confronted with customer expectations that go beyond the standards required by the law. In particular, the foundry of the Brake Discs business segment at the Tuttlingen-Ludwigstal facility is subject to a number of environmental obligations. Compliance with these environmental regulations and with the mandatory obligations within the scope of the SHW Group's operating permits entails operating costs and requires ongoing investments. Failure to comply with environmental regulations may result in consequences under civil, criminal or public law, in particular fines and claims for damages due to property damage or bodily harm or else a temporary or permanent shutdown. Furthermore, there is a risk that any failure to comply with the environmental demands of customers will result in not being considered in any strategically important projects in future. For this reason, SHW constantly endeavours to harmonise the environmental demands of customers, and thus our own environmental goals, with our commercial objectives.

Legal and compliance risks

Legal risks

One of the main legal risks is products liability: Despite extensive quality checks, the components produced by SHW may be faulty. Defective products may lead to damages or losses for the OEMs' end customers, which may result in them asserting compensation and product-liability claims. It could also culminate in the SHW Group or customers of the SHW Group being obliged to initiate a recall campaign.

The Company has in place appropriate quality assurance systems in order to avoid and reduce these risks. The SHW Group maintains the customary level of insurance coverage – with appropriate deductibles – to protect it against claims for damages due to faulty products. The risk position with regard to product liability has not changed to any material extent compared to the previous year.

Compliance risks

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

Tax risks

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

Financial risks

Counterparty credit risk

The risk of credit losses on receivables has not changed for the globally positioned customers of the SHW Group. Where necessary, the terms of payment and the credit limits are adjusted and regularly monitored. The economic situation for our suppliers remains tight. Due to our multiple-supplier strategy, we believe the risk of losing a key supplier is currently low.

Financing risks

The measures taken by the Group to address potential future liquidity bottlenecks arising from the COVID-19 pandemic and the impacts of these measures on the consolidated financial statements consist of the following:

On 2 September 2021 the Group took out an investment loan of €7 million from a syndicate bank.

With an equity ratio of 38.1 per cent, net financial liabilities as at 31 December 2021 of € -69.1 million and sufficient free credit lines, the financial base of the SHW Group is robust.

The syndicated financing agreement concluded in fiscal year 2017 for an amount of €80.0 million is presented in the section on the economic situation, financial position and financial strategy. The applicable financial covenants were complied with as at 31 December 2021.

Currency risks

The SHW Group is not exposed to any significant currency risks, since its sales and costs are mainly billed in euros on almost all of its production factor and goods markets. In connection with the locations in Romania, Brazil, China and Canada (Pumps and Engine Components business segment), no additional currency translation risks have arisen for the SHW Group since sales and costs are generated primarily in the local currency. Translation risks will primarily arise from the development of the exchange rates of the Brazilian real, the Chinese renminbi, the Canadian dollar and the Romanian leu against the euro.

Interest risks

Changes in market interest rates affect future interest payments for floating rate liabilities. Significant interest rate increases may therefore affect the profitability, liquidity and the financial position of the SHW Group.

Due to the current zero-interest rate policy of the European Central Bank we do not anticipate any significant interest rate rises in the near future.

Impairment risks

Some of the assets carried by the SHW Group are intangibles, including goodwill. As at 31 December 2021, goodwill reported in the balance sheet of the SHW Group amounted to approximately €7.1 million. Of this amount, €4.3 million related to the Pumps and Engine Components business segment and €2.8 million to the Brake Discs business segment. The goodwill impairment test as at 31 December 2021 was conducted based on the planning for the period from 2022 to 2026, and assumptions made regarding future developments.

Assessment of the overall risk position

In our view the SHW Group's overall risk situation is manageable at the present time. There are currently no discernible risks which could, in isolation or in aggregate, lead to a long-term deterioration in the financial position, financial performance and cash position of the Group. Nor are any risks apparent which might jeopardise the SHW Group's continued existence.

At present, the mutations of the coronavirus, the disrupted supply chains and rising prices for energy and commodities are affecting the global economy in 2022 and this is having a knock-on effect on financial markets. The impacts of these macroeconomic factors on the development of fiscal year 2022 cannot be fully assessed at present. The same applies to the impacts of the Russian-Ukrainian conflict.

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

OPPORTUNITIES

Principles of managing opportunities

We understand opportunities to mean possible future developments or events that may result in a positive deviation from a forecast or target for the SHW Group. Our opportunities management system is based upon the goals and strategies of the two business segments, Pumps and Engine Components and Brake Discs. The operational management of these business segments has direct responsibility for early and regular identification and analysis of opportunities.

Opportunities management is an integral part of SHW's planning and management systems. The market and competition, relevant cost components and key success factors are intensively examined in this regard. Specific goals for the business segments are then derived and set.

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

The key opportunities for SHW are presented below.

Group-wide opportunities

Significant efforts required in order to achieve the ambitious emission targets

The more stringent regulations on CO_2 limits and climate-neutral production within the automobile industry are driving the transformation of the sector. The framework conditions and CO_2 reductions expected of car fleets are presenting the OEMs with new challenges with regard to the development of alternative powertrains and, ultimately, the electrification of the existing product spectrum.

These challenges also apply to the automotive suppliers of the leading OEMs. The supplier industry is not only affected by the consequences of the transformation. It is also called upon as a competence centre and source of expertise to help shape the transformation process.

The rising demand from OEMs for mechatronic, electrical and software-managed products to be used in the major e-mobility platforms requires a complete overhaul and revision of the existing value chains in the automotive supply sector. This new alignment demands that we extend our core competencies, develop new standards, create competitive terms and conditions and define new production processes.

Taking account of market expectations, as described above, SHW, as an automotive supplier, accepts the challenges of the transformation process and has approved a corresponding strategy to secure its future.

Opportunities in the business segments

Due to the rising share of hybrid and electric vehicles on the market, the Pumps and Engine Components segment will concentrate more strongly on e-pumps and complex modules for the cooling and lubrication of electric engines, electric axles as well as batteries and performance electronics. At an early stage, SHW created the framework conditions to develop and manufacture new products that address the advancing electrification of OEM powertrains. For instance, we expanded our development expertise in regard to software and electronics and created new functions. Furthermore, investments were made in an experimental laboratory for electrical applications with the corresponding infrastructure and test stations. New standards and processes were also implemented for the production of electrical products.

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

Based on its innovative product portfolio and its current order book, the Management Board believes that SHW is well positioned to achieve stronger growth than the market for light vehicles, engines and transmissions.

In sum, the Management Board of SHW AG assigns the opportunities available to the SHW Group to be of moderate relevance.

FORECAST

Outlook for the overall economy and for the industry

Global economy: Dominated by uncertainties

A number of global economic factors are coming together to make developments in the year 2022 subject to uncertainty. On the one hand, there is hope that the more incisive restrictions will fall away over the course of the year due to the Omicron variant of the coronavirus being less dangerous and the wide-ranging vaccination campaigns. On the other hand, rising prices for commodities and energy are leading to record inflation, which is expected to remain at a high level in the year 2022.

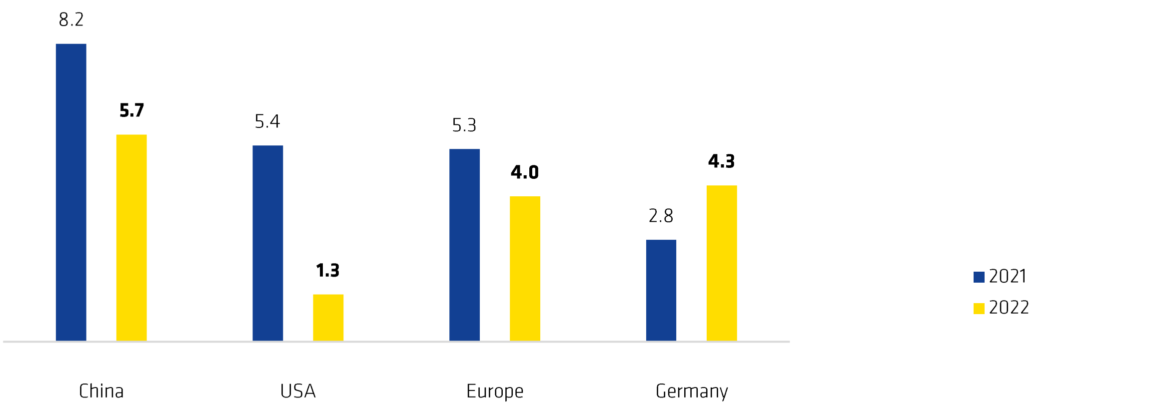
GDP growth of 4.3 per cent has been forecast for the **US** for 2022, not least due to the serious uncertainties (previous year 5.4 per cent)

For the **euro area** GDP growth of 4.0 per cent is forecast for 2022 (previous year 5.3 per cent). It is expected that the GDP of all the member states of the euro zone will have returned to pre-crisis levels by the end of the year. The greatest factor affecting the economic production of the euro zone will be the future evolution of the pandemic and its management by state governments. In addition, sustained bottlenecks in supply chains and high energy prices are burdening economic growth.

According to IHS, the **German economy** should continue on its course of recovery from the corona crisis in 2022, with its GDP growing by 4.3 per cent (previous year 2.8 per cent). Although it is anticipated that the industrial sector will still have to battle with supply bottlenecks in the first half of the year, this problem should be resolved in the second half. In particular, strong demand in the euro zone has resulted in much higher order intake in the manufacturing sector since the end of 2021. The German economy is also benefiting from the fact that the economic stimulus programme of the Federal Government was extended until June 2022.

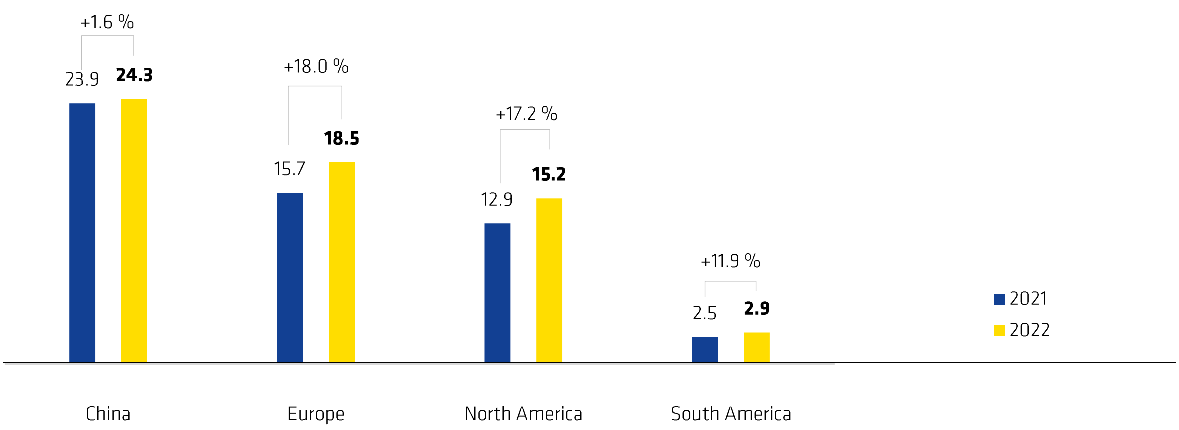
GDP growth of 5.7 per cent is forecast in **China** for the year 2022 (previous year 8.2 per cent). However, there is a risk that widespread hard lockdowns will have a negative impact on global supply chains. The uncertainties on the Chinese real estate market are also dampening the local economy.

GDP GROWTH BY REGION IN %



Source: IHS Markit

LIGHT VEHICLE PRODUCTION BY REGION (IN M UNITS)



Source: IHS – January 2022

Vehicle production: Signs of recovery from the semiconductor crisis on the horizon

The IHS market research institute is forecasting growth of 9.0 per cent for global light vehicle production (vehicles of less than six tons) in 2022, which represents production growth of 6.8 million vehicles in comparison to 2021.

For the European region, production is anticipated to increase by 18.0 per cent to 18.5 million vehicles. This would imply that European production would reach the forecast originally made for 2021 with Europe accounting for 22.5 per cent of global production.

IHS forecasts growth of 38.0 per cent in German light vehicle production for 2022 in comparison to 2021 to 4.4 million units.

Chinese vehicle production is expected to grow moderately at 1.6 per cent. By contrast, much brighter prospects are forecast for light vehicle production in North America (+17.2 per cent) and South America (+11.9 per cent).

Electric motors and hybrids continue to win greater market share

Likewise, analogous to vehicle production, IHS forecasts growth of 9.0 per cent in global engine production in 2022 to 82.3 million units. This will not be enough to reach the level of 2019. The number of electric and hybrid engines produced in 2022 should rise by 40.9 per cent with its share of the total market rising from 5.8 per cent to 7.5 per cent to the cost of gasoline and diesel engines. Nevertheless, gasoline engines will once again account for the largest share of the market at 78.4 per cent.

It is anticipated that engine production will grow significantly to 24.1 million units in China (+0.5 per cent), to 19.6 million units (+17.8 per cent) in Europe and to 16.7 million units in North and South America (+16.1 per cent).

The market share of electric motors will reach a new record in 2022, accounting for 7.5 per cent of total production, but will nevertheless still play a comparatively minor role.

According to IHS, the largest share of engine production in 2022 will continue to be accounted for by gasoline engines at 79.2 per cent, followed by diesel engines at 14.8 per cent, which will continue to lose market share in favour of electric motors (5.8 per cent).

