Annual Report 2022

Focus on Future Technology

SHAPING MOBILITY RESPONSIBLY

Key figures 2022

K EUR	2022	2021
Sales	472,504	427,323
EBITDA	36,278	34,681
as % of sales	7.7%	8.1%
EBIT	3,035	3,039
as % of sales	0.6%	0.7%
Net profit of the Group	-6,746	-621
Earnings per share [1]	-1.05	-0.10
Equity	127,465	127,371
Equity ratio	34.8%	38.1%
Operating free cash flow	-18,039	-36,568
as % of sales	-3.8%	-8.6%
Total free cash flow	-18,039	-33,588
as % of sales	-3.8%	-7.9%
Net liquidity / Net financial debt	-87,946	-69,133
Capital expenditures [2]	45,978	41,646
as % of sales	9.7%	9.7%
Net working capital	66,870	57,464
as % of sales	14.2%	13.4%
ROCE	1.2%	1.3%
Average headcount [3]	1,667	1,685

1) Average number of shares: 6,436,209 shares
2) Additions to property, plant and equipment and intangible assets
3) Excluding trainees and hired temps

Sales
472.5
€ million

EBITDA
36.3
€ million

Employees
1,667

Contents

WOLFGANG PLASSER

Chief Executive Officer

THOMAS KARAZMANN

Chief Financial Officer

Foreword of the Management Board

DEAR SHAREHOLDERS,

2022 should have been a year of post-pandemic rebound: the uncertainties caused by the COVID-19 pandemic which burdened business for three long years have largely eased. But instead of recovery, the global economy was plagued by other far-reaching changes: the war in Ukraine, worrying developments on the energy and commodity markets, continuing disruptions of supply chains and massive jumps in prices, leading to high inflation and higher interest rates were all factors that dampened growth drastically.

In spite of these headwinds sweeping the market, our company managed to defend its position as a leading supplier to the automobile industry. Under these circumstances this is anything but something that can be taken for granted. Thus, we managed to raise group sales by 10.6 per cent to € 472.5 million in financial year 2022. Consolidated EBITDA (including impairment losses) rose to EUR 36.3 million in the year 2022 and was affected both positively by non-recurring effects and negatively by a sharp rise in the prices of raw materials and energy. At 7.7 per cent, the EBITDA margin was, by contrast, slightly below the previous year's figure of 8.1 per cent.

Continuous adaptation to new future circumstances has been ingrained in SHW's DNA since 1365. In spite of the grave political uncertainties and sustained level of high prices, which will accompany us through the year 2023, we perceive a lot of opportunity for growth and development. With our SHW Strategy 2030 we set the correct development focus in order to align our product portfolio with the transformation of the automobile industry and shaping mobility responsibly.

Early on in this process, the Pumps and Engine Components business segment created the framework conditions needed to develop and manufacture new intelligent products and system solutions that address the advancing electrification of OEM powertrains. We set another milestone in the year 2022 and positioned ourselves as a systems supplier to one of the German OEMs with a new approach for the development of product solutions for the cooling and lubrication of e-axles.

The Brake Discs segment is making a massive contribution to lighter and more sustainable vehicle components. With our composite brake disc, we have an innovative product in our portfolio that combines weight reduction with a simultaneous improvement in braking performance. In addition, we would like to keep growing by building on our position in the independent aftermarket under the "SHW Performance" brand and by expanding our new brake disc factory in China. From this base we intend to serve the Asian market with SHW brake discs in future.

With our SHW Strategy 2030 we are laying the groundwork to meet the changing needs of both the market and wider society and have set course for shaping the future under the banner of INNOVATION, SPEED and QUALITY.

Many thanks for the faith you have placed in us and your support!

Aalen, March 2023

Wolfgang Plasser
Chief Executive Officer

Thomas Karazmann
Chief Financial Officer

The company.

SHW. ACTIVELY CREATING THE FUTURE.

Developing and manufacturing innovative, intelligent products for sustainable mobility – this is the mission of SHW Schwäbische Hüttenwerke. The workforce of almost 1,700 employees spread over our nine locations in 2022 more than met this challenge once again in 2022.

Our global operation creates innovative solutions for reducing carbon emissions and generated sales of € 472.5 million in the reporting year.

Worldwide, customers in the automobile industry and the truck and off-highway market, such as manufacturers of agricultural and construction machines or wind turbines, rely on the products from SHW.
These range from high-tech pumps, high-precision sintered parts through to high-performance brake discs, integrated modules for cooling systems and lubrication applications as well as numerous other engine components or complete systems for all kinds of conventional, hybrid or purely electric powertrains.

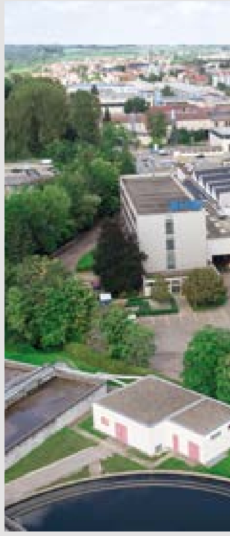
SHW TAKES A STAND WITH "SHAPING FUTURE MOBILITY"

In 2022 SHW continued on its course of focusing on future technology under the motto of "Shaping Future Mobility". We are actively taking a leading role on the global market in shaping forward-looking sustainable mobility. As a global player, our team views e-mobility not just as an opportunity but also as one that it can seize. Great benefits lie in store for both SHW and its customers in the knowledge sharing and synergies with the Pankl Group to which SHW belongs.

The SHW Strategy 2030 sets the course to be taken in future – for example, in the consistent electrification and transformation of the product portfolio, the expansion of systems competence, greater concentration on the aftermarket and production expertise, as well as furthering internationalisation. In this vein, work commenced on the construction of a new brake disc production plant in China in the year 2022.


São Paulo, Brazil

Neuhausen ob Eck, Germany

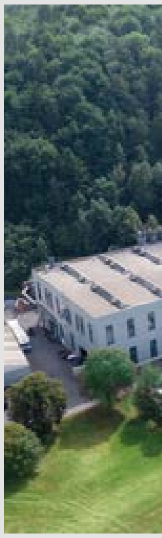


Kunshan, China

Haimen, China


Timişoara, Romania


Bad Schussenried, Germany



FACILITIES.

SHAPING INTERNATIONAL MOBILITY.

Production plants all around the world, an unmistakably broad product portfolio and the targeted expansion of our network – SHW secures and anchors its established strong position as a technology leader on global markets.

Aalen-Wasseralfingen, Germany
founded in 1365
Products: Adjustment rings and rotors for lubrication oil pumps, camshaft phasers and balancer shafts

Tuttlingen, Germany
founded: 1950
Products: Integrated brake discs, lightweight pin-mounted brake discs, highly-durable coated brake discs, lightweight brake drums

Bad Schussenried, Germany
founded in 1978
Products: mechanical oil pumps for engines and transmissions, combined oil/vacuum tandem pumps, electrically driven oil and water pumps, balancing modules, off-highway oil pumps, thermal-management modules, battery cooling modules, fuel pumps, oil management modules with electric oil pumps and heat exchangers.

Neuhausen ob Eck, Germany
founded: 2001
Products: Integrated brake discs, lightweight pin-mounted brake discs, highly-durable coated brake discs, lightweight brake drums

São Paulo, Brazil
founded in 2012
Products: Regulated and unregulated mechanical engine lubrication oil pumps

Kunshan, China
founded in 2014
Products: mechanical and electrical oil pumps, truck and off-highway oil pumps, electric water pumps, thermal-management modules

Toronto, Canada
founded in 2014
Products: Mechanical engine lubrication oil pumps, mechanical transmission oil pumps, off-highway oil pumps

Timişoara, Romania
founded in 2017
Products: Mechanical engine and transmission oil pumps

Haimen, China
founded in 2022
Products: Lightweight pin-mounted brake discs

Our history.

OVER 650 YEARS OF KNOW HOW SPEAKS FOR ITSELF.

The SHW pool of knowledge and experience is without peer. The combination of openness for new technologies and solutions, the passion for development, the depth of production and the enthusiasm for sustainable and efficient products – all of these go towards making SHW a unique package.

1365
Origin of SHW lies in mining ores and smelting operations around Königsbronn

1921
Foundation of Schwäbische Hüttenwerke GmbH – business activities: mining, operating iron works and trading in raw materials

1925
SHW manufactures car prototype of the future – with aluminium chassis, single-wheel suspension and other technical features

1950
Production of brake discs starts

1963
Manufacture of sintered moulded parts starts

1978
Manufacture of SHW hydraulic pumps

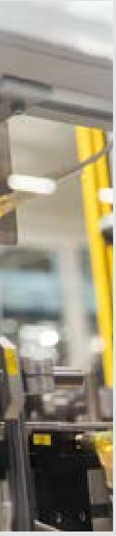
2005
Spin-off of non-automotive businesses and associated entities from the SHW Group

2011
Parent company is reorganised as a stock corporation – IPO of SHW AG

2018
Pierer Industrie AG becomes industrial anchor shareholder of SHW AG

2021
SHW Strategy 2030 – setting strategic guidelines for the future

2022
Further international expansion of the Brake Discs division: foundation of SHW Brake Systems Co. Ltd. in Haimen



Team SHW.

SETTING INTERNATIONAL TRENDS TOGETHER.

Our workforce of roughly 1,700 employees spread over our current nine locations is what makes SHW what it is. Under the guiding principle of "Together for Best-in-Class", our team works in unison on all possible fronts to drive forward its market position as a technology leader on the international stage.

SHW places great store on providing training and further education for its employees.
As a certified training operation, SHW offers apprenticeships in both commercial and technical occupations. In parallel, SHW offers an extensive training programme for the entire team.

Permanent development of the workforce allows SHW to address constantly rising customer requirements. In addition to performance, design and function on one side of the equation, costs, efficiency and sustainability are just as important on the other side. The art of management is to bring all these parameters into harmony and set the course today to create the products of tomorrow.

Future.

STRATEGY 2030.
PRINCIPLES OF THE ELECTRIFICATION REVOLUTION.

SHW is a mover in the revolution towards the electrification of mobility. The SHW Strategy 2030 already bundles the core competencies, the group synergies and the product solutions needed for tomorrow. In this way, SHW is already today creating the products for the future of reduced-carbon automotive mobility.

An important building block in this strategy, among others, is internationalisation. SHW is growing and tapping into new markets. In 2022 SHW broke ground for its new brake disc plant in China.