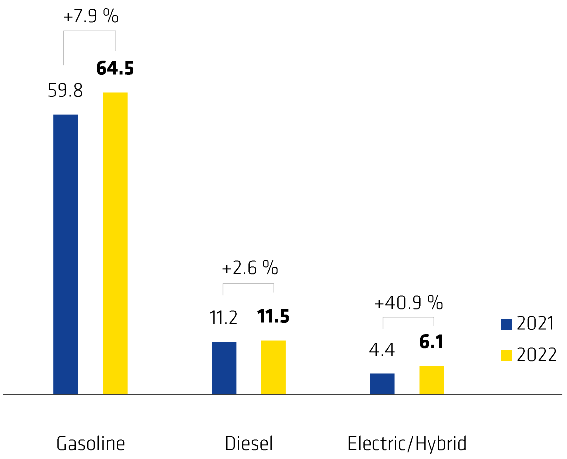
SHW remains well positioned, with its product solutions for internal combustion engines – both diesel and gasoline – as well as electric engines, to exploit any growth opportunities that arise.

Electrification of the drive train will continue to impact transmission production noticeably

The number of automatic transmissions produced in 2022 is expected to grow by 8.0 per cent to 51.0 million. It is assumed that the production volume of manual transmissions in the year 2022 will decrease by 2.5 per cent. The fastest growth according to IHS will be in dedicated hybrid transmissions (DHT) and reduction gears, which together are forecast to grow by 43.5 per cent. This can be attributed to the higher production of electric cars and hybrids. These types of transmissions are expected to account for 14.2 per cent of the market in 2021.

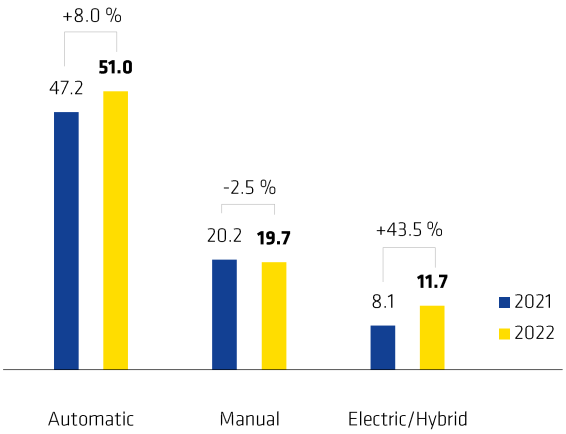
Automatic transmissions will see a slight decrease of 0.6 percentage points in their share of the market to 61.9 per cent. It is assumed that the share of manual transmissions will decline by 2.8 percentage points to 23.9 per cent. This loss of market share will benefit hybrid and electric transmissions, which will expand their share of the market by 3.4 percentage points to 14.2 per cent. The largest decline is forecast for the production of manual transmissions, particularly in China (-17.2 per cent) and North America (-18.2 per cent).

ENGINE PRODUCTION WORLDWIDE (IN M UNITS)



Source: IHS – January 2022

TRANSMISSION PRODUCTION WORLDWIDE (IN M UNITS)



Source: IHS – January 2022

Outlook for the Group

Moderate growth in Group sales, EBITDA and EBITDA margin

Based on the expectations for the wider macroeconomic conditions and the industrial sector, and after weighing up potential opportunities and risks for the fiscal year 2022, the Management Board of SHW AG is forecasting moderate growth in Group sales and EBITDA, with sales in the Pumps and Engine Components segment enjoying strong growth and sales in the Brake Discs segment seeing just slight growth.

For the fiscal year 2022 SHW is forecasting a moderate rise in the EBITDA margin. The Pumps and Engine Components segment should improve more strongly than the Brake Discs segment on account of the discrepancy in their comparative baselines. This forecast is based on a difficult market.

Aalen, 30 March 2022

Wolfgang Plasser
Chairman of the Management Board

Thomas Karazmann
CFO

CONSOLIDATED FINANCIAL STATEMENTS OF SHW AG

CONSOLIDATED INCOME STATEMENT

for the fiscal year from 1 January to 31 December 2021

K EUR	Note	2021	2020
Sales	**(14)**	**427,323**	**392,931**
Cost of sales	(22)	-377,826	-344,689
Gross profit		**49,497**	**48,242**
Selling expenses	(15), (22)	-14,062	-12,518
General administrative expenses	(16), (22)	-20,444	-22,197
Research and development costs	(17), (22)	-13,484	-11,621
Other operating income	(18)	8,672	4,622
Other operating expenses	(19)	-7,140	-11,257
Earnings before interest and tax		**3,039**	**-4,729**
Financial income	(20)	163	36
Financial expenses	(20)	-2,578	-2,570
Earnings before tax		**624**	**-7,263**
Deferred taxes	(21)	603	2,985
Current income tax	(21)	-1,848	-781
Earnings after tax		**-621**	**-5,059**
Net profit		**-621**	**-5,059**
Earnings per share in € (basic and diluted)*		-0.1	-0.79

* Calculated in relation to an average of 6,436,209 shares (previous year 6,436,209 shares), see Note (31) "Equity".

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the fiscal year from 1 January to 31 December 2021

K EUR	2021	2020
Net profit	**-621**	**-5,059**
Items that will not be reclassified to profit or loss in future periods		
Actuarial gains / losses from pension provisions and similar obligations before tax	1,135	789
Tax effect	-323	-224
Items that may be reclassified to profit or loss in future periods		
Currency translation differences	2,519	-2,419
Tax effect	0	0
Changes in the fair value of derivates held for hedging purposes recognised in equity	137	-127
Tax effect	0	0
Other comprehensive income after tax	**3,468**	**-1,981**
Total comprehensive income after tax	**2,847**	**-7,040**
Net profit for the year attributable to		
shareholders of SHW AG	-621	-5,059
holders of non-controlling interests	0	0
Total comprehensive income after tax attributable to		
shareholders of SHW AG	2,847	-7,040
holders of non-controlling interests	0	0

CONSOLIDATED BALANCE SHEET

as at 31 December 2021

ASSETS

K EUR	Note	31.12.2021	31.12.2020
Goodwill	(25)	7,055	7,055
Other intangible assets	(25)	18,131	16,948
Property, plant and equipment	(25)	160,632	150,218
Deferred tax assets	(21)	16,428	14,611
Other financial assets	(26)	223	232
Other assets	(26)	5,957	4,978
Non-current assets		**208,426**	**194,042**
Inventories	(27)	70,329	49,547
Trade receivables	(28)	36,769	40,575
Other financial assets	(29)	582	682
Income tax assets	(21)	799	452
Other assets	(29)	8,404	7,430
Cash and cash equivalents	(30)	8,838	14,697
Held for sale		0	8,906
Current assets		**125,721**	**122,289**
Total assets		**334,147**	**316,331**

EQUITY AND LIABILITIES

K EUR	Note	31.12.2021	31.12.2020
Subscribed capital	(31)	6,436	6,436
Capital reserves	(31)	38,510	38,510
Revenue reserves	(31)	89,889	90,638
Other reserves	(31)	−7,464	−10,932
Equity		**127,371**	**124,652**
Employee benefits	(32)	32,679	33,972
Deferred tax liabilities	(21)	9,184	7,747
Liabilities to banks	(34)	22,921	24,433
Other financial liabilities	(34)	11,063	12,142
Other provisions	(33)	29	29
Other liabilities	(34)	58	197
Non-current liabilities and provisions		**75,934**	**78,520**
Liabilities to banks	(34)	55,050	24,845
Trade payables	(34)	49,232	52,693
Contract liabilities	(14)	402	932
Other financial liabilities	(34)	13,567	17,470
Income tax liabilities	(21)	0	1,004
Other provisions	(33)	2,607	3,162
Other liabilities	(34)	9,984	10,053
Liabilities associated with held-for-sale assets		0	3,000
Current liabilities, provisions and accruals		**130,842**	**113,159**
Total equity and liabilities		**334,147**	**316,331**

CONSOLIDATED CASH FLOW STATEMENT

for the fiscal year from 1 January to 31 December 2021

K EUR	Note	2021	2020
1. Cash flow from operating activities			
Net profit		-621	-5,059
Depreciation / amortisation (+) of fixed assets	(25)	31,642	29,046
Impairment losses on intangible assets and goodwill	(25)	0	1,020
Income tax expenses through profit or loss (+)	(21)	1,848	782
Income taxes paid (-)		-3,197	-1,967
Financing costs through profit or loss (+)	(20)	2,578	2,629
Interest paid (-)		-1,795	-1,796
Financial investment income through profit or loss (-)	(20)	-163	-36
Interest received (+)		163	37
Increase (+) / decrease (-) in provisions	(32), (33)	-1,275	-1,871
Change in deferred taxes		-604	-3,056
Other non-cash expenses (+) / income (-)		-825	624
Gain (-) / loss (+) from the disposal of assets		310	615
Increase (-) / decrease (+) in inventories, trade receivables and other assets	(27), (28), (29)	-10,471	5,248
Increase (+) / decrease (-) in trade payables and other liabilities	(34)	-14,023	11,591
Cash flow from operating activities		**3,566**	**37,807**

K EUR	Note	2021	2020
2. Cash flow from investing activities			
Cash received (+) from the disposal of property, plant and equipment		51	656
Cash paid (-) for investments in property, plant and equipment		–35,698	–24,348
Cash paid (-) for investments in intangible assets		–4,737	–4,559
Cash paid (-) for the acquisition of subsidiaries		0	0
Cash received (+) from disposal of financial assets	(8)	2,980	0
Cash received (+) from the sale of consolidated companies	(8)	250	0
Cash paid (-) for investments in financial assets		0	–622
Cash flow from investing activities		**–37,154**	**–28,873**
3. Cash flow from financing activities			
Cash received (+) from the assumption of financial liabilities	(34), VI.	33,398	14,000
Cash paid (-) for the redemption of financial liabilities	(34), VI.	–4,705	–21,008
Dividends paid (-) to shareholders	(31)	0	0
Cash paid (-) for leases	VI., VIII.	–2,214	–2,169
Cash flow from financing activities		**26,479**	**–9,177**
4. Cash and cash equivalents at the end of the period			
Cash-effective changes in cash and cash equivalents (sum of positions 1-3)		–7,109	–243
Exchange rate-related changes in cash and cash equivalents		1,250	–254
Changes in cash and cash equivalents due to changes in the consolidation basis		–127	0
Cash and cash equivalents at the beginning of the period	(30)	14,824	15,321
Cash and cash equivalents at the end of the period	**(30)**	**8,838**	**14,824**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the fiscal year from 1 January to 31 December 2021

K EUR	Subscribed capital (Note 31)	Capital reserves (Note 31)	Revenue reserves (Note 31)	Other reserves (Note 31)	**Total equity**
As at 1. January 2020	**6,436**	**38,510**	**95,697**	**–8,951**	**131,692**
Changes from actuarial gains and losses	0	0	0	565	565
Changes in the fair value of derivates held for hedging purposes recognised in equity	0	0	0	–127	–127
Foreign currency translation differences	0	0	0	–2,419	–2,419
Other comprehensive income	**0**	**0**	**0**	**–1,981**	**–1,981**
Net profit for 2020	0	0	–5,059	0	–5,059
Total comprehensive income for the period	**0**	**0**	**–5,059**	**–1,981**	**–7,040**
As at 31.December 2020	**6,436**	**38,510**	**90,638**	**–10,932**	**124,652**

K EUR	Subscribed capital (Note 31)	Capital reserves (Note 31)	Revenue reserves (Note 31)	Other reserves (Note 31)	**Total equity**
As at 1. January 2021	**6,436**	**38,510**	**90,638**	**–10,932**	**124,652**
Changes from actuarial gains and losses	0	0	0	812	812
Changes in the fair value of derivates held for hedging purposes recognised in equity	0	0	0	137	137
Foreign currency translation differences	0	0	0	2,519	2,519
Other comprehensive income	**0**	**0**	**0**	**3,468**	**3,468**
Net profit for 2021	0	0	–621	0	–621
Total comprehensive income for the period	**0**	**0**	**–621**	**3,468**	**2,847**
Others*)	0	0	–128	0	–128
As at 31.December 2021	**6,436**	**38,510**	**89,889**	**–7,464**	**127,371**

*) Rücklage für Mitarbeiter Bonus

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF SHW AG

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

I. General background

1. The Company

SHW AG with registered offices at Wilhelmstrasse 111, Aalen, Germany, was created in 2011 by a change of legal form and recorded in the commercial register on 8 June 2011 (under the commercial register no. HRB 726621 held by the Ulm district court).

The SHW Group's principal activity is the production and sale of hydraulic pumps, powder metallurgy parts and brake discs.

2. Accounting polices

SHW AG's consolidated financial statements as at 31 December 2021 were approved by the Management Board on 25 March 2022 for submission to the Supervisory Board. The consolidated financial statements presented conform to the applicable International Financial Reporting Standards (IFRS) set by the International Accounting Standards Board (IASB) in London. The authoritative version of IFRS is that as at 31 December 2021 as to be applied in the EU. All interpretations of the International Financial Reporting Interpretations Committee (IFRIC) relevant for fiscal year 2021, 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. Deviations from this are specified under the accounting and valuation principles.

The consolidated financial statements have been prepared in euros. Unless indicated otherwise, the figures shown in the consolidated financial statements are stated in thousand euros (€ thousand). We draw attention to the fact that there may be rounding differences to the mathematically exact figures (monetary units, percentages, etc.)

By resolution dated 17 January 2022, the shareholders of Schwäbische Hüttenwerke Automotive GmbH, the shareholders of SHW Brake Systems GmbH, and the shareholders of SHW Bremsen Beteiligungs GmbH passed a unanimous resolution to apply the exemption from reporting duties afforded by Section 264 (3) HGB and therefore did not compile their own management reports or notes to the financial statements or publish their financial statements and management reports. The resolutions were published in the Federal Gazette (Bundesanzeiger) on 17 March 2022. According to Section 264b No. 3 HGB, SHW Gießerei GmbH & Co. KG is also exempted from the duty to compile financial statements pursuant to German commercial law or a management report pursuant to the laws applying to stock corporations and have these audited and published.