Sustainability.

REDUCING OUR CARBON FOOTPRINT IN ALL ASPECTS.

By 2030, 70 per cent of all light vehicles manufactured worldwide will be BEVs or hybrid electric vehicles. SHW is aligning all of its forces accordingly. At SHW, sustainability is lived and breathed every moment of the day. Environmental awareness, carbon-neutral production and climate-friendly buildings are essential elements of our corporate philosophy.

All European locations should be climate neutral by 2030.
Worldwide, all locations should be climate neutral by 2040.

As one example, 95 per cent of the production of the Tuttlingen facility is already sourced from secondary materials. This means that roughly 50,000 tons of steel scrap are processed each year to manufacture brake discs. As a result, they are not factored into the calculation of net emissions. Likewise, scrap metal from foundry operations and machining aluminium is sorted and reprocessed, resulting in savings of another 4.12 tons of CO_2 per year. In the year 2029, it is planned to convert the furnace to an electrically-fired furnace, which will enable climate-neutral production even before 2030.

The compelling arguments for SHW lightweight composite brake discs are their braking comfort and low weight. In use they generate CO_2 savings of approximately 1 gram per kilometre driven. In terms of products we are already working on a brake disc for the future, a lightweight composite variant that reduces particulate emissions.

Thanks to their light weight and efficiency, SHW components contribute to lower emissions already today. The objective is to reduce emissions even further and to keep the carbon footprint of both SHW and its customers as low as possible.

In 2022 SHW conducted its first materiality analysis with its stakeholders in order to identify the most relevant sustainability issues and derive the key areas in which to take action. Using the results as its starting point, the team also drew up the company's first comprehensive sustainability report, which has been published on the website at https://pankl.com/en/shares-ag/sustainability/.

INNOVATION

COST EFFICIENCY

TOP QUALITY

SUSTAINABILITY

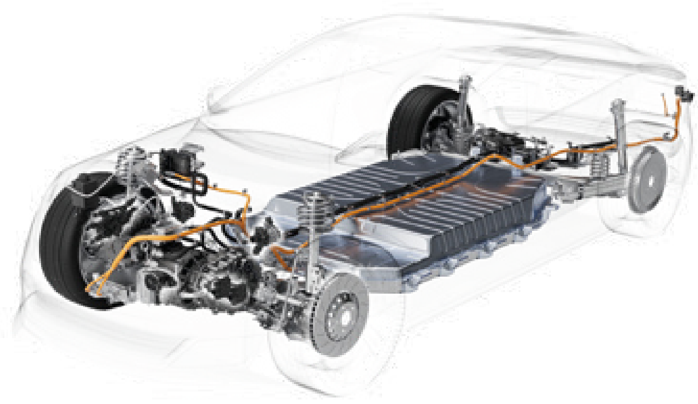
HIGH-END PRODUCTS.

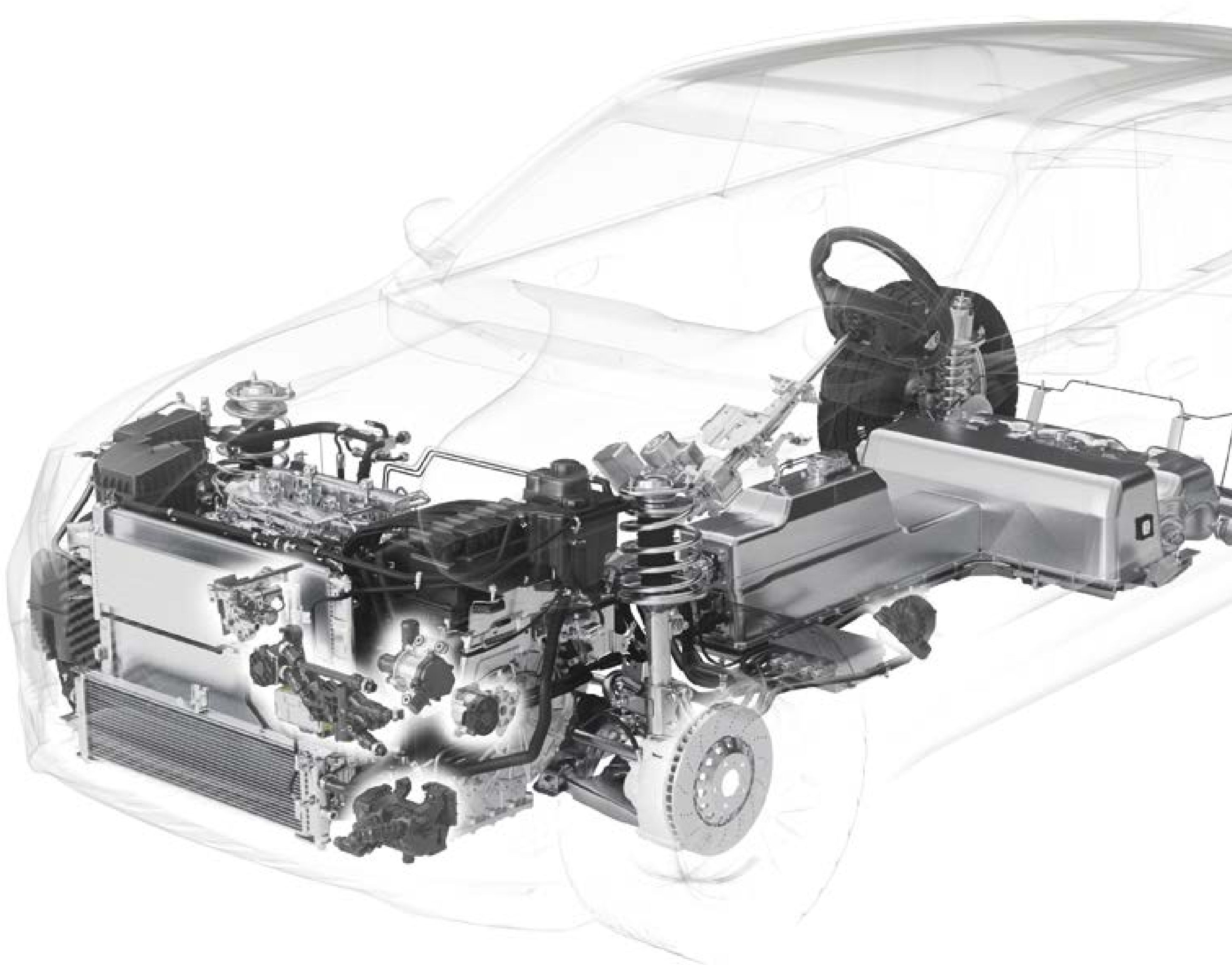
INNOVATION, EFFICIENCY, SUSTAINABILITY.

The transformation of the automobile sector towards hybrid and electric vehicles is placing ever increasing demands on the entire industry in terms of new specifications for cooling systems, engine efficacy, vehicle range and charging times, battery life-times, climate control, but also in terms of stricter CO_2 regulations.

SHW is working constantly on finding innovative solutions for the powertrains of tomorrow that are feasible, economical, high-quality and sustainable.

As a systems supplier, the SHW Group offers the full range of services from conception through to product development, processing, automation, electronics and software, testing, support and aftersales.





Powder Metallurgy.

HIGH-STRENGTH, HIGH-PRECISION SINTERED PARTS.

Using innovative moulding and joining solutions, the Powder Metallurgy division of SHW develops high-precision, highly durable sintered parts for oil pumps for engines and transmissions, high-density gear wheels, components for camshaft phasers, sintered aluminium parts and straight and helical gear wheels.

The production process involves a number of stages beginning with the mixing of powdered metals, compacting them using complex tools and sintering them at temperatures of up to 1350°C. Standardised production methods, the high degree of automation and quality assurance processes guarantee that SHW product solutions are top quality.

Brake Discs.

TOP QUALITY, INTELLIGENT PERFORMERS.

Brake discs from SHW set the industry benchmark in terms of performance, weight, design and braking comfort. Nowadays, customers are calling for increasingly lighter systems to reduce CO_2 emissions. Spearheading the field, we defined the standard for lightweight construction back in 1993 already and have steadily improved our product portfolio ever since.

This division comprises a number of intelligent lightweight products such as mono-bloc discs, composite brake discs, advanced composite brake discs and hybrid brake drums. Whether for motorsport, luxury vehicles or series production, SHW guarantees constantly high quality and seamless back-tracking.

SHW never stops striving to expand its share of the market for high-performance brake discs and brake drums.
At the same time, key objectives identified in the course of the SHW Strategy 2030 are to expand business in the aftermarket, rationalise and automate operations and erect a new production facility in China.

Pumps.

SYSTEMS BROUGHT TO TECHNOLOGICAL PERFECTION.

SHW is the world's leading provider of pump systems and features for the automotive and truck and off-highway industry. The extensive spectrum of this division ranges from electrically powered oil, water and coolant pumps through to integrated system solutions with a focus on cooling, thermal management and lubrication for all kinds of powertrains – from hybrid vehicles through to battery-electric vehicles.

The team is constantly researching new approaches and solutions. SHW R&D, process technology at the highest level, the latest software tools, high-tech testing facilities and production plant ensure that our products meet the highest quality standards.

Based on the SHW Strategy 2030, we have already managed to successively develop the product portfolio and position ourselves on the market for thermal management. Among other plans, we intend to exploit the market for mechanical pumps, invest in human resources and machines and develop this field in each specific region.

REPORT OF THE SUPERVISORY BOARD

General remarks

For the automobile sector, the year 2022 was dominated by massive challenges. Once again, our group of companies was faced with headwinds on the market, arising first and foremost from the war in Ukraine and the associated rises in the cost of materials and energy costs.

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 focus on creating a foundation for long-term success. We continue to expand our portfolio of electrified and CO_2 relevant products and have won 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 2022, 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 energy crisis, 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 exchange between 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 in attendance.

Meetings of the Supervisory Board and main issues

Four ordinary meetings of the Supervisory Board were held in the reporting year as hybrid events and two resolutions were passed by the Supervisory Board by means of written circulation proceedings. Five 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 impacts of the Ukraine war and the energy crisis, 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 2022 which were held on 30 March, 4 May, 19 July, and 13 December 2022. Among other items, the Management Board explained the 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. In addition, 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 2023 and addressed the mid-range planning in great detail. In addition, the Supervisory Board issued its approval on the foundation of a new subsidiary, SHW Brake Systems GmbH in China and on real estate issues. Likewise, resolutions were passed on a number of major projects. Furthermore, the Supervisory Board set a target for female representation for SHW AG. It also addressed the proposal of the Management Board to hold the 2022 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 2022.

At its meeting to discuss the Annual Financial Statements, the Supervisory Board ratified the Annual Financial Statements for the year ended 31 December 2021 and approved the Consolidated Financial Statements and the Group Management Report of SHW AG for the year ended 31 December 2021. Moreover, the Supervisory Board also decided on the proposed resolutions for the agenda of the Annual General Meeting (AGM) on 10 May 2022, which was held virtually, and the report of the Supervisory Board for the fiscal year 2021. It also passed resolutions granting discharge to the general managers of the subsidiaries.

Audit of the Annual Financial Statements

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 2022 were audited by the external auditor, KPMG AG Wirtschaftsprüfungs-gesellschaft, 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 opinion on the audit of the Consolidated Financial Statements of SHW AG. The audit firm assigned to audit the Consolidated Financial Statements is engaged for the duration of one fiscal year in each case.

The Supervisory Board examined in detail the separate financial statements of SHW AG for the fiscal year 2022, prepared in accordance with HGB, and the consolidated financial statements and the group management report. All of the financial reporting documents as well as the audit report issued by the external auditor were provided to the members of the Supervisory Board in good time. The consolidated financial statements and the separate financial statements of SHW AG as well as the group management report were discussed in depth, at first in the Audit Committee and thereafter by the full Supervisory Board. The external auditors attended the meetings of the Audit Committee and the meetings of the full Supervisory board. They 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 audit and after its own review came to the conclusion that it had no objections to raise. The separate financial statements of SHW AG compiled by the Management Board were approved by the Supervisory Board. Likewise, the Supervisory Board approved the consolidated financial statements and group management report audited by the independent auditor. Owing to the lack of any distributable income, the Management Board cannot make a proposal on the appropriation of profits pursuant to Section 170 (2) AktG. Consequently, there is no need for the Supervisory Board to review it.

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 89.0 per cent of the voting rights in SHW AG and thus a majority of the voting rights, as at 31 December 2022. Pierer Industrie AG itself held another 3.1 per cent of the voting rights, making for a sum total of 92.1 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.

The Supervisory Board reviewed the dependent company report of the Management Board 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.

Composition of the Management Board and Supervisory Board

There was no change to the composition of the Management Board in the 2022 reporting year.

Likewise, there was no change to the composition of the Supervisory Board in the reporting year 2022.

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.

Aalen, 22 March 2023

Yours sincerely,

On behalf of the Supervisory Board

Klaus Rinnerberger
Chairman of the Supervisory Board

THE SHW SHARE

Challenging year on the stock exchange in 2022

Stock exchanges started the year 2022 with a positive outlook, but this dimmed suddenly in February 2022 when war broke out in Ukraine, triggering a weak year for stocks. Due to the sudden hike in prices in the energy sector, inflation hit levels not seen for decades. In response, central banks raised their lending rates which fuelled fears of a recession and led to a fall in demand for equities.

For the main German stock index, the DAX, this meant a loss in value of more than 12 per cent. The S&P 500 even lost 19 per cent over the course of the year, recording the worst year since 2008. In contrast to the central banks of other mature economies, the People's Bank of China eased its monetary policies in 2022. However, the problems facing the real estate sector and the tight COVID-19 strategy also led to an erosion in the price of stocks. Consequently, the Chinese Hang Seng was down 15 per cent. On the other hand, countries with a strong energy sector enjoyed buoyant markets: The MSCI Brazil jumped by 29 per cent and MSCI Turkey even soared by 89 per cent.

PANKL AG is the majority shareholder.

With a stake of 89.0 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. Pierer Industrie AG itself holds 3.1 per cent.

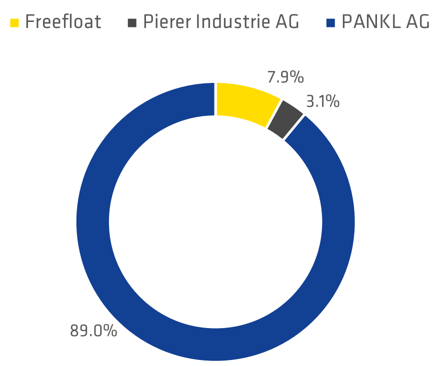
Please do not hesitate to request any further information which you may require. SHW Investor Relations looks forward to hearing from you.

Investor Relations contact:

Ramona Zettl

Phone: +49 7361 502 – 420
Fax: +49 7361 502 – 852
Email: ramona.zettl@shw.de

SHAREHOLDER STRUCTURE



31st December 2022

GROUP MANAGEMENT REPORT OF SHW AG

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[1] 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 nine 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 and investor relations.

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, North America and South America.

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 and vacuum pumps with or without balancing shafts, e-pumps for cooling and lubrication applications and thermal management systems. 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 / HAIMEN
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		

[1] The terms "sales" and "revenue" are used synonymously.

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.

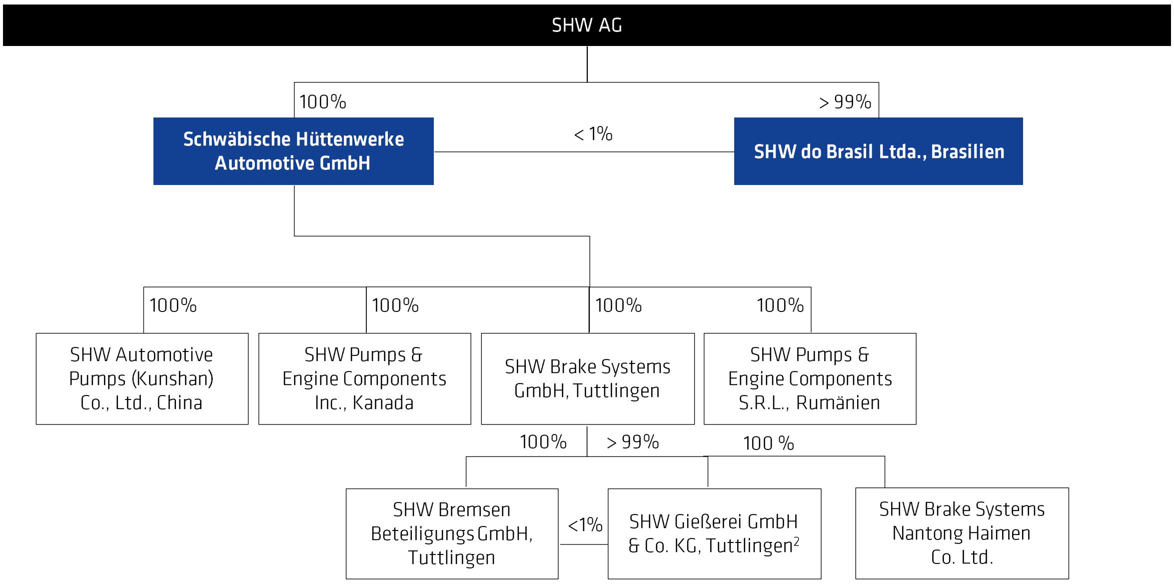
The Brake Discs business segment

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. SHW Brake Systems (Nantong Haimen) Co. Ltd., China was founded in the year 2022. It is planned for the Haimen facility to machine brake discs for the Asian market. The newly founded company has not yet commenced active operations.

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), with its second-tier subsidiaries, SHW Gießerei GmbH & Co. KG, SHW Bremsen Beteiligungs GmbH and SHW Brake Systems (Nantong Haimen) Co. Ltd. (hereinafter referred to as "Haimen"), is a wholly-owned subsidiary of SHW Automotive 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

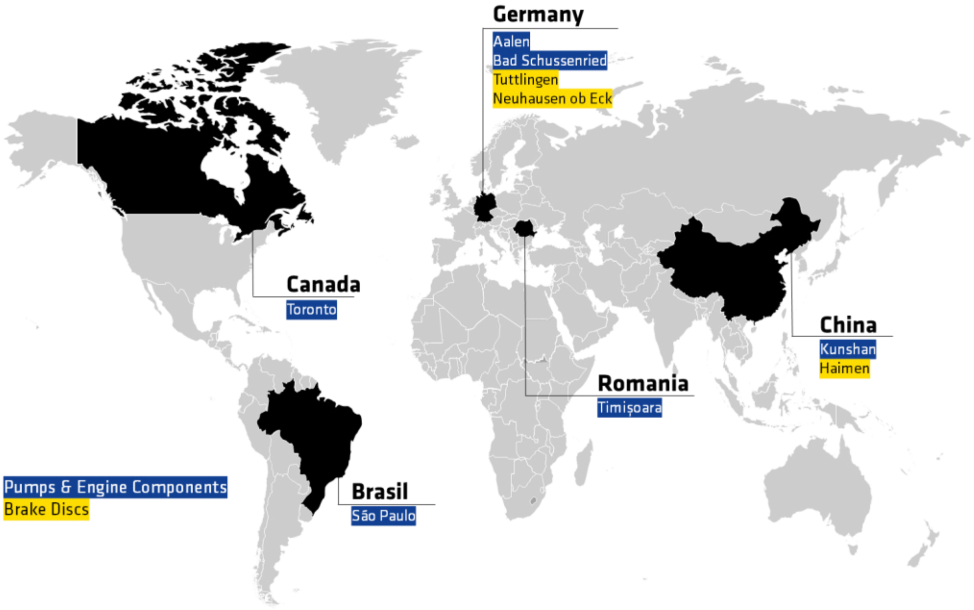


Sales markets

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 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 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. Consequently, the SHW Group continuously monitors and steers the main factors affecting ROCE (measured as EBIT divided by average capital employed). Besides earnings indicators, liquidity-related indicators are highly significant. SHW's control system also includes financial management indicators. The net working capital ratio is particularly relevant for the group of companies.

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 a 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 at previous year's level

The higher corporate objectives lay the foundation for the HR strategy. The resulting HR processes put the focus on the employees. Correspondingly, we offer interesting jobs that will remain viable in future, giving the employees a secure perspective and the opportunity to help shape the future of the company.

With the right HR planning, we can set the right course early on in the process to allow us to adjust our human resources and competence structures with a view to future needs.

At 1,667, the average headcount of the SHW Group in the fiscal year matched the level of the previous year (1,685).