4. New and amended standards and interpretations applicable in the year 2021

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and interpretations, which have been adopted into European law by the EU and must be applied to reporting periods beginning on 01 January 2021:

Standard/ Interpretation		Status	Applicable from
Amendment IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16	Interest Rate Benchmark Reform (Phase 2)	revised	01.01.2021
Amendment IFRS 16	Leases	revised	01.01.2021

5. Standards, interpretations and amendments to published standards not yet mandatory in 2021 and not adopted early by the SHW Group

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

Standard/ Interpretation		Status	To be applied from
Amendments zu IFRS 16	Leases	revised	01.01.2022
Amendments to IFRS 3	Conceptual Framework	revised	01.01.2022
Amendments zu IAS 1	Classification of debt as current or non-current	revised	01.01.2023
Amendments to IAS 37	Onerous Contracts	revised	01.01.2022
Amendments zu IAS 16	Income before planned use	revised	01.01.2022
Amendments to IFRS 17	Insurance contracts	revised	01.01.2023
Amendments to IAS 8	Definition accounting estimate	revised	01.01.2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of the accounting method	revised	01.01.2023
Amendments to IAS 12	Deferred taxes	revised	01.01.2023

We expect that future application of the new standards and amendments will not have any effect, or will not have any significant effect, on the consolidated financial statements of SHW AG.

6. Estimates and uncertainties associated with discretionary judgements and assumptions

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

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

Change in useful lives in 2021

At the beginning of the fiscal year 2021 the SHW Group changed the useful lives of future non-current project-related assets to accommodate past experience. The changes relate to future periods and are therefore to be applied prospectively.

Goodwill impairment

The SHW Group tests goodwill for impairment at least once a year or when there is an indication that the goodwill of €7,055 thousand (previous year €7,055 thousand) may be impaired. This involves an estimate of the recoverable amount of those cash-generating units (CGUs) to which the goodwill is allocated. In order to calculate the recoverable amount of the CGU, the SHW Group must estimate the fair value, less the cost of sale, based on the EBIT forecasts and, in addition, select an interest rate in order to calculate the present value of cash flows. Further details may be found in Note (25) “Statement of changes in intangible assets and property, plant and equipment”.

Development costs

Development costs are capitalised according to the accounting and valuation methods presented. The initial capitalisation of costs is based on the management’s assessment that technical and economic feasibility has been demonstrated. Generally, this is the case when a product development project has achieved a certain degree of maturity within an existing project management model. In order to determine the capitalisable amounts, assumptions and estimates were included for expected cash flows from assets, the applicable discount rates and the period of expected future cash flows which the assets generate. As at 31 December 2021, the capitalised development costs amount to €14,672 thousand (previous year €13,446 thousand).

Pensions and similar obligations

Expenses for defined benefit plans and other post-employment benefits are determined based on actuarial calculations. The actuarial valuation involves making assumptions about discount rates, future wage and salary increases, mortality rates and future pension increases. Such estimates are subject to considerable uncertainty due to the long-term nature of these plans.

As at 31 December 2021, the provision for pensions and similar obligations amounted to €27,439 thousand (previous year €28,788 thousand). More details on this can be found in Note (32) “Employee benefit obligations”.

Deferred tax assets

Deferred tax assets are recognised on all unused tax-loss carry-forwards to the extent that it is probable that taxable income will be available in future against which the tax-loss carry-forwards can actually be used. Changes in the ownership structure of SHW AG or changes in the tax legislation of the respective countries could have an impact on the ability to utilise unused tax losses. A considerable degree of discretionary judgement on the part of the management is required to determine the amount of deferred tax assets that can be recognised, based on the expected timing and level of taxable income in the future together with future tax planning strategies. For further details, please see Note (21) “Income taxes”.

Estimates used in the application of accounting principles

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

This particularly applies to the following types of situations:

- Determination of the fair value of assets and liabilities acquired as part of a business combination, as well as these assets’ period of useful life, based on assessments by the management.

- In the case of assets that are to be sold, management must determine whether these can be sold in their present condition and whether their sale is very probable.

- When recognising provisions for warranties, customer project and product-related obligations, the main parameters (ratio of the expected utilisation and the average amount) are defined by management.

- According to IFRS 9, financial assets must be classified into assets that are “held”, “held and sold” or “held for trading”, depending on the business model. Depending on this classification, financial assets are measured at amortised cost (“held”), or (a) at fair value through other comprehensive income (“held and sold”) or (b) at fair value through profit or loss (“held for trading”).

- When determining whether a lease contains an option to extend the term is reasonably certain in the sense of IFRS 16.

II. Consolidation methods and basis of consolidation

7. Consolidation principles and methods

The consolidated financial statements comprise the financial statements of SHW AG and all of its subsidiaries over which it exercises control as defined by IFRS 10, as at 31 December of the respective fiscal year. The financial statements of the subsidiaries are prepared as at the same reporting date as those of the parent company using uniform accounting and valuation principles.

A full list of the shareholdings of the SHW Group is attached as an integral part of these notes to the consolidated financial statements.

Capital consolidation is carried out in accordance with the purchase method. Subsidiaries are fully consolidated from their date of acquisition, i.e. from the date as at which the Group directly or indirectly controls the entity as defined by IFRS 10. An entity is controlled if SHW AG is able to decide on the relevant activities of the subsidiary due to voting rights or other rights, if it receives the positive or negative variable returns generated by this subsidiary and if it may influence these returns by virtue of its decision-making authority. Subsidiaries are removed from the consolidated financial statements as soon as the parent company ceases to control the subsidiary. Upon first-time consolidation, the entity's acquisition cost is allocated to the identifiable assets, liabilities and contingent liabilities of the entity acquired. The assets acquired, particularly the intangible assets, are reassessed in terms of their accounting treatment and subsequently recognised at fair value. Where the acquisition costs for the acquired entity exceed the proportional fair value of the net assets, goodwill is recognised and an impairment test is carried out once a year or when there is good cause. If the impairment test reveals a loss in value an impairment loss is recognised.

All intra-group balances, transactions, income, expenditures, profits and losses from intra-group transactions that are recognised in the separate financial statements of consolidated companies are eliminated.

8. Scope of consolidation

Due to the sale of Lust Hybrid-Technik GmbH (LHT) the consolidated group changed effective 1 December 2021. The 100 per cent stake held in the company was sold in full. SensDev GmbH, Burgstädt, which had not been consolidated on grounds of immateriality, was sold along with LHT.

Disposal group sold

As an electronic manufacturing service unit, LHT is a niche provider in the small to medium-sized series assembly business. For this reason, SHW has decided to reposition LHT on the basis of a "best owner strategy". In the previous year, the Supervisory Board of SHW approved the plan of the Management Board to divest of LHT. LHT was sold by SHW Automotive GmbH on 30 November 2021 to a subsidiary of the Pierer Industrie AG, at a loss of €1,561 thousand. The corresponding loss is presented under other operating expenses. Upon closing of the deal, the Company received the purchase price of €250 thousand in accordance with the contractual arrangements.

Upon being classified as held for sale, non-current assets are no longer depreciated. The resulting effect amounts to €588 thousand (before tax) for the period from 1 January to 30 November 2021.

At the time of the disposal of LHT on 30 November 2021, the assets and liabilities carried by LHT were as follows:

AKTIVA

K EUR	**30.11.2021**	31.12.2020
Other intangible assets	1	19
Property, plant and equipment	2,280	5,087
Deferred tax assets	0	39
Receivables from affiliated companies	30	479
Inventories	2,726	2,064
Trade receivables	915	956
Other assets	164	135
Cash and cash equivalents	1,749	127
Held for sale	**7,865**	**8,906**

EQUITY AND LIABILITIES

K EUR	30.11.2021	31.12.2020
Employee benefits	82	82
Deferred tax liabilities	0	24
Liabilities to banks	723	1,647
Trade payables	915	367
Other provisions	205	102
Other liabilities	4,129	778
Held-for-sale liabilities	**6,054**	**3,000**

LHT CASH AND CASH EQUIVALENTS

K EUR	30.11.2021
Cash consideration received	250
Cash and cash equivalents disposed of	–1,026
Net cash inflows	**–776**

Cumulative income and expenses posted to other comprehensive income

No cumulative income and expenses associated with the disposal group have been posted to other comprehensive income.

Prior to its disposal, LHT was allocated to the Pumps and Engine Components segment. Reference is made to Note (25).

9. Currency translation

The consolidated financial statements are prepared in euros, which is the functional and presentation currency of the SHW Group. Each company within the SHW Group determines its own functional currency. The line items of the companies contained in the financial statements of the respective Group companies are measured using this functional currency. Foreign currency transactions are translated initially at the spot rate for the functional currency and the foreign currency prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the exchange rate prevailing at the reporting date. All currency differences are recognised in profit or loss. Non-monetary items measured at historical cost in a foreign currency are translated at the exchange rate prevailing on the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated at the exchange rate prevailing on the date the fair value was determined.

Assets and liabilities of foreign subsidiaries using a functional currency other than the euro are translated at the closing rate of the fiscal year, while the income statement items are translated at the average exchange rate for the period. Any differences resulting from these conversions are recognised directly under “other reserves” within equity (“foreign currency translation”). At the time of disposal, the amount recognised in “other reserves” is then recycled through profit or loss.

Translation differences arising from items to be received from or to be paid to a foreign operation for which settlement is neither planned nor likely and thus are part of the net investment in that foreign operation are recognised directly in equity within the foreign currency translation reserve.

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

		Closing rate 31.12		Average rate	
	€1	**2021**	2020	**2021**	2020
Brazil	BRL	6.3101	6.3735	6.3786	5.9988
Canada	CAD	1.4393	1.5633	1.4804	1.5380
China	RMB	7.1947	8.0225	7.6069	7.8975
Romania	RON	4.9490	4.8683	4.9251	4.8425

III. Notes to the income statement

14. Sales

The sales presented in the consolidated income statement include revenue from contracts with customers (IFRS 15).

Sales are measured on the consideration agreed on in a contract with a customer. The SHW Group basically recognises revenue on the date on which control over the good or service is transferred to the customer, which is always at a point in time as the criteria for revenue recognition over time are not met. Although the goods or services passed to the customer are generally without any alternative use, the Company is not fundamentally entitled at all times to compensation for the performance obligations it has already satisfied. Consequently, the revenue is recognised at a point in time when control over the good or service passes to the customer.

The Pumps and Engine Components business segment achieved sales of €303,068 thousand in fiscal year 2021 (previous year €289,156 thousand). The Brake Discs business segment achieved sales of €124,255 thousand in fiscal year 2021 (previous year €103,775 thousand).

The geographic information of the SHW Group is based on sales with customers headquartered in the various countries.

GEOGRAPHICAL SEGMENTATION

1. January till 31. December	Germany		Rest of Europe		America		Asia		Other		Total	
K EUR	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Revenue from contracts with customers	231,813	185,074	111,046	120,329	36,949	30,203	47,514	57,296	1	29	427,323	392,931

As at 31 December 2021 contract liabilities amounted to €402 thousand (previous year €932 thousand). Contract liabilities mainly consist of the advance payments received from customers for preparatory work prior to the commencement of serial production. Revenue of €851 thousand (previous year €558 thousand) was realised in the course of fiscal year 2021 from the net balance of contract liabilities carried at the beginning of fiscal year 2021.

As in the previous year, the incremental costs of obtaining contracts of €5,883 thousand (previous year €4,701 thousand) are presented under non-current other assets and €1,083 thousand (previous year €1,019 thousand) under current other assets as at 31 December 2021. Incremental costs of obtaining contracts are when payments are made that can be directly associated with a probable customer contract without which the contract would not have been obtained and are expected to be recovered from the customer in future. Incremental costs of obtaining contracts are amortised in accordance with the later calls for the delivery of series products and came to €1,011 thousand in the fiscal year (previous year €846 thousand). No impairment losses were recorded on recognised the incremental costs of obtaining contracts as at 31 December 2021. We refer to Notes (26) and (29).

Reference is made to Note (28) for more information on the impairments recorded on trade receivables.

15. Selling expenses

Selling expenses are expenses incurred by the sales function. This primarily includes expenses incurred by the sales departments and all of the overheads that can be allocated to these functions or activities. This contains freight and shipping costs as well as commission as direct selling expenses.

16. General administrative expenses

Administrative costs include all administrative expenses which cannot be directly allocated to other functions. This includes expenses for general administration, management and other higher-level departments (see also the explanations on the results of operations in the Group Management Report). Administrative expenses decreased on the previous year as special effects related to intercompany restructuring of €685 thousand were no longer incurred in 2021.

17. Research and development costs

Research and development costs include personnel and non-personnel costs (e.g. depreciation of machinery used in research and development). In fiscal year 2021, the additionally capitalised development costs amounted to €3,734 thousand (previous year €3,487 thousand). Additional development services were billed within the scope of customer orders.

18. Other operating income

Other operating income comprises, in particular, insurance indemnification payments of €3,370 thousand (previous year €856 thousand), reversals of provisions and other liabilities of €2,814 thousand (previous year €1,117 thousand) and income from exchange rate differences of €1,185 thousand (previous year €1,839 thousand).

19. Other operating expenses

Other operating expenses mainly consist of losses from financial assets (LHT) of €1,561 thousand (previous year €0 thousand), losses on the disposal of assets of €1,206 thousand (previous year €649 thousand) and expenses from exchange rate differences of €954 thousand (previous year €2,325 thousand).

20. Financial result

The financial result breaks down as follows:

K EUR	2021	2020
Financial income	163	36
Financial expenses		
Interest and similar expenses	–1,983	–1,957
Interest in the addition to pension provisions	–310	–321
Interest expense from leases	–285	–292
	–2,578	**–2,570**
Financial result	**–2,415**	**–2,534**

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

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

Other interest and similar expenses refer in particular to interest and borrowing costs from the syndicated loan of €1,383 thousand (previous year €1,541 thousand) determined using the effective interest rate method (see Note (34) "Liabilities").