Securing young talent

SHW offers young talent the opportunity to familiarise themselves with the company as interns or as working students doing their practicals. In addition, the SHW Group enables and supports undergraduates and post-graduates with their theses. In this way, SHW opens up opportunities for a successful career start.

School-leavers can choose from a wide variety of trades, technical careers or commercial occupations when it comes to an apprenticeship. As an annual average, 48 apprentices completed their vocational training at SHW in the fiscal year.

Personnel and organisational development continues to drive forward the training of potential managers and actively seizes the opportunities afforded by digitalisation

In the year 2022, group-wide management development programmes were refined for all management levels at SHW and continued accordingly.

As a result, the third rounds of the SHW junior talent and management potential development programme was concluded successfully. In sum, over 40 young talents were trained up during this programme and made fit for future professional challenges. Numerous former participants of the programme have in the meantime taken on new responsible positions at SHW.

The digitisation of HR processes also continues to make great strides. A digital training catalogue offering a large selection of training courses on the widest possible topics, is now available to all executives and employees, allowing them to organise and document their training.

Employee retention

SHW considers loyalty to the organisation an important indicator for employee satisfaction which is demonstrated by the large number of long-service awards handed out each year at all of our different locations.

The SHW Group motivates its employees by offering interesting benefits. From 2022, a corporate benefit programme has been included in offering. The platform allows employees to purchase goods and services at a rebate. In addition, company-funded bicycles have been a particular success story. Numerous employees have taken the opportunity to lease an e-bike via SHW.

Research and development

Electrically driven pumps for engine and transmission applications as well as for electrically powered axles

Two trends have recently 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 fuel-cell electric vehicles (FCEV).

On the other, the optimisation of traditional ICE powertrains, primarily for use in plug-in hybrids in order to meet the tighter emission regulations.

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 and hybrid 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. In addition to electrically powered oil and water pumps, thermal management modules can also include such elements as filter elements, heat exchangers and sensors and perform the cooling and lubrication function of electrical axles and battery systems.

Innovation in lightweight and low-emission 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.

Meeting the expected legal requirements in terms of particulate emissions generated during braking has been in the focus of the research and development activities conducted by the Brake Discs division for a number of years. By coating brake discs to create a durable friction surface, it is possible to significantly reduce emissions in future.

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.

Intellectual property safeguarded on a long-term basis

The SHW Group protects its intellectual property relating to pump 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 prospects for global growth dimmed further towards the end of 2022. The risks have risen, even if the impediments to global growth caused by the COVID-19 pandemic have largely eased off. Among other factors, this is based on the high vaccination uptake and low case rates. However, global economic activity is affected by lower growth prospects and the threat of higher risks. New causes of uncertainty, such as the Ukraine war, worrying developments on the energy and commodity markets, sustained supply chain disruptions and double-digit inflation, multiple sudden spikes in prices and a hike in key lending rates have dampened the outlook for global economic growth.

The non-cyclical headwinds and uncertainties therefore continued through into the year 2022. Nevertheless, global growth of 3.1 per cent on the previous year was recorded by the end of the year.

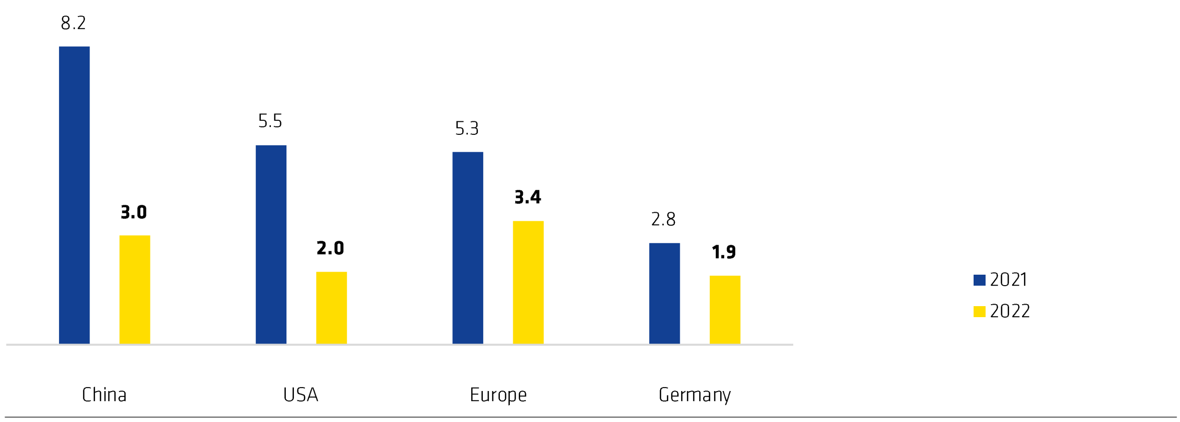
In spite of high inflation and rising interest rates, the economy in the **United States** recorded moderate growth of 2.0 per cent in 2022. In the first two quarters of 2022, the US economy contracted slightly before returning to growth in the second half of the year. However, growth has recently eased off again: Compared to growth of 3.2 per cent in the third quarter of 2022 (extrapolated to the full year), the annualised growth rate in the fourth quarter came to 2.9 per cent.

The **euro zone** also recorded growth of 3.4 per cent. After recording a strong first six months in 2022, the EU economy sailed into a much more difficult phase. The shock waves caused by Russia's attack on Ukraine dampened demand and drove up inflation worldwide. Due to its proximity to the war zone and its great dependence on gas imports from Russia, the EU was the most exposed major economy.

GDP growth in **Germany** came to 1.9 per cent in 2022. Following the corona crisis and the economic slump in the year 2020, the German economy was looking forward to a rebound over the following years. However, due to the war in Ukraine, rising energy prices and record inflation, the economic rebound carried much lower momentum in 2022 than was hoped for.

With GDP growth of 3.0 per cent in 2022, **China** looks back on a mixed year in terms of its economic performance. Renewed outbreaks of corona and extremely restrictive government intervention to contain its spread, coupled with a growing crisis on the property market put a brake on economic activity. As result, the goal of GDP growth of 5.5 per cent in 2022 was missed by a wide margin. As a result, China experienced its lowest growth in more than four decades with the exception of the year 2020.

GDP GROWTH BY REGION IN %



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 6.2 per cent worldwide from 77.2 million units in the previous year to 82.0 million units in 2022.

China recorded a production volume of 26.3 million vehicles, representing moderate growth of 6.1 per cent on the previous year.

Europe recorded a slight decrease of 1.3 per cent to approximately 15.7 million units. Among other factors, the reduction in production volume resulted from a 65.2 per cent drop in production in Russia to 0.5 million units. Germany recorded a rapid rise of 11.5 percentage points to 3.6 million units in 2022, thereby managing to increase its share of the market by 0.2 percentage points to 4.4 per cent. In Romania production also rose by 21.0 per cent to 0.5 million units.

In **North America** production volume of light vehicles rose from 12.4 million units to 13.6 million units (9.7 per cent). **South America** once again recorded strong growth in the year 2022, with production volumes rising to 7.4 million vehicles, an increase of 16.8 per cent. **Japan and South Korea** also recorded growth, albeit at 2.4 per cent. This represents an increase of 0.25 million units to a total of 11.1 million units. **Southern Asia** recorded growth of 17.2 per cent in light vehicle production to roughly 4.4 million units.

Diesel engines continue to disappear from the market – hybrid/electric vehicles continue to enjoy the highest growth rates

The production of power trains for light vehicles, i.e. vehicles of less than six tons, increased worldwide by 6.2 per cent to 82.0 million units in 2022. Production of gasoline engines increased slightly by 3.2 per cent to 62.8 million units as compared to the previous year. The production of diesel engines failed to match the level of the previous year and decreased by 5.0 per cent. Hybrid and electric engines, by contrast, set another new record, growing by 74.1 per cent to 8.1 million units, coming ever close to the production volume of diesel engines. As a result, their market share rose from 6.1 per cent in the year 2021 to 9.9 per cent.

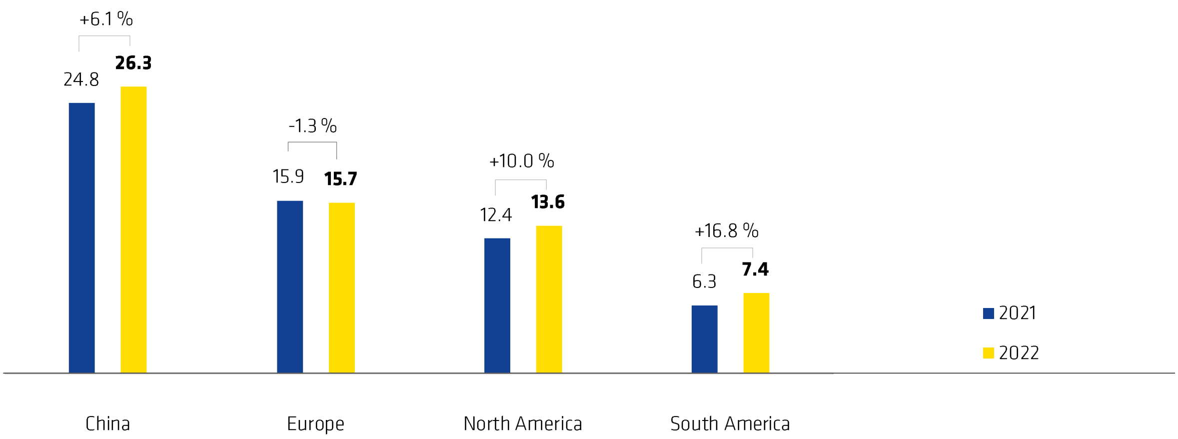
Automatic transmissions display the highest market share despite slight decline

Production of automatic transmissions rose by 2.3 per cent, from 48.0 million units in the previous year to 49.1 million units. Their share of the total market decreased from 62.1 per cent in the year 2021 to 59.9 per cent in the year 2022, but are still the clear leader.

In **Europe** production of automatic transmissions increased by 2.4 per cent to 8.0 million units. The number of manual transmissions in Europe decreased by 9.5 per cent to 6.0 million units.

Manual transmissions recorded the greatest decline in **China**, falling from 30.4 per cent to 3.6 million units. By contrast, manual transmissions enjoyed growth of 5.3 per cent in the **Middle East and Africa** and even 14.1 per cent in **Southern Asia**. However, automatic transmissions saw a decline of 96.8 per cent in the **Middle East and Africa**.