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

K EUR	Net results		of which impairment losses / reinstatements	
	2021	2020	2021	2020
Loans and receivables (AC)	–255	–292	–418	–328
Other non-current financial assets (AC)	–9	–17	–9	–17
Financial liabilities (AC)	–2,268	–2,249	0	0
Total	**–2,532**	**–2,558**	**–427**	**–345**

21. Income taxes

Actual tax refund claims and tax liabilities

The actual tax refund claims and tax liabilities for the current period and for previous periods are carried at the amount of the expected refund by the tax authorities or the expected payment to the tax authorities. The calculation of this amount is based on the tax rates and tax laws applicable on the balance sheet date.

Income tax assets and income tax liabilities

Tax assets of €799 thousand (previous year €452 thousand) relate to rights to reimbursement of corporate income tax and withholding tax. There were no income tax liabilities in fiscal year 2021 (previous year €1,004 thousand).

Deferred taxes

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

The carrying amount of deferred tax assets is reviewed on each balance sheet date and reduced to the extent that it is no longer likely that there will be sufficient taxable income against which the deferred tax assets can be at least partially offset. Unrecognised deferred tax assets are reviewed on each balance sheet date and recognised insofar as it is now probable that future taxable income will enable the realisation of the deferred tax asset.

Deferred tax assets are reported as a separate item under non-current assets, while deferred tax liabilities comprise a separate item under non-current liabilities and provisions.

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

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

a) Tax recognised in profit or loss

K EUR	2021	2020
Current taxes	**-1,848**	**-781**
Current year	-2,155	-1,694
Adjustments for previous years	307	913
Deferred taxes	**603**	**2,985**
Recognition / reversal of temporary differences	-1,694	-450
Effect of tax loss recognised	2,297	2,773
Recognition of previously unrecognised tax losses	0	662
Total	**-1,245**	**2,204**

The deferred tax expenses recognised directly in equity resulted from the revaluation of defined benefit obligations (pensions) and derivatives by an amount of €377 thousand (previous year deferred tax expenses of €224 thousand).

b) Reconciliation of effective tax rate

K EUR	2021	2020
Earnings before tax	624	-7,263
Expected income tax (28.4 [previous year 28.4] per cent)	177	-2,063
Tax-free income, non-deductible expenses	479	32
Tax effect of joint ventures accounted for using the equity method	0	0
Taxes from previous years	0	-122
Reduction in assessed value	-15	-15
Add backs (pursuant to Section 8 of the German Trade Tax Act- GewStG)	65	68
Income from a change in the tax rate	-6	0
Unrecognised deferred tax assets from loss carryforwards	0	0
Impairment losses on deferred tax assets from loss carryforwards	426	419
Recognition of the tax effects arising from unused tax loss carryforwards not recognised to date	0	-662
Deviating foreign tax rates	-272	-91
Non-deductible withholding tax	413	106
Tax effect from the impairment of goodwill	0	116
Other	-22	8
Income taxes	**1,245**	**-2,204**
Effective tax rate	199.5%	30.3%

In Germany, corporate income tax (including the solidarity surcharge) totalled 15.8 per cent in 2021. Trade tax amounts to 12.5 per cent, with an average assessment rate of 356.9 per cent.

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

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

No deferred taxes were calculated on outside basis differences amounting to €8,268 thousand (previous year €6,601 thousand) since SHW is able to control the timing of their release, and it is likely that the temporary difference will not reverse in the foreseeable future.

The distribution of dividends to shareholders of SHW AG did not have an impact on income tax in previous years and will not have an income tax impact in 2022.

c) Composition of deferred taxes

K EUR	Consolidated balance sheet 31.12.2021	31.12.2020
Deferred income tax assets		
Property, plant and equipment	0	0
Inventories	293	894
Other current assets	0	0
Employee benefits	4,499	4,674
Non-current liabilities and provisions	3,646	3,335
Current liabilities, provisions and accruals	265	364
Unused tax losses	7,725	5,344
Total	**16,428**	**14,611**
Deferred income tax liabilities		
Intangible assets	4,167	3,821
Property, plant and equipment	3,802	3,469
Other non-current assets	8	23
Inventories	427	0
Other current assets	74	317
Non-current liabilities and provisions	680	91
Current liabilities, provisions and accruals	26	26
Total	**9,184**	**7,747**

Of the total deferred tax assets recognised on unused tax losses, an amount of €4,931 thousand (previous year €3,001 thousand) is attributable to SHW AG.

The Canadian subsidiary, SHW Pumps & Engine Components Inc. carried deferred tax assets of €1,191 thousand on unused tax losses (previous year €945 thousand) as at 31 December 2021. In the assessment of SHW, these losses can be utilised against taxable income in future as rising sales and earnings are forecast for the near future.

Of the total deferred tax assets recognised on unused tax losses an amount of €943 thousand (previous year €705 thousand) is attributable to the Brazilian subsidiary, SHW do Brasil Ltda. After being severely impacted by the corona pandemic (including temporary plant closures), SHW anticipates that business activity in Brazil will recover in the near future.

Deferred tax assets of €660 thousand (previous year €693 thousand) on unused tax losses are carried by the Romanian subsidiary, SHW Pumps & Engine Components SRL in fiscal year 2021. New orders received in 2022 substantiate the assumption that deferred tax assets can be utilised.

d) Deferred taxes directly recognised in equity

K EUR	Before tax	Tax income / expense	After tax
2021			
Actuarial gains / losses from pension provisions and similar obligations	1,135	–323	812
Currency translation differences	2,519	0	2,519
derivatives	192	–55	137
Total	**3,846**	**–378**	**3,468**
2020			
Actuarial gains / losses from pension provisions and similar obligations	791	–226	565
Currency translation differences	–2,419	0	–2,419
derivatives	–178	51	–127
Total	**–1,806**	**–175**	**–1,981**

The balance of deferred taxes carried in other comprehensive income amounted to €2,494 thousand as at 31 December 2021.

e) Unrecognised deferred tax assets

As at 31 December 2021 there are no deferred tax assets that have not been recognised. Deferred tax assets were recognised on all unused tax losses at German and foreign group entities as at 31 December 2021.

The Management Board is of the opinion that it is probable that there will be taxable income in future against which these entities will be able to offset the unused tax losses.

22. Cost of materials, personnel expenses, depreciation and amortisation

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

COST OF MATERIALS

K EUR	2021	2020
Cost of raw materials and supplies	248,736	217,675
Cost of purchased services	13,933	11,506
Total cost of materials	**262,669**	**229,181**

PERSONNEL EXPENSES

K EUR	2021	2020
Wages and salaries	91,398	83,869
Social security contributions and pension expenses	19,455	16,373
Total personnel expenses	**110,853**	**100,242**

Social security contributions and pension expenses include pension expenses of €8,680 thousand (previous year €7,748 thousand). Pension expenses comprise the addition to pension provisions (excluding the interest component) of €755 thousand (previous year €806 thousand). Statutory pension insurance expenses totalled €7,708 thousand (previous year €6,674 thousand).

Depreciation and amortisation

Depreciation and amortisation of intangible assets and property, plant and equipment totalled €31,642 thousand in fiscal year 2021 (previous year €30,066 thousand), of which €2,391 thousand (previous year €2,407 thousand) is due to IFRS 16 and €0 thousand (previous year €1,020 thousand) to impairment losses. For a breakdown of depreciation and amortisation to the individual line items of non-current assets for the fiscal year and the previous year, please see the "Statement of changes in intangible assets and property, plant and equipment" in Note (25).

23. Auditor's fee

K EUR	2021	2020
Auditing services	275	238
of which for previous years	0	0
of which other audit services	0	0
Other assurance services	3	3
Tax advisory services	9	0
Other services	0	0

24. Employees

Annual average number of employees:

EMPLOYEES

	2021	2020
Pumps and Engine Components business segment		
direct employees	525	519
indirect employees	651	605
Brake Discs business segment		
direct employees	293	282
indirect employees	171	164
Corporate		
indirect employees	45	49
	1,685	**1,619**

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

IV. Notes to the consolidated balance sheet

25. Statement of changes in intangible assets and property, plant and equipment

	Acquisition and production costs						
K EUR	As at 1.1.2021	Additions	Reclassi fications	Disposals	Exchange rate differences	Reclassificat ion to "held-for-sale"	As at 31.12.2021
Intangible assets							
Goodwill	7,441	0	0	−386	0	0	7,055
Customer base	0	0	0	0	0	0	0
Internally generated assets	23,885	3,734	0	−305	0	0	27,314
Other intangible assets	13,613	1,003	0	−328	20	0	14,308
	44,939	**4,737**	**0**	**−1,019**	**20**	**0**	**48,677**
Property, plant and equipment							
Land, land rights and buildings	73,438	1,332	2,285	−57	855	0	77,853
Technical equipment and machinery	209,814	16,017	8,821	−9,423	1,974	0	227,203
Other equipment, operating and office equipment	46,130	6,204	870	−3,213	57	0	50,048
Advance payments and assets under construction	10,973	13,356	−11,976	0	−5	0	12,348
	340,355	**36,909**	**0**	**−12,693**	**2,881**	**0**	**367,452**
Total	**385,294**	**41,646**	**0**	**−13,712**	**2,901**	**0**	**416,129**

	Acquisition and production costs						
K EUR	As at 1.1.2020	Additions	Reclassi fications	Disposals	Exchange rate differences	Reclassificat ion to "held-for-sale"	As at 31.12.2020
Intangible assets							
Goodwill	7,441	0	0	0	0	0	7,441
Customer base	963	0	0	0	0	−963	0
Internally generated assets	20,685	3,487	0	−287	0	0	23,885
Other intangible assets	12,695	1,072	0	−19	−43	−92	13,613
	41,784	**4,559**	**0**	**−306**	**−43**	**−1,055**	**44,939**
Property, plant and equipment							
Land, land rights and buildings	70,661	3,932	2,375	−113	−323	−3,094	73,438
Technical equipment and machinery	197,541	9,221	10,792	−2,959	−1,265	−3,516	209,814
Other equipment, operating and office equipment	43,222	3,960	489	−1,090	−82	−369	46,130
Advance payments and assets under construction	13,684	11,091	-13,656	−1	−145	0	10,973
	325,108	**28,204**	**0**	**−4,163**	**−1,815**	**−6,979**	**340,355**
Total	**366,892**	**32,763**	**0**	**−4,469**	**−1,858**	**−8,034**	**385,294**

	Depreciation and amortisation								Net carrying amounts	
	As at 1.1.2021	Additions	Reclassi fications	Disposals	Impairment	Exchange rate differences	Reclassificati on to "held-for-sale"	As at 31.12.2021	31.12.2021	1.1.2021
	386	0	0	−386	0	0	0	0	7,055	7,055
	0	0	0	0	0	0	0	0	0	0
	10,439	2,203	0	0	0	0	0	12,642	14,672	13,446
	10,111	1,052	0	−328	0	14	0	10,849	3,459	3,502
	20,936	**3,255**	**0**	**−714**	**0**	**14**	**0**	**23,491**	**25,186**	**24,003**
	21,937	3,820	9	−57	0	230	0	25,939	51,914	51,501
	139,520	19,008	−9	−9,408	0	663	0	149,774	77,429	70,294
	28,680	5,559	0	−3,172	0	40	0	31,107	18,941	17,450
	0	0	0	0	0	0	0	0	12,348	10,973
	190,137	**28,387**	**0**	**−12,637**	**0**	**933**	**0**	**206,820**	**160,632**	**150,218**
	211,073	**31,642**	**0**	**−13,351**	**0**	**947**	**0**	**230,311**	**185,818**	**174,221**

	Depreciation and amortisation								Net carrying amounts	
	As at 1.1.2020	Additions	Reclassi fications	Disposals	Impairment	Exchange rate differences	Reclassificati on to "held-for-sale"	As at 31.12.2020	31.12.2020	1.1.2020
	0	0	0	0	386	0	0	386	7,055	7,441
	233	96	0	0	634	0	−963	0	0	730
	9,004	1,435	0	0	0	0	0	10,439	13,446	11,681
	9,192	1,010	0	−3	0	−14	−74	10,111	3,502	3,503
	18,429	**2,541**	**0**	**−3**	**1,020**	**−14**	**−1,037**	**20,936**	**24,003**	**23,355**
	18,740	3,825	0	−61	0	−98	−469	21,937	51,501	51,921
	125,758	17,527	0	−2,096	0	−493	−1,176	139,520	70,294	71,783
	24,847	5,153	0	−1,038	0	−36	−246	28,680	17,450	18,375
	0	0	0	0	0	0	0	0	10,973	13,684
	169,345	**26,505**	**0**	**−3,195**	**0**	**−627**	**−1,891**	**190,137**	**150,218**	**155,763**
	187,774	**29,046**	**0**	**−3,198**	**1,020**	**−641**	**−2,928**	**211,073**	**174,221**	**179,118**

Intangible assets

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

Intangible assets with limited useful lives are amortised using the straight-line method over their economic useful life of two to ten years. The useful life and amortisation methods are reviewed at the end of each fiscal year and adjusted if necessary.

Research costs are recognised in the period incurred. Project development costs are only capitalised as intangible assets when the SHW Group can verify the technical feasibility of completing the intangible asset which would allow for the internal use or sale of the asset, as well as the intention of completing the intangible asset and the intention to use or to sell the asset. Furthermore, the SHW Group must provide proof of the establishment of the asset's future economic use, the availability of resources for the purposes of completing the asset, and be able to reliably identify the expenses incurred which can be attributed to the development of this intangible asset. Development costs include directly attributable costs, as well as a proportionate share of overhead expenses. Selling expenses and administrative expenses are not included. For development projects not yet completed, tests will be carried out at the end of each fiscal year to ascertain whether there is objective evidence of impairment.

If an internally generated intangible asset cannot be capitalised or an intangible asset does not yet exist, then the development costs are recognised in profit or loss in the period in which they arise.

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

Intangible right-of-use assets from leases are not recognised in keeping with IFRS 16 (practical expedient).

Additions to internally generated intangible assets mainly resulted from capitalised development costs of €3,734 thousand (previous year €3,487 thousand).

Other intangible assets mainly consist of software and licenses.

Depreciation and amortisation of intangible assets and property, plant and equipment are included in functional costs and particularly in the cost of sales. Impairment is reported under other operating expenses.

Purchase commitments for intangible assets and property, plant and equipment amount to €28,216 thousand (previous year €18,137 thousand).

Goodwill

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

Goodwill is subject to an impairment test once a year or when needed and is impaired if necessary. To test for impairment, the goodwill is allocated as at the acquisition date to cash-generating units in the SHW Group that are expected to benefit from the synergies of the business combination.

This occurs regardless of whether other assets or liabilities of the acquired business are allocated to these cash-generating units. If the recoverable amount of a cash-generating unit is less than the unit's carrying amount, the impairment loss is first allocated to the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis and in accordance with the carrying amount of each asset in the unit. Any recognised impairment loss on goodwill may not be reversed in subsequent periods.

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

- Pumps and Engine Components CGU
- Brake discs CGU

The LHT cash-generating unit was deconsolidated upon disposal in fiscal year 2021. The goodwill allocated to it was already fully impaired in the previous year. The recoverable amount of the two (previous year three) CGUs was calculated on the basis of their fair value less costs to sell. This calculation was made using EBIT forecasts that are based on the financial plan for the years from 2022 to 2026 approved by management. The determination of fair value is carried out according to level 3 of the valuation hierarchy as defined by IFRS 13. Calculation of the terminal value is based on an inflation/growth discount of 1.0 per cent (previous year 0.5 per cent).

For the EBIT forecasts a 10.4 per cent discount rate was used (previous year 8.2 per cent). This represents the risk-adjusted weighted average cost of capital (WACC) before taxes.

Goodwill was allocated to the relevant CGUs as follows:

CARRYING AMOUNT OF GOODWILL

K EUR	31.12.2021	31.12.2020
Pumps and Engine Components	4,233	4,233
Brake Discs	2,822	2,822
Total	**7,055**	**7,055**

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

Planned gross margins

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

Planned EBIT margin

EBIT forecasts are based on averages from previous years' experience as well as on estimates of future developments and show a trend for rising margins overall. The fundamental assumptions made coincide with those from external sources of information. The planned EBIT margin of the CGUs within the planning horizon lie in a range between 1.9 and 8.2 per cent.

Discount rates

The discount rate was derived from a base interest rate after tax of 0.13 per cent and an after-tax market risk premium of 7.5 per cent. The beta factor, capital structure and cost of debt were derived from the data for a peer group of comparable companies.

The recoverable amount is compared with the corresponding carrying amount of the relevant CGU. An impairment of goodwill is recognised if the recoverable amount is less than the carrying amount of the CGU. The annual goodwill impairment test revealed there was no need for impairment. Even if there was an increase of 0.5 percentage points in the discount rate or a change in the EBIT forecasts of 10.0 per cent there would not be a need to record an impairment loss in the Pumps and Engine Components CGU nor in the Brake Discs CGU.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The production costs of property, plant and equipment produced internally comprise the direct and overhead costs of production directly attributable to the asset, including depreciation.

Property, plant and equipment are depreciated using the straight-line method over their expected useful lives. The carrying amount of property, plant and equipment is tested for impairment when there is an indication that the asset's carrying amount exceeds its recoverable amount.

Depreciation is based on the following useful lives:

Asset category	Useful life
Buildings	14 to 40 years
Land improvements	8 to 20 years
Technical equipment and machinery	5 to 15 years
Operating and office equipment	3 to 14 years

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

Impairment of property, plant and equipment and intangible assets

At the end of each fiscal year, the SHW Group reviews the carrying amounts of property, plant and equipment and intangible assets in order to determine if there are any indications of impairment. If there are such indications, then the asset's recoverable amount is estimated to determine the extent of any impairment loss. The recoverable amount of the asset's cash-generating unit is estimated when the recoverable amount of an individual asset cannot be determined because the cash flows it generates are not essentially independent of the cash flows of other assets or groups of assets. If a reasonable and consistent basis can be identified for allocating cash flows, the shared assets are allocated to the respective cash generating units. Otherwise, they are allocated to the smallest group of cash generating units for which a reasonable and consistent basis can be identified.

The recoverable amount is the higher of fair value less costs to sell and value in use. An appropriate valuation model is used to determine the fair value less costs to sell. When calculating the value in use, the future estimated cash flows are discounted to their present value by using a pre-tax interest rate. This pre-tax interest rate takes current market assessments of the time value of money into account and the risks inherent in the asset that are not included in the initial cash flow estimate.

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

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

Borrowing costs

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

26. Other non-current financial assets and other assets

The non-current other financial assets break down as follows:

K EUR	**31.12.2021**	31.12.2020
Cash surrender value of pension insurance policies	223	232
Total	**223**	**232**

Of the other non-current assets, a total of €5,957 thousand (previous year €4,978 thousand) are prepaid expenses, of which €5,883 thousand (previous year €4,701 thousand) are incremental costs of obtaining contracts.

27. Inventories

K EUR	**31.12.2021**	31.12.2020
Raw materials and supplies	28,802	21,255
Unfinished products	23,116	15,167
Finished products	18,411	13,125
Total	**70,329**	**49,547**

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

Inventories are recognised at their net realisable value when the net realisable value is lower than the carrying value on the closing date. Appropriate impairments on inventory are recognised for inventory risks resulting from excessive storage periods or reduced saleability.

Inventories do not contain any qualifying assets as defined by IAS 23.

Impairments of inventories in fiscal year 2021 amounted to €6,156 thousand (previous year €7,353 thousand). The change compared to the previous year is included in the cost of sales.

The acquisition and production costs of inventories, which are recognised as an expense under the cost of sales, amounted to €262,669 thousand (previous year €227,481 thousand).

The net realisable value totalled €70,329 thousand (previous year €49,547 thousand).

28. Trade receivables

K EUR	31.12.2021	31.12.2020
Receivables from customers	38,253	41,672
Impairment losses	-7	-38
Allowance for doubtful debt	-1,477	-1,059
Total	**36,769**	**40,575**

To improve its liquidity, SHW entered into a factoring agreement with Oberbank AG on 13 December 2019 (non-recourse factoring) which was extended on 17 December 2020. As at 31 December 2021 the net balance of sold receivables came to €12,182 thousand (previous year €11,928 thousand).

Trade receivables are non-interest bearing and generally have terms ranging from 30 to 90 days.

With regard to trade receivables that are not impaired or past due, there are no indications as at the balance sheet date that any debtor is not able to meet its payment obligations. The impairment model applied by the SHW Group for its trade receivables is presented in Note (38).

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

K EUR	2021	2020
Allowance for impairment losses as at 1 January*	**1,097**	**893**
Additions (expenses from impairment losses)	0	1
Utilisation	-31	-124
Reversals (other operating income)	0	-1
Change in the allowance for doubtful debts	418	328
Allowance for impairment losses as at 31 December	**1,484**	**1,097**

29. Current other financial assets and other assets

Current other financial assets mainly consist of security deposits of €285 thousand (previous year €329 thousand) and the collateral retained by the factor of €166 thousand (previous year €343 thousand).

Current other assets mostly consist of VAT receivables of €4,917 thousand (previous year €1,632 thousand), the current portion of deferred incremental costs of obtaining contracts of €1,083 thousand (previous year €1,019 thousand) and advance payments and prepaid expenses of €787 thousand (previous year €269 thousand), outstanding reimbursements of electricity and energy tax of €606 thousand (previous year €954 thousand) and advance payments for inventories of €476 thousand (previous year €2,086 thousand).

30. Cash and cash equivalents

K EUR	31.12.2021	31.12.2020
Cash in banks, cheques, cash in hand	8,838	14,697
Total	**8,838**	**14,697**

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

Cash in banks earns variable interest rates for deposits subject to notice of up to three months.

31. Equity

The changes in equity are shown in the "Consolidated statement of changes in equity".

Subscribed capital and capital reserves

The subscribed capital of SHW AG comprises 6,436,209 (previous year 6,436,209) no-par value shares each allotted a share of €1.00 in share capital per no-par value share. The shares are fully paid up.

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

Revenue reserves and other reserves

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

Other reserves include value changes recognised directly in equity and break down as follows:

In fiscal year 2021, other reserves increased mainly on account of foreign currency translation effects of €2,519 thousand and changes in the actuarial assumptions used to measure pension obligations totalling €812 thousand. The actuarial gains and losses less the related deferred taxes are recorded in other comprehensive income pursuant to IAS 19.

Authorised capital

Section 4 (4) of the Articles of Association was revised following a resolution passed by the Annual General Meeting on 23 June 2020. With the consent of the Supervisory Board, the Articles of Association thus authorise the Management Board to increase the Company's share capital once or several times, until 22 June 2025, by up to €3,218,104.00 by issuing new no-par value shares against contributions in cash and / or in kind (Authorised Capital 2021). Moreover, the Management Board is entitled to determine the further details and execution of a capital increase with the consent of the Supervisory Board. The shareholders have a basic right to subscribe to shares. The new shares could be underwritten by one or more banks or equivalent institutes as defined by Section 186 (5) sentence 1 AktG with the obligation to offer them to the shareholders for subscription. However, the Management Board is authorised, with consent from the Supervisory Board, to fully or partially exclude the subscription rights of shareholders in certain cases and determine the further details of a capital increase and its execution.

K EUR	Pension liabilities	derivatives	Foreign currency translation	**Total other reserves**
As at 1. January 2020	-7,031	-88	-1,832	-8,951
Other comprehensive income	565	-127	-2,419	-1,981
As at 31.December 2020	**-6,466**	**-215**	**-4,251**	**-10,932**
Other comprehensive income	812	137	2,519	3,468
As at 31.December 2021	**-5,654**	**-78**	**-1,732**	**-7,464**

Contingent capital

Section 4 (5) of the Articles of Association was revised following a resolution passed by the Annual General Meeting on 23 June 2020. The Articles of Association authorise the Management Board, with the consent of the Supervisory Board, to issue bearer and / or registered convertible and / or warrant bonds on one or more occasions until 22 June 2025 (inclusive) for a total nominal amount of up to €60,000,000.00 with a limited or unlimited term to maturity. It will also be authorised to grant conversion or warrant rights to the bearers / creditors of bonds entitling them to subscribe to up to 3,000,000 new bearer or – if the existing shares in the Company are registered at the time that the new shares are issued – registered no-par value shares accounting for share capital of up to €3,000,000.00 in total in accordance with the more detailed provisions of the terms and conditions of the convertible / warrant bonds and / or afford the Company corresponding conversion rights (Contingent Capital 2021).

Proposal for the appropriation of profits

The Management Board proposes carrying forward the accumulated loss of €232,463.29 to new account.

After carefully reviewing distributable reserves, the capital base of the Group and the fluctuations in earnings due to the COVID-19 pandemic, the Supervisory Board decided to suspend distributing a dividend on qualifying common shares and non-redeemable preference shares for fiscal year 2020 in 2021. The Supervisory Board is of the opinion that the capital buffer provided by this decision is appropriate in light of the uncertainties arising from the COVID-19 pandemic.

32. Employee benefit obligations

Non-current obligations for employee benefits break down as follows:

K EUR	31.12.2021	31.12.2020
Pension provisions and similar obligations	27,439	28,788
Provisions for semi-retirement obligations	2,716	2,480
Provisions for service anniversary bonuses	2,524	2,704
Total	**32,679**	**33,972**

Pension provisions and similar obligations

The SHW Group has two defined benefit plans in Germany with essentially uniform conditions. They are measured on the basis of actuarial principles using the projected unit credit method and take into account the future development of salaries and pensions as well as the 2018 G reference tables ("RICHTTAFELN") published by Klaus Heubeck on 4 October 2018, which are applicable in Germany for the measurement of occupational pension obligations for fiscal years ending after the date of their publication. The actuarial interest rate is based on first-class, fixed-interest corporate bonds with an AA rating.

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

The pension plans are funded by recognising pension provisions, and in some cases liability insurance policies were concluded. Insofar as this concerns qualifying insurance policies that should be considered as plan assets, these were offset against the pension provisions, as outlined below. Insofar as this does not concern qualifying insurance policies, the corresponding plan assets were reported under "other non-current financial assets" (see Note (26)).

Actuarial gains and losses, which arise from changes in actuarial assumptions and deviations between earlier actuarial assumptions and the actual development, are recorded directly in equity under other reserves at the time they arise and in consideration of deferred tax. The actuarial gains and losses recognised under other reserves and the resulting deferred taxes are not reversed in the income statement in subsequent periods. The actuarial gains and losses recognised in the respective period and the related deferred taxes are shown separately in the statement of comprehensive income.

Changes in the level of benefits with retroactive effect on entitlements already earned resulting from adjustments to the plan are directly recognised in the operating result in the year in which the plan is adjusted.

Expenses from unwinding the discount on pension provisions discounted to net present value are recorded under financial expenses. The remaining components of net pension expenses are included in the income statement under the respective functions.

Pension provisions and similar obligations include pension provisions of €27,439 thousand (previous year €28,788 thousand), including death benefits of €163 thousand (previous year €173 thousand).

For defined contribution plans, the SHW Group has no further obligations above and beyond the payment of contributions and pension insurance contributions and social contributions to a special purpose fund. These contributions are recognised as expenses for the relevant functions.

In the reporting year, employer contributions of approximately €7.7 million were paid to the statutory pension scheme in Germany (previous year €6.7 million). In addition, contributions of approximately €0.2 million (previous year €0.3 million) were paid into special-purpose funds.