LIGHT VEHICLE PRODUCTION BY REGION (IN M UNITS)



Source: IHS – February 2023

Goal attainment in 2022

A moderate increase in sales was anticipated for the fiscal year 2022. With sales of €472.5 million, the increase on the previous year came to 10.6 per cent. The Pumps and Engine Components segment was expected to see the greatest growth and a slight increase was projected for the Brake Discs segment. By the end of the year, the Pumps and Engine Components segment had risen by 5.2 per cent and the Brake Discs segment by 23.8 per cent.

A moderate increase in both EBITDA and the EBITDA margin had been projected for 2022 in the group management report for 2021.

EBITDA in 2022 rose by 4.6 per cent on the previous year. A large rise in EBITDA was anticipated for the Pumps and Engine Components segment and a slight increase was projected for the Brake Discs segment. The EBITDA of the Pumps and Engine Components segment in the fiscal year 2022 dropped by 3.3 per cent on the previous year, while in the Brake Discs segment, it rose by 17.9 per cent on the previous year.

At 7.7 per cent, the EBITDA margin was below the previous year's level of 8.1 per cent. A decrease in the EBITDA margin could be seen in both divisions.

Reference is made to the section on other operating income and expenses: On balance, extraordinary and non-recurring events affected earnings positively in fiscal year 2022 by an amount of €6.7 million.

Course of business

Financial performance

Sales up 10.6 per cent on the previous year

Sales amounted to €472.5 million in 2022, 10.6 per cent above the previous year's figure of €427.3 million. Most of this increase is due to the effect of higher prices.

Cost of sales ratio up slightly on the previous year

The cost of sales increased to €429.8 million (previous year €377.8 million). At 91.0 per cent (previous year 88.4 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 to 9.0 per cent (previous year 11.6 per cent).

Selling and general administrative expenses match the level of the previous year

Selling expenses increased marginally in fiscal year 2022 by €0.4 million compared to the previous year to €14.5 million. The ratio of selling expenses to sales of 3.1 per cent lies at roughly the same level as the previous year (3.3 per cent). General administrative expenses decreased marginally by €0.1 million to €20.3 million. The ratio of administrative expenses to sales therefore fell slightly from 4.8 per cent to 4.3 per cent.

R&D ratio slightly down on the previous year

Research and development costs expensed through profit and loss of €11.9 million in fiscal year 2022 were €1.6 million below the level of the previous year. In addition, development costs of €5.4 million (previous year €3.7 million) were capitalised as fixed assets. This includes project costs which will be amortised via sales of the parts for projects that have already started up or where series production is likely to start in the near term. It also includes the costs of basic developments. The ratio of R&D expenses (including capitalised development costs) to sales of 3.7 per cent (previous year 4.0 per cent) were slightly down on the level of the previous year. Amortisation of capitalised development costs amounted to €2.2 million in fiscal year 2022 (previous year €2.2 million). Impairment losses amount to €0.3 million (previous year €0 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.

Positive balance of other operating income and expenses significantly benefits financial performance

At €7.0 million, the net balance of other operating income and expenses is significantly up by €5.5 million on the level of the previous year of €1.5 million. The main factors driving other operating income in this regard were the non-recurring effects in project/product business of €11.9 million and insurance indemnification of EUR 4.3 million. The other operating expenses allocable to such items amounted to €9.5 million in fiscal year 2022. Consequently, the net effect of extraordinary and non-recurring events on earnings comes to a positive figure of €6.7 million.

KEY PERFORMANCE INDICATORS: SHW GROUP

K EUR	2022	2021	Change %
Sales	472,504	427,323	10.6%
EBITDA	36,278	34,681	4.6%
as % of sales	7.7%	8.1%	-
Operating result (EBIT)	3,035	3,039	-0.1%
as % of sales	0.6%	0.7%	-
Net profit	-6,746	-621	-986.3%
Equity	127,465	127,371	0.1%
Equity ratio	34.8%	38.1%	-
Net working capital	66,870	57,464	16.4%
as % of sales	14.2%	13.4%	-
Investments	45,978	41,646	10.4%
as % of sales	9.7%	9.7%	

EBITDA up on the previous year due to non-recurring effects

Consolidated EBITDA (including impairments) came to €36.3 million in fiscal year 2022 compared to €34.7 million in the previous year. At 7.7 per cent, the EBITDA margin is slightly below the previous year's figure of 8.1 per cent. A significant increase in raw material and energy costs, that could not be fully passed on to customers, impacted earnings negatively.

At €33.2 million, depreciation and amortisation was €1.6 million or 5.1 per cent above the level of the previous year.

EBIT lies at the same level of the previous year at €3.0 million. The EBIT margin amounts to 0.6 per cent, compared to 0.7 per cent in the previous year.

Reference is made to the section on other operating income and expenses.

Higher financial expenses

The net financial result comes to a net expense of €3.1 million (previous year €2.4 million). The increase of €0.7 million is due to higher interest expenses.

Tax rate at -6,646 per cent

Income taxes amounted to €6.6 million in fiscal year 2022 (previous year €1.2 million). The SHW Group's tax rate amounted to -6,646.0 per cent for fiscal year 2022, compared to 199.5 per cent in the previous year. This change is mainly due to the impairment losses recorded on deferred tax assets recognised on unused tax losses of €3.3 million.

Group's net profit deteriorated on the previous year

The net loss of the Group deteriorated by €6.1 million to € -6.7 million (previous year € -0.6 million). Earnings per share come to € -1.05 compared to € -0.10 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 as at the reporting date.

Business segments

Pumps and Engine Components

Sales at €318.7 million

The Pumps and Engine Components segment generated sales of €318.7 million in 2022, up 5.2 per cent on the sales of the previous year (€303.1 million). Most of this increase is due to the effect of higher prices.

At €20.8 million, EBITDA is slightly below the previous year's figure of €21.5 million. The EBITDA margin sank from 7.1 per cent (previous year) to 6.5 per cent in fiscal year 2022.

Both the EBITDA and the EBITDA margin of the segment were positively affected by non-recurring effects of €5.3 million.

A significant increase in raw material and energy costs, that could not be fully passed on to customers, impacted earnings negatively.

Brake Discs

Sales at €153.8 million

In the Brake Discs business segment, sales rose by 23.8 per cent to €153.8 million (previous year €124.3 million). Most of this increase is due to the effect of higher prices.

EBITDA increased from €14.0 million in the previous year to €16.5 million. The EBITDA margin decreased from 11.3 per cent to 10.8 per cent.

Both the EBITDA and the EBITDA margin of the segment were positively affected by non-recurring effects of €1.4 million.

A significant increase in raw material and energy costs, that could not be fully passed on to customers, impacted earnings negatively.

Financial position

NET ASSET POSITION

K EUR	2022	2021	Change absolute	Change %
Non-current assets	**209,965**	**208,426**	**1,539**	**0.7%**
of which other intangible assets	20,137	18,131	2,006	11.1%
of which property, plant and equipment	166,435	160,632	5,803	3.6%
thereof deferred tax assets	10,782	16,428	–5,646	–34.4%
of which other (financial) assets	5,556	6,180	–624	–10.1%
Current assets	**156,001**	**125,721**	**30,280**	**24.1%**
of which inventories	78,586	70,329	8,257	11.7%
of which trade receivables	46,233	36,769	9,464	25.7%
of which held for sale	12,883	8,838	4,045	45.8%
Total assets	**365,966**	**334,147**	**31,819**	**9.5%**

Total assets increased by 9.5 per cent

At the end of the fiscal year 2022 total assets were 9.5 per cent up on the previous year, a rise of €31.8 million.

In particular, the increase in development costs capitalised as internally-generated intangible assets, which rose to €16.9 million from €14.7 million in the previous year, led to an increase in sundry other intangible assets of €2.0 million in sum. This was countered by the regular amortisation of these assets.

Capital expenditure of €41.7 million (see the section on cash flows, capital expenditure) and the recognition of right-of-use assets of €4.3 million (under IFRS 16) resulted in an increase in property, plant and equipment of €5.8 million net of depreciation. The right-of-use assets include €3.3 million for the lease of a building by the newly founded company in Haimen in fiscal 2022. As at 31 December 2022 investment commitments amounted to €18.5 million.

Deferred tax assets decreased by €5.6 million, primarily due to impairment losses recorded on deferred tax assets recognised on unused tax losses.

A rise of €8.3 million in inventories was caused by sudden fluctuations in the calls made by customers on standing orders and rises in the cost of materials.

The increase of €9.5 million in trade receivables as at the reporting date mainly results from higher sales in November and December 2022 in comparison to the two months of the previous year. The balance of receivables sold came to €11.9 million compared to €12.2 million in the previous year.

We refer to the cash flow statement for more information on the developments in cash and cash equivalents.

Cash flows

With the syndicated loan agreement entered into in August 2017 for credit of €80.0 million plus an increase in the credit line of €20.0 million in June 2022 to take the total to €100.0 million, our liquidity rests on a solid foundation. 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 2022, the credit promised under the existing syndicated loan agreement was drawn on by an amount of €60.0 million in the form of six loans plus overdrafts totalling €13.6 million. In addition, eight bullet loans totalling €22.2 million and one loan from the KfW development bank of €5.0 million were also carried on the reporting date. The six loans totalling €60.0 million are all short-term loans that mature in 12 months. Under the terms of the syndicated loan agreement it is possible to unilaterally exercise an option to revolve the credit beyond this term. In light of the fact that we intend to exercise this option, the liabilities to banks have been presented under non-current liabilities. According to the syndicated loan agreement, the overdrafts only need to be repaid at the end of the term of the agreement. Therefore these are also classified as non-current. To allow comparison with the previous year, the comparative figures were restated accordingly (reclassification from current liabilities to banks to non-current liabilities to banks of €46.9 million).

In sum, SHW has a credit line of €140.0 million as at the reporting date (previous year €115.0 million). Of this total, €100.8 million (previous year €78.0 million) had been drawn down on the reporting date.

SHW uses derivative financial instruments in the form of interest swaps for hedging purposes (cash flow hedge). Their impact as at the reporting date is immaterial (€0.6 million; previous year € -0.1 million).

Non-current liabilities and provisions increased by a total of €14.0 million. This increase is mainly a result of drawing more heavily on the syndicated loan agreement.

Pension provisions and similar obligations presented under employee benefit obligations decreased to €18.4 million (previous year €27.4 million), mainly on account of a change in the discount rate.

Under current liabilities, provisions and accruals and increase of 16.8 per cent was seen in trade payables and contract liabilities. This is primarily a result of higher capital spending in November and December 2022 in comparison to the last two months of the previous year.

Other provisions have generally remained unchanged on the previous year.

FINANCIAL POSITION

K EUR	2022	2021	Change absolute	Change %
Equity	**127,465**	**127,371**	**94**	**0.1%**
Non-current liabilities and accruals	**136,741**	**122,776**	**13,965**	**11.4%**
of which liabilities to banks	91,471	69,763	21,708	31.1%
of which other financial liabilities	12,171	11,063	1,108	10.0%
of which other financial liabilities	22,869	32,679	−9,810	−30.0%
Current liabilities and accruals	**101,760**	**84,000**	**17,760**	**21.1%**
of which liabilities to banks	9,358	8,208	1,150	14.0%
of which trade payables and contract liabilities	57,949	49,634	8,315	16.8%
of which other pensions	3,106	2,607	499	19.1%
Total assets	**365,966**	**334,147**	**31,819**	**9.5%**

Equity ratio at 34.8 per cent (previous year 38.1 per cent)

The change in the equity carried by the Group on 31 December compared to the previous year is mainly due to actuarial gains of €6.5 million recognised directly in equity countered by the net loss of the Group for the year of € -6.7 million. No profit distribution for fiscal year 2021 was performed. Due to the sharp rise in the balance sheet total and with equity remaining more or less unchanged, the equity ratio decreased from 38.1 per cent to 34.8 per cent.

Net working capital ratio above the mid-term target corridor

The net working capital ratio, measured against sales of the last twelve months, increased from 13.4 per cent to 14.2 per cent and therefore lies above the mid-term target corridor of 11 per cent to 12 per cent.

NET WORKING CAPITAL

K EUR	2022	2021	Change absolute	Change %
Inventories	78,586	70,329	8,257	11.7%
Trade receivables	46,233	36,769	9,464	25.7%
Trade payables	-57,702	-49,232	-8,470	17.2%
Contract liabilities	-247	-402	155	-38.6%
Net working capital	**66,870**	**57,464**	**9,406**	**16.4%**
as % of sales	14.2%	13.4%	-	-

Cash flow from operating activities above previous year's level

At €18.0 million, the cash flow from operating activities in the fiscal year 2022 was significantly up on the level of the previous year of €3.6 million. Cash flow from operating activities was positively affected by the increase in trade payables on the reporting date.

At €36.0 million, cash outflow from investing activities relating to intangible assets and property, plant and equipment was approximately €4.1 million lower than the previous year's figure.

Operative free cash flow improved to € -18.0 million and is therefore €18.5 million above the figure of the previous year (€ -36.6 million).

For fiscal year 2022, the Group's total free cash flow thus amounted to € -18.0 million (previous year € -33.6 million).

DERIVATION OF THE CHANGE IN NET LIQUIDITY

K EUR	2022	2021
Cash flow from operating activities	17,988	3,566
Cash flow from investing activities (intangible assets and property, plant and equipment)	-36,026	-40,134
Operating free cash flow	**-18,039**	**-36,568**
Cash flow from investing activities (subsidiaries, financial assets)	0	2,980
Total free cash flow	**-18,039**	**-33,588**
Other	-775	-964
Change in net liquidity	**-18,813**	**-34,552**

Net financial liabilities of € -87.9 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 2022 of € -87.9 million (previous year € -69.1 million).

In addition to the total free cash flow described above (€ -18.0 million), cash paid for leases (€2.7 million compared to €2.2 million in the previous year) and cash received from a Pierer intercompany investment loan (€2.0 million) resulted in a deterioration of net liquidity of €18.8 million.

As at 31 December 2022, SHW reports cash and cash equivalents of €12.9 million (previous year €8.8 million), most of which is carried by the subsidiaries in China. Liabilities to banks of €100.8 million (previous year €78.0 million) consist of six loans amounting to €60.0 million and overdrafts of €13.6 million drawn under the syndicated loan agreement as well as eight bullet loans amounting to €22.8 million and a loan of €5.0 million from the KfW development bank. We refer to Notes (29) and (33) in the notes to the consolidated financial statements for more information.

Increase in capital expenditure on property, plant and equipment and intangible assets

Additions to property, plant and equipment and intangible assets totalled €46.0 million in fiscal year 2022 compared to €41.6 in the previous year (of this amount €4.3 million is due to IFRS 16; previous year 2.1 million). The additions of property, plant and equipment and intangible assets reported in the cash flow come to €2.8 million and €1.5 million respectively. The discrepancy between the reported additions of property, plant and equipment and intangible assets and the associated 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 decreased by 10.3 per cent from €30.5 million to €27.4 million (of which €0.6 million due to IFRS 16; previous year €1.7 million), whereby investments in internally generated intangible assets increased by €1.7 million to €5.4 million (previous year €3.7 million). These investments focused on development activities and new assembly lines. The investments in the Brake Discs business segment rose significantly by 75.4 per cent from €10.3 million to a total of €18.1 million (of which €3.7 million is due to IFRS 16; previous year €0.4 million). The focus lay mainly on investments in plant and machinery to expand capacity and improve productivity.

In addition to the cash flow from operating activities planned for fiscal year 2023, 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 2023.

ROCE auf Vorjahresniveau

ROCE

K EUR	**2022**	2021
Goodwill	7,055	7,055
Other intangible assets	20,137	18,131
Property, plant and equipment	166,435	160,632
Deferred tax assets	10,782	16,428
Other (financial) assets (non-current)	5,556	6,180
Inventories	78,586	70,329
Trade receivables	46,233	36,769
Income tax assets	0	799
Other (financial) assets	18,299	8,986
Capital employed asset item	**353,083**	**325,309**
Deferred tax liabilities	-10,201	-9,184
Other pensions (non-current)	-29	-29
Other financial liabilities (non-current and non-interest bearing)	-572	-536
Other liabilities (non-current)	0	-58
Trade payables	-57,702	-49,232
Contract liabilities	-247	-402
Other financial liabilities (current and non-interest bearing)	-13,804	-10,651
Income tax liabilities	-462	0
Other pensions (current)	-3,106	-2,607
Other liabilities (current)	-12,240	-9,984
Capital employed liability item	**-98,363**	**-82,683**
Capital employed	254,720	242,626
EBIT	3,035	3,039
ROCE	**1.2%**	**1.3%**

The return on capital employed (ROCE) matched the level of the previous year. In this connection, reference is made to the section on other operating income and expenses.

Overall statement on the economic position

In light of the circumstances of rapidly rising prices for energy and materials, which cannot be fully passed on to customers, the war in Ukraine and ongoing supply chain disruptions, the Management Board of SHW AG considers the Group's business performance in fiscal year 2022 to be satisfactory on the whole.

With the aid of the organisational and financial countermeasures taken, the SHW organisation managed to master the challenges posed by the fiscal year 2022.

At the time this management report was prepared, the Management Board believes that the SHW Group, with its innovative product portfolio and the existing order backlog, is in a good position to actively shape the transformation of the automobile sector.

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.

The SHW Group understands 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. The most important risks are presented 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, a Group-wide integrated risk management system is utilised 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).

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	Medium	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	Medium	High
Cost risks	High	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	Medium
Compliance risks	Very low	High
Tax risks	Low	Low
Financial risks		
Counterparty credit risk	Very low	Low
Financing risks	Low	High
Currency risks	Low	Medium
Interest risks	Medium	Medium
Impairment risks	Very low	High

DEGREE OF FINANCIAL IMPACT

PROBABILITY

very low | low | medium | high | very high

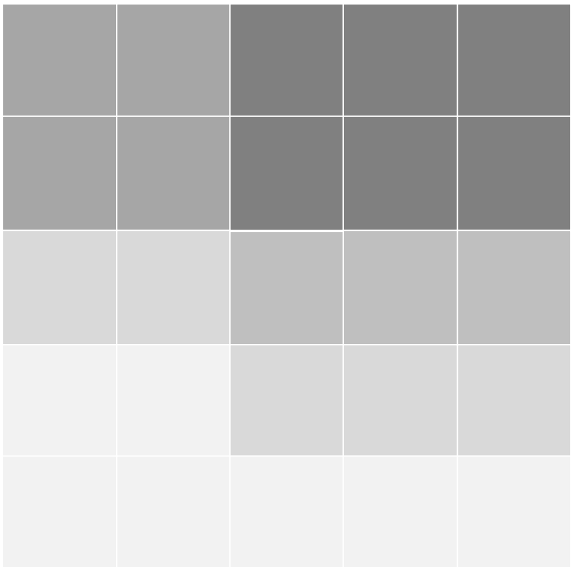
existential
damaging impact on business, financial performance, financial position and cash flows

high
substantial impact on business, financial performance, financial position and cash flows

medium
some impact on business, financial performance, financial position and cash flows

low
limited impact on business, financial Performance, financial position and cash flows

insignificant
Insignificant impact on business, financial performance, financial position and cash flows



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.

Uncertainties relating to the COVID-19 pandemic, which impacted business for three years, have largely eased off. However, these have been replaced by the war in Ukraine, worrying developments on the energy and commodity markets, continuing disruptions of supply chains and multiple sudden spikes in prices, leading to high inflation and higher interest rates. On top of this, there is a threat of recession that has exacerbated the challenges in the business environment.

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, China, North and South America and on their export activity. The speed of implementation and the focal points chosen by the customers in the field of electromobility are affecting demand for the portfolio of pumps and its development focus.

The Brake Discs business segment is almost completely dominated by the vehicle production of its customers in Europe. The establishment of the subsidiary in Haimen in China will create an offering for the Asian market in future.

The growing fears of a pending recession could have a negative impact on consumer spending and dampen the growth prospects of both segments accordingly.

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, China, North and South America. It is still assumed that sales of hybrid and electric vehicles will grow in future. However, the objective of establishing e-mobility as rapidly as possible appears to be facing challenges due to the limited range of the vehicles and the lack of charging infrastructure.

SHW's future success 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.

In the opinion of the Management Board, SHW has set the right development focus with its SHW Strategy 2030 to align the product portfolio to the transformation of the automotive industry. Among other items, the main thrust of the SHW Strategy 2030 is on the electrification and transformation of the product portfolio, expanding systems competence and further internationalisation.

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. The pressure on automotive suppliers to consolidate their resources in response to the transformation of the automobile industry remains as high as ever. 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 fields of brake disks, 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.