The following assumptions have been made:

per cent	31.12.2021	31.12.2020
Interest rate	1.4	1.1
Pension trend	1.6	1.6

A pension trend of 1.25 per cent was assumed for one vested entitlement (previous year one).

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

In accordance with IAS 19, provisions for pension obligations also take actuarial gains and losses into account. They are shown in other comprehensive income within equity. Actuarial gains (previous year actuarial losses) resulting from a change in actuarial assumptions and demographic factors or from experience-based adjustments amounted to €1,135 thousand in the fiscal year (previous year €789 thousand).

The pension provisions recognised in the consolidated balance sheet contain the following:

K EUR	31.12.2021	31.12.2020
Defined benefit obligation (funded)	314	310
Defined benefit obligation (unfunded)	27,288	28,633
Total defined benefit obligation (DBO)	**27,602**	**28,943**
Fair value of plan assets	-163	-155
Pension provisions	**27,439**	**28,788**

The pension provision developed as follows:

K EUR	
Provision as at 1 January 2020	**29,779**
Current service cost	806
Interest cost	321
Pension payments	-1,329
Actuarial gains and losses from the change in actuarial assumptions	-646
Actuarial gains and losses from the change in demographic factors	0
Actuarial gains and losses from experience adjustments	-143
Other	0
Compensation	0
Reversal	0
Provision as at 31 December 2020	**28,788**
Current service cost	755
Interest cost	309
Gain from plan assets, excluding amounts already recognized in interest income	-6
Pension payments	-1,278
Actuarial gains and losses from the change in actuarial assumptions	-1,481
Actuarial gains and losses from the change in demographic factors	0
Actuarial gains and losses from experience adjustments	352
Compensation	0
Reversal	0
Provision as at 31 December 2021	**27,439**

The defined benefit obligation (DBO) developed as follows:

K EUR	2021	2020
Defined benefit obligation (DBO) 1 January	**28,943**	**29,930**
Current service cost	755	806
Interest cost	311	325
Pension payments	-1,278	-1,329
Actuarial gains and losses from the change in actuarial assumptions	-1,481	-646
Actuarial gains and losses from the change in demographic factors	0	0
Actuarial gains and losses from experience adjustments	352	-143
Compensation	0	0
Reversal	0	0
Defined benefit obligation (DBO) 31 December	**27,602**	**28,943**

Plan assets developed as follows:

K EUR	2021	2020
Fair value of plan assets as at 1 January	**155**	**151**
Interest income	2	4
Gain from plan assets, excluding amounts already recognized in interest income	6	0
Plan assets as at 31 December	**163**	**155**

The plan assets are composed of two (pledged) reinsurance policies (life insurance). The plan assets do not include separate financial instruments or assets used by the Company. There will be no employer contribution to the plan assets in 2022.

The net pension expenses for defined benefit obligations break down as follows:

K EUR	2021	2020
Current service cost	755	806
Net interest cost	309	321
Net pension cost	**1,064**	**1,127**

Liabilities from defined benefit plans are as follows:

K EUR	31.12.2021	31.12.2020
Active employees	10,939	11,559
Former employees with vested rights	2,139	2,207
Pensioners / other	14,361	15,022
Pension provisions	**27,439**	**28,788**

The current service costs are included in the cost of sales, selling expenses, general administrative expenses, and research and development costs. Interest is recognised under interest expenses. Pension payments are expected to amount to €1,261 thousand in fiscal year 2022. Pension payments of this amount are also expected for the years to come. The pension plan costs in 2022 are expected to amount to €1,044 thousand.

The risks associated with the defined benefit obligations concern the actuarial risks such as longevity, as well as other financial risks such as market risk, which can be influenced by interest rates. There are also inflation risks that can have an impact on future pension trends. There is no intention to hedge these risks.

Sensitivity analysis

An increase or decrease in the key actuarial assumptions (as at 31 December 2021 interest rate of 1.4 per cent, inflation rate of 1.6 per cent) would have the following impact on the present value of the Defined Benefit Obligation (DBO):

K EUR	DBO	
Veränderung Zinssatz 0.9% (-0.5%)	30,563	27,602
Veränderung Zinssatz 1.9% (+0.5%)	25,667	27,602
Change in inflation rate 1.1% (-0.5%)	26,474	27,602
Change in inflation rate 2.1% (+0.5%)	29,507	27,602
Change in life expectancy +1 year	29,329	27,602

The weighted duration of pension provisions as at 31 December 2021 comes to 17.0 years (previous year 17.4 years).

Provisions for anniversary bonuses and semi-retirement obligations

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

The provisions for anniversary bonuses and semi-retirement obligations developed in the fiscal year and the previous year as follows:

K EUR	
Provision as at 1 January 2020	**5,556**
Additions from first-time consolidation	0
Additions	750
Utilised	-1,049
Provision as at 31 December 2020	**5,257**
Additions	1,165
Utilised	-1,182
Provision as at 31 December 2021	**5,240**

33. Other provisions

K EUR	As at 31.12.2020	Utilised	Reversals	Reclass-ification	Additions	As at 31.12.2021
Warranties	898	-42	-100	0	334	1,090
Other business-related obligations	2,152	-399	-890	95	500	1,458
Other provisions	141	-4	0	-95	46	88
Total	**3,191**	**-445**	**-990**	**0**	**880**	**2,636**
of which non-current provisions	29	0	0	0	0	29

K EUR	As at 31.12.2019	Utilised	Reversals	Reclass-ification	Additions	As at 31.12.2020
Warranties	1,170	-290	-62	-27	107	898
Other business-related obligations	2,799	-427	-26	-1,304	1,110	2,152
Other provisions	80	-11	-19	29	62	141
Total	**4,049**	**-728**	**-107**	**-1,302**	**1,279**	**3,191**
of which non-current provisions	45	0	0	-16	0	29

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

Non-current other provisions of €29 thousand (previous year €29 thousand) comprise obligations to archive business documents.

Warranties

A provision was established for warranty obligations from the sale of products sold in the last three years. The measurement of the provision is based on past experience of repairs and customer complaints. In existing warranty cases, the amount is based on the expected result of the negotiations.

Other business-related obligations

Other business-related obligations primarily comprise customer project and product-related provisions of €906 thousand (previous year €1,804 thousand).

34. Liabilities

K EUR	31.12.2021	31.12.2020
Non-current liabilities to banks	22,921	24,433
Other non-current financial liabilities	11,063	12,142
Other non-current liabilities	58	197
Non-current liabilities	**34,042**	**36,772**
Current liabilities to banks	55,050	24,845
Trade payables	49,232	52,693
Contract liabilities	402	932
Other current financial liabilities	13,567	17,470
Income tax liabilities	0	1,004
Other liabilities	9,984	10,053
Current liabilities	**128,235**	**106,997**
Total	**162,277**	**143,769**

Liabilities to banks

A financing agreement was entered into on 4 August 2017 with a syndicate of banks led by Landesbank Baden-Württemberg and UniCredit Bank AG as joint lead arrangers. The financing agreement has a total volume of €80.0 million and a term of five years with an option to prolong the agreement, which was exercised in 2019. Its term ends on 4 August 2024. The syndicated financing arrangement is not secured. The interest rate is variable and is based on EURIBOR plus an interest margin between 0.7 per cent and 2.75 per cent per annum, depending on the agreed covenants. The covenants relate to (a) net gearing (ratio of net debt to EBITDA) and (b) the equity ratio. Both covenants were complied with as at 31 December 2021. The Group does not hedge its interest risk under the syndicated loan agreement with banks. The Management Board is informed of interest positions on a regular basis.

At the end of the year an amount of €46,842 thousand had been drawn from the syndicated loan (previous year €20,783 thousand) and €2,253 thousand (previous year €2,748 thousand) for bank guarantees. In addition, the SHW Group took out three long-term loans in fiscal year 2021 of a total amount of €7,000 thousand. The interest paid on the loan lies in the range of the interest paid under the syndicated loan agreement. To counter a potential cash squeeze arising from the impact of the COVID-19 pandemic, a debt holiday was granted on an investment loan in fiscal year 2020. Of this, an amount of €72 thousand is allocable to fiscal year 2021 (previous year €840 thousand). The non-current loans were repaid on schedule by an amount of €4,705 thousand. Reference is made to Note (35).

Trade payables

Of total trade payables, an amount of €867 thousand (previous year €90 thousand) are towards the affiliated companies in the Pierer group of companies.

The payment obligations for purchased materials are secured by retention of title, as is customary in the industry.

Other financial liabilities

Other financial liabilities mainly consist of liabilities from leases of which €10,419 thousand (previous year €11,098 thousand) are non-current and €2,916 thousand (previous year €2,183 thousand) are current. Reference is made to Note (39) for more information.

In addition, current other financial liabilities mainly consist of liabilities for factoring and expenses for goods and services received in fiscal year 2021 already but for which the invoice was not recorded until fiscal year 2022.

Other liabilities

As in the previous year, other liabilities mainly consist of obligations towards employees. Current other liabilities towards employees consist of liabilities for overtime and work-time credits (€3,413 thousand, previous year €3,955 thousand), vacation accrued (€982 thousand, previous year €1,847 thousand) bonuses/management incentives (€692 thousand, previous year €1,131 thousand) and severance payments (€393 thousand, previous year €927 thousand).

Furthermore, liabilities from wage and church tax (€1,054 thousand, previous year €1,162 thousand) and employers' liability insurance (€52 thousand, previous year €121 thousand) are reported under current other liabilities.

Likewise, VAT liabilities of €2,300 thousand (previous year €472 thousand) are also reported under other liabilities as well as insurance indemnification of €394 thousand (previous year €0 thousand).

Government grants

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

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

Government grants used to subsidise investments are not deducted from the associated assets but are posted to the corresponding line items under non-current or current other liabilities in agreement with the useful life of the asset.

35. Contingent liabilities and other financial obligations

There were no contingent liabilities in fiscal years 2021 or 2020.

As at 31 December 2021 the contractual purchase obligations for intangible assets and property, plant and equipment amount to €28,216 thousand (previous year €18,137 thousand).

V. Notes to the cash flow statement

The cash flows shown in the cash flow statement are divided into three categories: operating activities, investing activities and financing activities. As at the balance sheet date, investments of €3,104 thousand in property, plant and equipment assets were capitalised for which no cash outflows had occurred during the fiscal year. In contrast, in the fiscal year cash outflows for investments in property, plant and equipment in the previous year amounted to €3,950 thousand (previous year €3,957 thousand). Furthermore, there were no cash outflows from the capitalisation of property, plant and equipment within the scope of leases pursuant to IFRS 16 of €2,057 thousand (previous year €3,863 thousand). For the disclosures required by IAS 7.40 relating to the disposal of LHT, see Note (8).

The amount of cash and cash equivalents shown in the cash flow statement is comprised of the cash and cash equivalents presented in the consolidated balance sheet.

As at the reporting date, short-term loans (money market loans) came to €40,000 thousand (previous year €20,000) and overdrafts to €6,842 thousand (previous year €444 thousand).

A reconciliation of the movements from liabilities from financing activities to the cash flows from financing activities for the fiscal year and the previous year is shown below:

K EUR	Non-current liabilities to banks	Current liabilities to banks	Liabilities from leases	Sundry other financial liabilities	**Total liabilities from financing activities**
As at 1. January 2021	**24,433**	**24,845**	**13,281**	**0**	**62,559**
Changes in due term (non-current to current)	-3,807	3,807	0	0	0
Cash received (+) from the assumption of financial liabilities	7,000	26,398	0	0	33,398
Cash paid (-) for the redemption of financial liabilities	-4,705	0	0	0	-4,705
New leases	0	0	1,983	0	1,983
Interest expense from leases	0	0	285	0	285
Cash paid (-) for leases	0	0	-2,214	0	-2,214
Fair value adjustments	0	0	0	0	0
As at 31.December 2021	**22,921**	**55,050**	**13,335**	**0**	**91,306**

K EUR	Non-current liabilities to banks	Current liabilities to banks	Liabilities from leases	Sundry other financial liabilities	**Total liabilities from financing activities**
As at 1. January 2020	**15,301**	**42,632**	**12,613**	**0**	**70,546**
Change due to disposals of held-for-sale liabilities	-482	-1,165	0	0	-1,647
Changes in due term (non-current to current)	9,614	-9,614	0	0	0
Cash received (+) from the assumption of financial liabilities	0	14,000	0	0	14,000
Cash paid (-) for the redemption of financial liabilities	0	-21,008	0	0	-21,008
New leases	0	0	2,545	0	2,545
Interest expense from leases	0	0	292	0	292
Cash paid (-) for leases	0	0	-2,169	0	-2,169
Fair value adjustments	0	0	0	0	0
As at 31.December 2020	**24,433**	**24,845**	**13,281**	**0**	**62,559**

The current account loans used for cash management purposes are presented at the amount at which they changed over the year.

Reference is made to the separate “Consolidated statement of changes in equity” for the cash flows from financing activities associated with the owners.

VI. Financial instruments and capital management

36. Background

Financial assets in the sense of IFRS 9 are classified in terms of how the assets are treated depending on the business model. Financial assets are measured correspondingly either at amortised cost ("held"), or (a) at fair value through other comprehensive income ("held and sold") or (b) at fair value through profit or loss ("held for trading"). The SHW Group intends to hold its financial assets until maturity.

Financial liabilities are measured at either amortised cost or at fair value through profit or loss.

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

Financial instruments are recognised once the SHW Group becomes the counterparty to the financial instrument. In the case of standard purchases or sales within the scope of a contract whose terms stipulate delivery of the asset within a given period which is normally prescribed by regulations or conventions on the respective market, the date of fulfilment – i.e. the date as at which the asset is delivered to or by the SHW Group – will be relevant for its initial balance sheet recognition and for its retirement from the balance sheet.

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

Trade receivables

Trade receivables are the amounts owed by customers for regular-way trades of goods and services. They are generally payable within 30 to 90 days and are therefore classified as current. Upon initial recognition, trade receivables are recognised at the amount of non-conditional consideration to be paid. They do not contain any material financing component.

The SHW Group holds trade receivables in order to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest rate method. Details on the methods for testing impairment in the SHW Group and recognising loss allowances are presented in Notes (38) and (28).

Other financial assets measured at amortised cost

The SHW Group measures other financial assets at amortised cost when the following two criteria are satisfied:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and

- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest-bearing loans / borrowings

Upon initial recognition, interest-bearing borrowings are recognised at fair value less transaction costs associated with the borrowing. Following their initial recognition, interest-bearing borrowings are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised or amortised. With regard to loans, fair value does not differ materially from the carrying amounts as the interest payments on these loans either very nearly match the market rates or the borrowings are short-term by nature.

Derivative financial instruments and hedging transactions

A derivative financial instrument is a financial instrument whose value changes based on a reference value which generally does not require any acquisition costs or only requires minor acquisition costs and which is settled as at a later date.

At present the SHW Group carries derivative financial instruments in the form of interest swaps that are measured at fair value and used in designated cash flow hedges.

37. Classification and fair values

The Company has the following types of financial instruments:

K EUR	Measurement category acc. to IFRS 9	**Carrying amount as at 31.12.2021**	**Fair value as at 31.12.2021**	Valuation: Amortised cost	Valuation: Fair value through OCI	Valuation: Fair value through profit or loss
ASSETS						
Other non-current financial assets	AC	223	223	223	–	–
Trade receivables	AC	36,769	*)	36,769	–	–
Other financial assets	AC	582	*)	582	–	–
Cash and cash equivalents	AC	8,838	*)	8,838	–	–

*) 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 other non-current financial assets recorded as at 31 December 2021.

K EUR	Measurement category acc. to IFRS 9	**Carrying amount as at 31.12.2020**	**Fair value as at 31.12.2020**	Valuation: Amortised cost	Valuation: Fair value through OCI	Valuation: Fair value through profit or loss
ASSETS						
Other non-current financial assets	AC	232	232	232	–	–
Trade receivables	AC	40,575	*)	40,575	–	–
Other financial assets	AC	682	*)	682	–	–
Cash and cash equivalents	AC	14,697	*)	14,697	–	–

*) The fair value approximately equals the carrying amount

AC: Amortized cost

K EUR	Measurement category acc. to IFRS 9	**Carrying amount as at 31.12.2021**	**Fair value as at 31.12.2021**	Valuation: Amortised cost	Valuation: Fair value through OCI	Valuation: Fair value through profit or loss
EQUITY AND LIABILITIES						
Liabilities to banks	AC	77,971	77,971	77,971	–	–
Trade payables	AC	49,232	49,232	49,232	–	–
Other non-current financial liabilities						
Other interest-bearing liabilities	AC	0	0	0	–	–
Interest swaps used for hedging purposes	FVOCI	108	108	–	108	–
Other non-interest-bearing liabilities	AC	536	536	536	–	–
Liabilities from leases	AC	10,419	10,419	10,419	–	–
Other current financial liabilities						
Other interest-bearing liabilities	AC	0	0	0	–	–
Other non-interest-bearing liabilities	AC	10,651	10,651	10,651	–	–
Liabilities from leases	AC	2,916	2,916	2,916	–	–

K EUR	Measurement category acc. to IFRS 9	**Carrying amount as at 31.12.2020**	**Fair value as at 31.12.2020**	Valuation: Amortised cost	Valuation: Fair value through OCI	Valuation: Fair value through profit or loss
EQUITY AND LIABILITIES						
Liabilities to banks	AC	49,278	49,278	49,278	–	–
Trade payables	AC	52,693	52,693	52,693	–	–
Other non-current financial liabilities						
Other interest-bearing liabilities	AC	0	0	0	–	–
Interest swaps used for hedging purposes	FVOCI	300	300	–	300	–
Other non-interest-bearing liabilities	AC	744	744	744	–	–
Liabilities from leases	AC	11,098	11,098	11,098	–	–
Other current financial liabilities						
Other interest-bearing liabilities	AC	0	0	0	–	–
Other non-interest-bearing liabilities	AC	15,287	15,287	15,287	–	–
Liabilities from leases	AC	2,183	2,183	2,183	–	–

The following overview of maturities illustrates how the cash flows from liabilities (not discounted) affect the Group's liquidity situation as at 31 December 2021:

K EUR	Total	2022	2023	2024	2025	2026 et seq.
Non-current liabilities						
Liabilities to banks	22,921	0	8,208	6,777	3,315	4,621
Other financial liabilities	11,063	0	2,808	2,291	1,859	4,105
Current liabilities						
Trade payables	49,232	49,232	0	0	0	0
Liabilities to banks	55,050	55,050	0	0	0	0
Other financial liabilities	13,567	13,567	0	0	0	0
Total	**151,833**	**117,849**	**11,016**	**9,068**	**5,174**	**8,726**

The situation as at 31 December 2020 was as follows:

K EUR	Total	2021	2022	2023	2024	2025 et seq.
Non-current liabilities						
Liabilities to banks	24,433	0	6,808	6,808	5,377	5,440
Other financial liabilities	12,142	0	2,749	2,328	2,105	4,960
Current liabilities						
Trade payables	52,693	52,693	0	0	0	0
Liabilities to banks	24,845	24,845	0	0	0	0
Other financial liabilities	17,470	17,470	0	0	0	0
Total	**131,583**	**95,008**	**9,557**	**9,136**	**7,482**	**10,400**

38. Capital management

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

K EUR	31.12.2021	31.12.2020
Liabilities to banks	77,971	49,278
Trade payables	49,232	52,693
Cash and cash equivalents	-8,838	-14,697
Net financial liabilities	**118,365**	**87,274**

Credit risk

Trade receivables display the following age structure on the reporting date and loss allowances for expected credit losses using the simplified approach of IFRS 9:

K EUR	Carrying amount	of which neither impaired nor overdue	of which impaired and not overdue	of which impaired and overdue	of which not impaired and overdue in the following time bands: Up to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	More than 360 days
Trade receivables										
As at 31.12.2021	**38,253**	**29,606**	**0**	**1,484**	**3,901**	**1,005**	**762**	**288**	**710**	**497**
As at 31.12.2020	41,672	36,855	0	1,097	2,232	317	154	231	604	182

Credit risk results from the possibility of the full or partial default of a counterparty and also exists in the context of cash investments. The SHW Group mainly delivers to renowned automotive manufacturers and automotive suppliers. There are no significant risks of default in terms of trade receivables due to the customer structure. High levels of bad debt losses have not been recorded in recent years.

The trade receivables carried by the SHW Group do not include any material financing component as they are payable within the terms of payment agreed on individually with the customer (generally between 30 and 90 days). For this reason, the SHW Group applies the simplified approach provided by IFRS 9. The calculation of expected credit losses is based on the defaults observed in the past, adjusted for any forward-looking estimates. Each reporting date the observed historical defaults are updated and any changes to the forward-looking estimates are analysed. Significant measurement inputs include certain past-due items among receivables as well as qualitative criteria to rate the creditworthiness of debtors. Furthermore, any objective indications of impairment (e.g. insolvency of a customer) are also considered. The impairment losses that are recognised on the basis of the uniform policies applied by the Group cover all discernible credit risks.

In response to the COVID-19 pandemic audits were conducted within the framework of the risk management system to test the sales limits for customers in regions and industries that were particularly hard hit.

The maximum risk incurred upon the default of the counterparty for receivables and for other financial assets is limited by the carrying amount of the respective assets of €33,416 thousand (previous year €44,078 thousand). The composition and development of other financial assets are presented in Notes (26) and (29).

Liquidity risk

Liquidity risk represents the risk of not being able to meet present or future payment commitments or only being able to do so at unfavourable conditions. The SHW Group monitors the liquidity risk with the assistance of monthly financial plans for cash inflows and cash outflows of the forthcoming months. The SHW Group strives to be in a position to meet its financial obligations at all times and seeks the optimum balance of short-term investments and borrowings. This means that the SHW Group seeks a minimum level of liquidity, which is derived from the monthly financial plans, whereby it should be ensured that the SHW Group's liquidity requirements for current business and planned investments are sufficiently secured in the most cost-effective manner possible. Readily available funds not required in the near term are invested, e.g. in overnight money. A further aim of the Group is to keep its level of working capital as low as possible. A syndicated line of €80 million is available to the Group for borrowings. As at the reporting date, this facility has been drawn down by €49.1 million (of which €2.3 million through guarantees). For further information on the maturities of liabilities, please refer to our comments under Note (34) "Liabilities".

Interest and currency risk

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

The Group's interest rate risk largely results from the loan agreement concluded in 2017. The SHW Group has decided not to hedge its interest rate risk. The interest rate risk for the Group in the fiscal year was not material.

The interest rate profile of interest-bearing financial instruments is as follows:

	nominal value	
K EUR	**2021**	2020
Fixed-interest instruments		
Financial liabilities	-33,650	-29,687
Effects from interest swaps	0	0
	-33,650	**-29,687**
Variabla-interest instruments		
Financial liabilities	-57,656	-32,872
Effects from interest swaps	-108	-225
	-57,764	**-33,097**

Foreign exchange risks exist with regards to the foreign subsidiaries and were not material for the Group in the past fiscal year.

Collateral issued

Collateral of €31,129 thousand has been issued in the form of limited guarantees and joint and several liability arrangements to secure the loans borrowed by the operative subsidiaries in addition to the collateral assignment of machines. Reference is made to Note (34).

VII. Leases

39. Leases

The practical expedients allowed by IFRS 16 for the transition were applied when assessing leases. Consequently, IFRS 16 is only applied to contracts that qualified as leases beforehand. Contracts that did not qualify as leases under the definitions of IAS 17 and IFRIC 4 were not reassessed. IFRS 16 was only applied to contracts that were entered into or amended on or after 1 January 2019.

The change in the definition of a lease mainly relates to the concept of control. According to IFRS 16 whether a contract contains a lease or not is decided on the basis of whether the lessee obtains control over an identified asset from the lessor for a fixed period and whether the lessor receives consideration from the lessee in return.

Generally, the SHW Group recognises a right-of-use asset and a corresponding lease liability for operating leases that were previously not recognised in the balance sheet. The historical cost of the right-of-use asset is measured at the present value of future lease payments plus any lease payments made on or before the commencement date, any initial direct costs and the estimated costs of dismantling, removing or restoring the leased asset. Any lease incentives received are deducted from cost. When measuring the right-of-use asset upon first-time application, initial direct costs are ignored. SHW AG applies the practical expedient of not making any distinction between non-leasing and leasing components in the contract.

The following elements are considered in the measurement of lease liabilities:

- fixed payments, including in-substance fixed payments
- variable lease payments that depend on an index or (interest) rate, which are initially measured at the index or (interest) rate applicable on the commencement date
- amounts expected to be paid under residual value guarantees
- exercise price of a purchase option, if it is reasonably certain that the SHW Group will exercise this option
- payments of penalties for prematurely terminating the lease, unless the Group is reasonably certain it will not terminate the lease prematurely

The SHW Group also applies the practical expedients provided by IFRS 16 to not recognise right-of-use assets and lease liabilities for short-term leases (with a term of twelve months or less) and low-value assets. These lease payments are expensed on a straight-line basis over the term of the lease or some other systematic basis. Leases that terminate on or before 31 December 2021 are accounted for as short-term leases, regardless of their original term.

Subsequent measurement involves depreciating the right-of-use asset on a straight-line basis over the expected residual term of the lease. If title to the underlying asset passes to the SHW Group at the end of the lease or if the cost of the right-of-use asset considers a purchase option for the SHW Group, the right-of-use asset is depreciated over the economic life of the underlying asset. In addition, right-of-use assets are subject to regular impairment testing, if necessary, and adjusted to reflect certain remeasurements of the lease liability. No impairment testing was conducted on the date of transition. The lease liability is measured at amortised cost using the effective interest rate method. It is remeasured if future lease payments that depend on a change in an index or (interest) rate change, or if the SHW Group changes its assessment of the prospective payments under a residual value guarantee, or if the SHW Group changes its assessment of whether any options to buy the asset or extend or terminate the lease will be exercised or not, or if there is a change to an in-substance fixed lease payment.

Depreciation of right-of-use assets is allocated to the expenses of the respective function, in accordance with IFRS 16. Lease liabilities are written up to record the time value of money by charging interest expenses.

The SHW Group leases a number of different assets. These mainly consist of halls, machinery, motor vehicles and office hardware.

31 DECEMBER 2021

K EUR	Minimum lease payments	Interest included in lease payments	**Liabilities from leases**
Within one year	3,153	237	2,916
Between one and five years	8,532	471	8,061
More than five years	2,384	26	2,358
Total	**14,069**	**734**	**13,335**

31 DECEMBER 2020

K EUR	Minimum lease payments	Interest included in lease payments	**Liabilities from leases**
Within one year	2,452	269	2,183
Between one and five years	8,408	612	7,796
More than five years	3,362	60	3,302
Total	**14,222**	**941**	**13,281**

Information on leases where the SHW Group acts as lessee:

RIGHT OF USE ASSETS

K EUR	As 1.1.2020	Amortisation of right-of-use assets	Additions to right-of-use assets	Disposals of right-of-use assets	**As at 31.12.2020**
Land, land rights and buildings	9,276	–1,388	2,683	–208	10,363
Technical equipment and machinery	1,726	–405	601	–440	1,482
Other equipment, operating and office equipment	1,458	–614	579	–310	1,113
Total	**12,460**	**–2,407**	**3,863**	**–958**	**12,958**

RIGHT OF USE ASSETS

K EUR	As at 1.1.2021	Amortisation of right-of-use assets	Additions to right-of-use assets	Disposals of right-of-use assets	As at 31.12.2021
Land, land rights and buildings	10,363	-1,578	1,062	0	9,847
Technical equipment and machinery	1,482	-219	817	-107	1,973
Other equipment, operating and office equipment	1,113	-255	816	-381	1,293
Total	**12,958**	**-2,052**	**2,695**	**-488**	**13,113**

The total cash outflow from leases amounts to €2,214 thousand. Leases where the SHW Group acts as the lessor did not play any relevant role in the reporting period.