Thanks to the years spent internationalising the Group, SHW has built up expertise in these areas and reviews the potential project risks associated with the start of production of new models by our customers and launching products on new markets, such as establishing a foothold for the Brake Discs segment on the Asian market.

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 two customers which exceeded 10 per cent of sales. The share of sales allocable to the major customer rose slightly from 38 per cent to 41 per cent. This can be attributed to the focus of SHW on brake discs, which are independent of the choice of powertrain, and, in light of the restrictive market, were installed disproportionately in the premium and high-margin car models of our biggest customer over the past year. To reduce these risks, SHW aims to ensure that its sales are more evenly distributed among its customers. In this regard, our strategic focus is on winning new customers and expanding our product portfolio in the Truck & Off Highway segment.

The activities on the independent aftermarket (IAM) and the associated sale of brake discs to international wholesalers under the house brand of "SHW Performance" have given SHW another leg to stand on. Most of all, SHW sees further growth potential in the portfolio of dual-component (lightweight) brake discs and was able to increase the associated total sales by roughly 32 per cent in the second year since their launch.

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

At the beginning of the year 2022, it was expected that chip shortages would ease, which then became evident in the calls made by customers on standing orders. As the conflict between Russia and Ukraine broke out in February 2022, the restrictions on cable harnesses from Ukraine led to a sudden reduction in call-off volumes, particularly from German OEMs. These two issues "supply bottlenecks due to the war in Ukraine" and "chip shortage" have eased somewhat over the course of the year. In sum, call-off volumes were higher in the reporting year than in the previous year.

In China, the COVID-19 pandemic kept the economy in a fraught condition. The supply situation in China, also among suppliers further upstream, was heavily impacted by four weeks of a strict lock-down and two weeks of closed-loop management. In the year 2023 further major impacts are expected as a large share of the population was infected with COVID-19 at the beginning of the year.

The SHW Group is also exposed to risks associated with unforeseeable decreases or increases in the volume of calls made on standing orders in comparison to the contractually agreed corridors. In order to be able to react flexibly to such changes in call-off volumes, the SHW Group takes on temporary workers as needed, as part of its capacity management.

Fluctuations in call-offs create significant problems throughout the supply chain and impose a considerable additional burden. The SHW Group attempts to pass on the associated extra-ordinary costs and the costs of the current high inflation rate to its customers as best as it can.

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.

There were further rises in the price of materials in the year 2022 but most of all it was inflation that drove the sharp rise in prices. On top of this, there was a massive rise in energy costs, partly driven by the war in Ukraine, which is the single largest risk factor in this regard, as well as individual price adjustments. 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 the 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. Within the course of introducing its Information Security Management System (ISMS), the SHW Group has defined roles and responsibilities, classified information, identified IT risks and defined its reporting processes. 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 and awareness measures and a reporting system for security incidents minimises the risk of a successful cyberattack.

The critical IT systems are located in data centre situated either on the premises of the SHW Group or at an external hosting service provider. These are protected against unauthorised access and have security components installed such as fire alarms, extinguishers and uninterrupted power supply systems. Business data is mirrored and protected 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.

The SHW Group invests in new security software on a constant basis to protect its IT systems from unauthorised access. It has also invested in a vulnerability scanner for cyberthreats. Internally, employee access to confidential corporate data is ensured by the ability to escalate authorisation rights.

Acquisition and integration risks

Acquisitions, new formations 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, new formation 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 expectations of business partners, suppliers and customers 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 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 in turn result in them asserting compensation and product-liability claims. In such cases, it is possible in certain circumstances that the SHW Group or its customers may be forced to conduct a product 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, SHW cooperates 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. In addition, there could be risks relating to the recoverability of deferred tax assets, depending on the earnings situation and future financial performance.

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 SHW's multiple-supplier strategy, we believe the risk of losing a key supplier is currently low.

Financing risks

The syndicated bank loan entered into in fiscal year 2017 expires in August 2024. At the present time, there are no agreements in place for refinancing this arrangement. The Management Board intends to commence and conclude negotiations on the required follow-up arrangement in the course of the current year. The financial covenants agreed on under the syndicated loan agreement were observed as at 31 December 2022.

The liquidity management is based on a weekly cash flow projection that takes account of all matters affecting cash. Overall, the SHW Group has sufficient cash and cash equivalents to ensure its solvency at all times over the forecast period.

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, 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

Our focus remains on the interest policy and the current rise in key lending rates. Changes in market interest rates can affect future interest payments for floating rate liabilities. An environment of rising interest rates can negatively affect cash flow. Significant interest rate increases may affect the profitability, liquidity and the financial position of the SHW Group.

Impairment risks

Some of the assets carried by the SHW Group are intangibles, including goodwill. As at 31 December 2022, 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 carrying amount of internally generated intangible assets, that are not yet eligible for amortisation, comes to €9.6 million. The business planning for the years 2023 to 2027 and market potentials were used as the foundation for the impairment testing of goodwill and internally-generated intangible assets not yet subject to amortisation as at 31 December 2022. This also entailed assumptions about future developments.

Assessment of the overall risk position

In SHW's view the 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 at present which might jeopardise the SHW Group's continued existence.

At present, the war in Ukraine and the continuing rise in the costs of energy and commodity prices, the high inflation rate and the growing fears of a pending recession are dampening the global economy in 2023 and the effect is radiating to the financial markets The impacts of these macroeconomic factors on the development of fiscal year 2023 cannot be fully assessed at present.

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

SHW understands opportunities to mean possible future developments or events that may result in a positive deviation from a forecast or target for the SHW Group. The opportunities management system of the SHW Group 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 these market expectations, SHW, as an automotive supplier, accepts the challenges of the transformation process and has approved a corresponding strategy for the 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 lightweight 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.

Additional growth potential in the Brake Discs segment is promised by the independent aftermarket and the “SHW Performance” house brand. Under this brand top quality brake discs are delivered to dealers worldwide for the spare parts aftermarket. The many years of experience and skills that we have established in the development and series production of premium-quality brake discs has created a foundation for the sustained growth that is projected for the future.

Additional opportunities are perceived in connection with the construction of the new brake discs plant in Haimen. From this base we intend to serve the Asian market with SHW brake discs 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: Uncertainties continue to dominate

A number of factors affecting the global economy, the Russian attack on Ukraine in particular, are dampening the prospects for economic growth. Major political uncertainties, the sustained boom in prices for energy and commodities and the fears of a pending recession are the main factors weighing down the outlook for the economy, particularly in Europe. Growth of 1.9 per cent is forecast for the global economy in the year 2023.

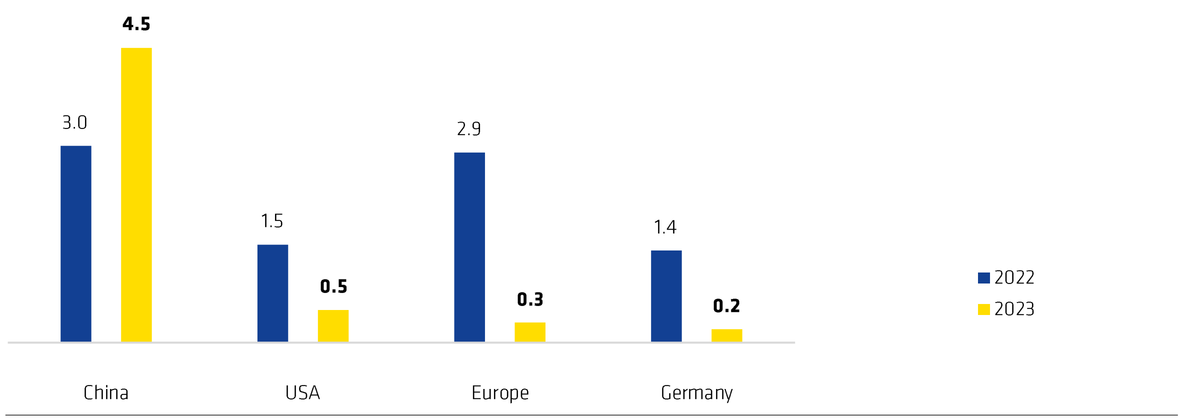
In the **USA**, the indicators are still pointing in the right direction for the economy. Nevertheless, there are clouds gathering on the horizon. The latest warning signs came out of the industrial sector. The manufacturing and service sectors have been contracting since December 2022. As a result, GDP growth of just 0.5 per cent is forecast for 2023 (previous year 1.5 per cent).

For the **euro area** GDP growth of 0.3 per cent is expected for 2023 (previous year 2.9 per cent). After the close-range forecast slumped in the wake of the energy crisis, things appear to have calmed down to some extent as a result of some good news (full gas storage, solid economic growth at the end of 2022).

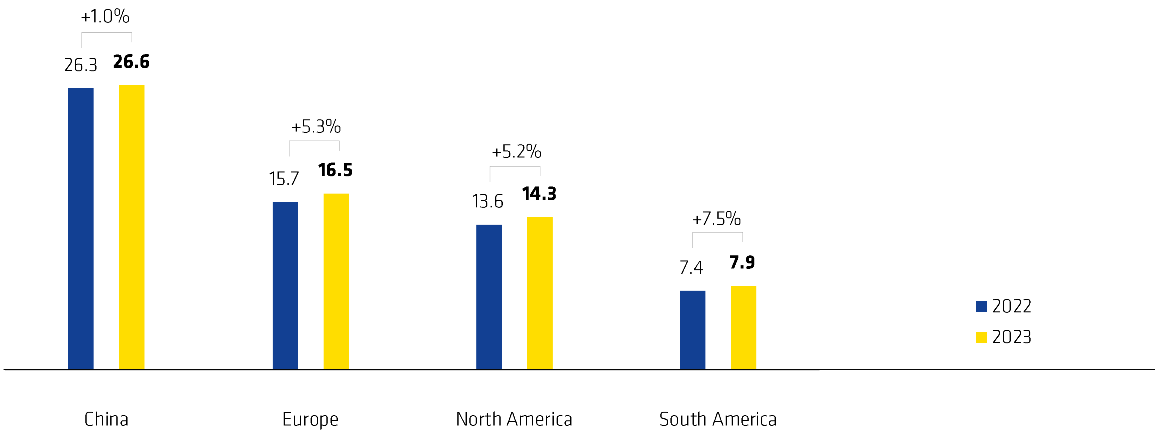
The **German** economy has performed better than expected. According to the forecasts, growth in the year 2023 will be very slow at just 0.2 per cent (previous year 1.4 per cent).