AMOUNTS RECOGNISED IN THE INCOME STATEMENT

K EUR	2021
Amortisation of right-of-use assets	-2,052
Interest expense on lease liabilities	-285
Expenses from short-term leases	-1,363
Expenses from leases for low-value assets	0
Expenses from variable lease payments not included in the measurement of lease liabilities	-135

AMOUNTS RECOGNISED IN THE INCOME STATEMENT

K EUR	2020
Amortisation of right-of-use assets	-2,407
Interest expense on lease liabilities	-292
Expenses from short-term leases	-1,121
Expenses from leases for low-value assets	0
Expenses from variable lease payments not included in the measurement of lease liabilities	-176

VIII. Related party disclosures and company boards

41. Business relationships with related parties

Pankl AG, Kapfenberg, Austria, – a subsidiary of Pierer Industrie AG, Wels, Austria, – informed the Company in a securities notification pursuant to Section 20 (1) and (4) AktG, dated 26 July 2019, that it directly held more than one quarter of the shares and simultaneously had a majority holding in SHW AG, thereby providing it with the majority vote at the Annual General Meeting. Pierer Industrie AG, Wels, Austria, is a subsidiary of Pierer Konzerngesellschaft mbH, Wels, Austria. The "ultimate controlling party" is Mr. Stefan Pierer, Wels, Austria.

SHW AG is included in the consolidated financial statements of Pierer Industrie AG, Wels, Austria, and in the consolidated financial statements of Pierer Konzerngesellschaft mbH, Wels, Austria. The ultimate parent company preparing consolidated financial statements is Pierer Konzerngesellschaft mbH, Wels, Austria. These consolidated financial statements are filed with the commercial register of the State Court of Wels, Austria, under the number FN 134766 k. SHW AG prepares consolidated financial statements for the smallest group of companies.

Transfers of goods and services with other entities in the Pierer group of companies amounted to €2,563 thousand in fiscal year 2021 (previous year €873 thousand). As at the reporting date, liabilities to affiliated companies amounted to €867 thousand (previous year €90 thousand) and receivables to €1,485 thousand (previous year €56 thousand). This includes trade with the parent company, Pankl AG, of €876 thousand (previous year €128 thousand), liabilities of €690 thousand as of the Group reporting date (previous year €14 thousand) and receivables of €0 thousand (previous year €0 thousand).

LHT was sold to a subsidiary of the Pierer Industrie AG. Reference is made to Note (8).

The consolidated financial statements of SHW AG, Aalen, include all subsidiaries of SHW AG, Aalen.

42. Boards of SHW AG

In fiscal year 2021, the Management Board of SHW AG comprised the following members:

Wolfgang Plasser, Kaltenleutgeben, Austria

- Chief Executive Officer
- Managing Director of SHW Automotive GmbH, SHW Brake Systems GmbH, SHW Gießerei GmbH & Co.KG, SHW Bremsen Beteiligungs GmbH
- Member of the Management Board of Pierer Industrie AG, Wels, Austria
- Chairman of the Management Board of Pankl AG, Kapfenberg, Austria
- Chairman of the Management Board of Pankl Racing Systems AG, Kapfenberg, Austria

Thomas Karazmann, Vienna, Austria

- Chief Financial Officer
- Managing Director of SHW Automotive GmbH, SHW Brake Systems GmbH, SHW Gießerei GmbH & Co.KG, SHW Bremsen Beteiligungs GmbH
- Member of the Management Board of Pankl AG, Kapfenberg, Austria
- Chief Financial Officer of Pankl Racing Systems AG, Kapfenberg, Austria

The Supervisory Board members in fiscal year 2021 were:

Klaus Rinnerberger, Gießhübl, Austria, Chairman

- Member of the Management Board of Pierer Industrie AG, Wels, Austria
- Deputy Chairman of the Supervisory Board of Pankl AG, Kapfenberg, Austria

Other significant mandates:

- Chairman of the Supervisory Board of SHW Automotive GmbH
- Member of the Supervisory Board of Pierer Mobility AG, Wels, Austria
- Member of the Supervisory Board of Pankl Racing Systems AG, Kapfenberg, Austria
- Member of the Supervisory Board of LEONI AG

Alfred Hörtenhuber, Wels, Austria, Deputy Chairman

- Vice President Group Projects at Pierer Industrie AG

Other significant mandates:

- Chairman of the Supervisory Board of SHW Automotive GmbH
- Member of the Supervisory Board of Pankl Racing Systems AG, Kapfenberg, Austria
- Member of the Supervisory Board of Pierer Mobility AG, Wels, Austria

Stefan Pierer, Wels, Austria

- Chairman of the Management Board of Pierer Industrie AG, Wels, Austria
- Chairman of the Management Board of Pierer Mobility AG, Wels, Austria
- Chairman of the Management Board of Pierer Bajaj AG (formerly PTW Holding AG)

Other significant mandates:

- Chairman of the Supervisory Board of Pankl AG, Kapfenberg, Austria
- Chairman of the Supervisory Board of Pankl Racing Systems AG, Kapfenberg, Austria
- Member of the Supervisory Board of SHW Automotive GmbH
- Chairman of the Supervisory Board of Westpark Wels AG, Wels, Austria

Josef Blazicek, Perchtoldsdorf, Austria

- Managing shareholder of the OCEAN/QINO Group

Other significant mandates:

- Deputy Chairman of the Supervisory Board of Pierer Industrie AG, Wels, Austria
- Member of the Supervisory Board of Pankl AG, Kapfenberg, Austria
- Deputy Chairman of the Supervisory Board of Pankl Racing Systems AG, Kapfenberg, Austria
- Chairman of the Supervisory Board of Pierer Mobility AG, Wels, Austria
- Chairman of the Supervisory Board of All for One Steeb AG, Filderstadt
- Deputy Chairman of the Supervisory Board of Pierer Bajaj AG (formerly PTW Holding AG)

Friedrich Roithner, Linz, Austria

- Chief Financial Officer of Pierer Industrie AG, Wels, Austria
- Chief Financial Officer of Pierer Mobility AG, Wels, Austria

Other significant mandates:

- Member of the Supervisory Board of Pankl AG, Kapfenberg, Austria
- Member of the Supervisory Board of Pankl Racing Systems AG, Kapfenberg, Austria
- Chairman of the Supervisory Board of KTM AG, Mattighofen, Austria
- Chairman of the Supervisory Board of KTM Components GmbH, Munderfing, Austria

Michaela Friepeß, Wels, Austria (from 11 May 2021)

- Member of the Management Board of Pierer Industrie AG, Wels, Austria

Other significant mandates:

- Member of the Supervisory Board of SHW Automotive GmbH
- Member of the Supervisory Board of Pierer Bajaj AG (formerly PTW Holding AG)

Prof. Dr.-Ing. Jörg Ernst Franke, Marloffstein (until 11 May 2021)

- Holder of the Chair of the Institute for Factory Automation and Production Systems at the Friedrich-Alexander University of Erlangen-Nuremberg

Isni Aliji, Tuttlingen (from 11 May 2021)

- Member of the Full Works Council of SHW Automotive GmbH and Chairman of the Works Council of SHW Brake Systems GmbH, Tuttlingen and SHW Gießerei GmbH & Co. KG, Tuttlingen

Karl Holzner, Aalen (from 11 May 2021)

- Member of the Full Works Council of SHW Automotive GmbH and Chairman of the Works Council of SHW Automotive GmbH, Aalen-Wasseralfingen plant

Other significant mandates:

- Member of the Supervisory Board of SHW Automotive GmbH

Edgar Kühn, Aalen (until 11 May 2021)

Eugen Maucher, Ingoldingen-Winterstettendorf

- Chairman of the Full Works Council and Chairman of the Works Council of the Wilhelmshütte plant (Bad Schussenried) of SHW Automotive GmbH

Other significant mandates:

- Member of the Supervisory Board of SHW Automotive GmbH

Frank-Michael Meißner, Tuttlingen (until 11 May 2021)

- Member of the Full Works Council of SHW Automotive GmbH and member of the Works Council of SHW Automotive GmbH, Ludwigstal plant (Tuttlingen)

43. Total remuneration of the members of the Management Board and Supervisory Board

K EUR	2021	2020
Benefits due in the short term (remuneration)	296	763
Benefits due in the long term (remuneration)	0	64
Post-employment benefits	0	0
Other benefits due and benefits upon termination of the employment relationship	0	0

The reduction in short-term and long-term benefits results primarily from the reversal of the provision for management bonuses in the previous year. A total of €229 thousand has been recognised as provisions for pension obligations to former members of the Management Board (previous year €244 thousand).

The total remuneration of the Supervisory Board amounted to €210 thousand during the fiscal year (excluding the reimbursement of expenses, previous year €210 thousand). No payments were made to former members of the Supervisory Board.

IX. Events after the reporting period (significant events after the balance sheet date)

On 11 February 2022 SHW Automotive GmbH, a wholly-owned subsidiary of SHW AG, received a cancellation from an OEM for a contract with lifetime revenues ranging in the high double-digit millions. SHW Automotive GmbH was requested to cease its preparations for the start-up of series production. As there were no indications on the reporting date for this termination of the contract, we view the termination as an adjusting event. Due to a number of factors, it is currently not possible to fully estimate the implications for fiscal year 2022 arising from this event.

In the current situation there is still a high level of market uncertainty. The impacts of the continuing COVID-19 pandemic and difficulties arising with supplies of semiconductors and the resulting reduction in call-offs on standing orders cannot be fully assessed at present for the full year 2022.

In light of the Russian-Ukrainian conflict there is greater uncertainty on the market. The specific impacts of the outbreak of war on the development of fiscal year 2022 cannot be fully assessed at present. Closures of production facilities in Ukraine and sanctions against Russia will burden both the supply chains and demand.

X. Schedule of shareholdings

as at 31 December 2021 according to Section 313 (2) HGB

Company name and location	Share in capital (per cent)
Schwäbische Hüttenwerke Automotive GmbH, Aalen, Germany	100
SHW Brake Systems GmbH, Tuttlingen (formerly SHW Automotive Industries GmbH, Aalen)	100
SHW do Brasil Ltda., São Paulo, Brazil	100
SHW Pumps & Engine Components Inc., Brampton/Ontario, Canada	100
SHW Automotive Pumps (Kunshan) Co., Ltd., Kunshan/Shanghai, China	100
SHW Pumps & Engine Components S.r.l., Ghiroda/Timişoara, Romania	100
Lust Hybrid-Technik GmbH, Hermsdorf, Germany*)	0
SHW Bremsen Beteiligungs GmbH, Tuttlingen	100
SHW Gießerei GmbH & Co. KG, Tuttlingen	100
SensDev GmbH, Burgstädt *)	0

*) Until 30.11.2021

Aalen, 30 March 2022

Wolfgang Plasser
Chairman of the Management Board

Thomas Karazmann
CFO

INDEPENDENT AUDITORS REPORT

To SHW AG, Aalen

Audit Opinions

We have audited the consolidated financial statements of SHW AG, Aalen, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2021, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the financial year from 1 January to 31 December 2021 as well as the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of SHW AG for the financial year from 1 January to 31 December 2020.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2021, and of its financial performance for the financial year from 1 January to 31 December 2021, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Other Information

The executive directors are responsible for the other information. The other information comprises the information in the annual report with the exception of the audited consolidated financial statements and the audited group management report as well as our audit opinion.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or

- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ulm, 30 March 2022

KPMG AG

Wirtschaftsprüfungsgesellschaft

signed, Dr. Faul	signed, Müller
Wirtschaftsprüfer [German Public Auditor]	Wirtschaftsprüferin [German Public Auditor]

FIVE-YEAR SUMMARY

K EUR	**2021**	2020	2019	2018	2017
Sales	427,323	392,931	432,421	420,936	400,584
EBITDA	34,681	25,337	41,542	31,342	41,271
as % of sales	8.1%	6.4%	9.6%	7.4%	10.3%
EBIT	3,039	-4,729	14,617	7,314	17,501
as % of sales	0.7%	-1.2%	3.4%	1.7%	4.4%
Net profit	-621	-5,059	9,891	3,131	10,159
Earnings per share [1]	-0.10	-0.79	1.54	0.49	1.58
Equity	127,371	124,652	131,692	124,372	124,904
Equity ratio	38.1%	39.4%	41.0%	43.4%	48.8%
Operating free cash flow	-36,568	9,556	-197	-32,970	-757
as % of sales	-8.6%	2.4%	0.0%	-7.8%	-0.2%
Total free cash flow	-33,588	8,934	-597	-16,751	-9,875
as % of sales	-7.9%	2.3%	-0.1%	-4.0%	-2.5%
Net cash / Net financial liablities	-69,133	-36,101	-42,612	-39,080	-18,170
Investments [2]	41,646	32,763	52,551	48,671	34,550
as % of sales	9.7%	8.3%	12.2%	11.6%	8.6%
Net working capital	57,464	36,497	48,702	53,789	43,890
as % of sales	13.4%	9.3%	11.3%	12.8%	11.0%
ROCE	1.3%	-2.3%	6.6%	3.6%	9.1%
Number of employees (average) [3]	1,685	1,619	1,594	1,572	1,347

1) Average number of shares: 6,436,209

2) Additions to property, plant and equipment and intangible assets.

3) Excluding trainees and temporary workers.

Financial Calendar

April 1, 2022	Annual Report 2021
May 11,2022	Annual General Meeting 2022

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