The prospects for a strong economic rebound in **China** are good, now that the COVID-19 restrictions have been lifted. However, the structural problems in China have still not been resolved. The real estate sector is still beset by crisis. Measures have been undertaken to stimulate demand for property. In light of the growing age of the population, GDP growth of 4.5 per cent in 2023 is realistic.

GDP GROWTH BY REGION IN %



LIGHT VEHICLE PRODUCTION BY REGION (IN M UNITS)



Source: IHS – February 2023

Vehicle production: Recovery in sight

The IHS Markit market research institute is forecasting growth of 3.6 per cent for global light vehicle production (vehicles of less than six tons) in 2023, which represents production growth of just under 3 million vehicles in comparison to 2022.

For the European region, production is anticipated to increase by 5.3 per cent to 16.5 million vehicles. The share of the market accounted for by Europe is expected to remain constant in comparison to the year 2022 (growth of 0.3 per cent).

IHS Markit forecasts growth of 15.1 per cent in German light vehicle production for 2023 in comparison to 2022 to 4.1 million units.

Chinese vehicle production is expected to grow slowly at 1.0 per cent.

By contrast, much brighter prospects are forecast for light vehicle production in North America (+5.2 per cent) and South America (+7.5 per cent).

Electric motors and hybrids continue to win greater market share

Likewise, analogous to vehicle production, IHS Markit forecasts growth of 3.6 per cent in global engine production in 2023 to just under 85.0 million units. Record growth of 38 per cent is projected for the number of electric and hybrid motors produced in 2023, which will lift their share of the market from 9.9 per cent to 13.2 per cent. This will mean that electric and hybrid motors will outperform diesel engines by almost 0.5 million units.

According to IHS Markit, gasoline engines will still account for the lion's share of the engine production market with 73.9 per cent, followed by electric and hybrid motors with 13.2 per cent and diesel engines with 12.7 per cent. This latter category is expected to contract by 1.6 per cent.

It is anticipated that engine production will grow to just under 26 million units in China (+0.1 per cent), to roughly 17.2 million units (+3.7 per cent) in Europe and to 17.7 million units in North and South America (+14.3 per cent).

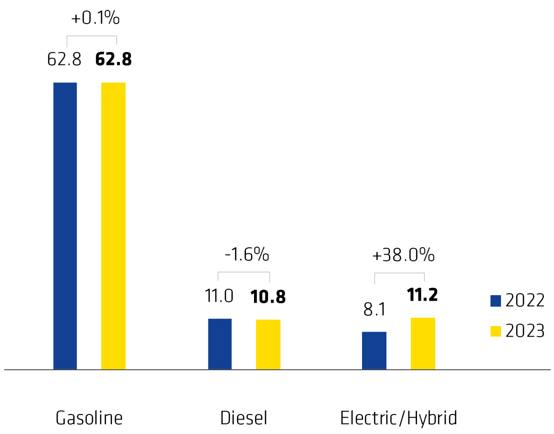
SHW remains well positioned, with its product solutions for internal combustion engines – both diesel and gasoline – as well as electric engines and hybrid powertrains, to exploit any growth opportunities that arise.

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

The number of automatic transmissions produced worldwide in 2023 is expected to decrease by 1.9 per cent to 48.1 million. It is assumed that the production volume of manual transmissions in the year 2023 will decrease by 8.2 per cent or 17.6 million units. The fastest growth according to IHS Markit will be in dedicated hybrid transmissions (DHT) and reduction gears, which together are forecast to grow by 43.0 per cent. This can be attributed to the higher production of electric cars and hybrids.

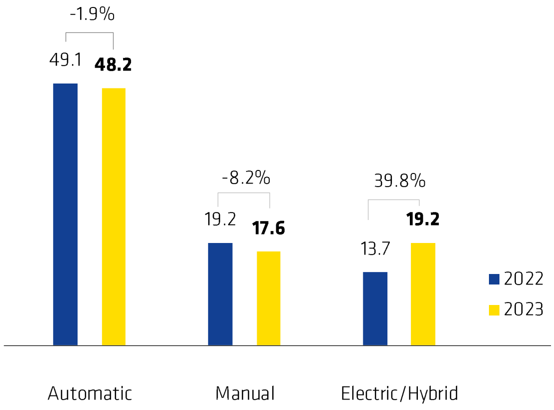
Automatic transmissions in 2023 are expected to see a slight decrease of 3.2 percentage points in their share of the market to 56.7 per cent. It is assumed that the share of manual transmissions will decline by 2.8 percentage points to 20.7 per cent. This loss of market share will benefit hybrid and electric transmissions, which are expected to expand their share of the market by 5.8 percentage points to 22.6 per cent.

ENGINE PRODUCTION WORLDWIDE (IN M UNITS)



Source: IHS – February 2023

TRANSMISSION PRODUCTION WORLDWIDE (IN M UNITS)



Source: IHS – February 2023

Outlook for the Group

Significant growth in sales, EBITDA and EBITDA margin

Based on the anticipated development of the macroeconomic environment and the sector-specific conditions, and after weighing up the potential risks and opportunities for the SHW Group for fiscal year 2023, the Management Board of SHW AG forecasts significant growth in sales, EBITDA and the EBITDA margin in comparison to fiscal year 2022.

This sharp rise in sales, EBITDA and the EBITDA margin is anticipated for both the Pumps and Engine Components segment and the Brake Discs segment (where just a slight improvement in the EBITDA margin is expected).

Aalen, 22 March 2023

Wolfgang Plasser
Chief Executive Officer

Thomas Karazmann
Chief Financial Officer

CONSOLIDATED FINANCIAL STATEMENTS OF SHW AG

CONSOLIDATED INCOME STATEMENT

for the fiscal year from 1 January to 31 December 2022

K EUR	Note	**2022**	2021
Sales	**(9)**	**472,504**	**427,323**
Cost of sales	(17)	-429,793	-377,826
Gross profit		**42,711**	**49,497**
Selling expenses	(10), (17)	-14,500	-14,062
General administrative expenses	(11), (17)	-20,329	-20,444
Research and development costs	(12), (17)	-11,872	-13,484
Other operating income	(13)	20,934	8,672
Other operating expenses	(14)	-13,909	-7,140
Earnings before interest and tax		**3,035**	**3,039**
Financial income	(15)	178	163
Financial expenses	(15)	-3,313	-2,578
Earnings before tax		**-100**	**624**
Deferred taxes	(16)	-4,415	603
Current income tax	(16)	-2,231	-1,848
Earnings after tax		**-6,746**	**-621**
Net profit		**-6,746**	**-621**
Earnings per share in € (basic and diluted)*		-1.05	-0.1

* 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 2022

K EUR	**2022**	2021
Net profit	**–6,746**	**–621**
Items that will not be reclassified to profit or loss in future periods		
Actuarial gains / losses from pension provisions and similar obligations before tax	8,901	1,135
Tax effect	–2,437	–323
Items that may be reclassified to profit or loss in future periods		
Currency translation differences	–107	2,519
Tax effect	0	0
Changes in the fair value of derivates held for hedging purposes recognised in equity	677	192
Tax effect	–194	–55
Other comprehensive income after tax	**6,840**	**3,468**
Total comprehensive income after tax	**94**	**2,847**
Net profit for the year attributable to		
shareholders of SHW AG	–6,746	–621
holders of non-controlling interests	0	0
Total comprehensive income after tax attributable to		
shareholders of SHW AG	94	2,847
holders of non-controlling interests	0	0

CONSOLIDATED BALANCE SHEET

as at 31 December 2022

ASSETS

K EUR	Note	**31.12.2022**	31.12.2021
Goodwill	(20)	7,055	7,055
Other intangible assets	(20)	20,137	18,131
Property, plant and equipment	(20)	166,435	160,632
Deferred tax assets	(16)	10,782	16,428
Other financial assets	(21)	773	223
Other assets	(21)	4,783	5,957
Non-current assets		**209,965**	**208,426**
Inventories	(22)	78,586	70,329
Trade receivables	(23)	46,233	36,769
Other financial assets	(24)	5,735	582
Income tax assets	(16)	0	799
Other assets	(24)	12,564	8,404
Cash and cash equivalents	(25)	12,883	8,838
Current assets		**156,001**	**125,721**
Total assets		**365,966**	**334,147**

EQUITY AND LIABILITIES

K EUR	Note	31.12.2022	31.12.2021
Subscribed capital	(26)	6,436	6,436
Capital reserves	(26)	38,510	38,510
Revenue reserves	(26)	83,143	89,889
Other reserves	(26)	–624	–7,464
Equity		**127,465**	**127,371**
Employee benefits	(27)	22,869	32,679
Deferred tax liabilities	(16)	10,201	9,184
Liabilities to banks	(29)	91,471	69,763
Other financial liabilities	(29)	12,171	11,063
Other provisions	(28)	29	29
Other liabilities	(29)	0	58
Non-current liabilities and provisions		**136,741**	**122,776**
Liabilities to banks	(29)	9,358	8,208
Trade payables	(29)	57,702	49,232
Contract liabilities	(9)	247	402
Other financial liabilities	(29)	18,645	13,567
Income tax liabilities	(16)	462	0
Other provisions	(28)	3,106	2,607
Other liabilities	(29)	12,240	9,984
Current liabilities, provisions and accruals		**101,760**	**84,000**
Total equity and liabilities		**365,966**	**334,147**

CONSOLIDATED CASH FLOW STATEMENT

for the fiscal year from 1 January to 31 December 2022

K EUR	Note	2022	2021
1. Cash flow from operating activities			
Net profit		-6,746	-621
Depreciation / amortisation (+) of fixed assets	(20)	33,243	31,642
Impairment losses on intangible assets and goodwill	(20)	0	0
Income tax expenses through profit or loss (+)	(16)	2,231	1,848
Income taxes paid (-)		-705	-3,197
Financing costs through profit or loss (+)	(15)	3,331	2,578
Interest paid (-)		-2,566	-1,795
Financial investment income through profit or loss (-)	(15)	-178	-163
Interest received (+)		178	163
Increase (+) / decrease (-) in provisions	(27), (28)	-1,128	-1,275
Change in deferred taxes		4,415	-604
Other non-cash expenses (+) / income (-)		1,581	-825
Gain (-) / loss (+) from the disposal of assets		-621	310
Increase (-) / decrease (+) in inventories, trade receivables and other assets	(22), (23), (24)	-28,268	-10,471
Increase (+) / decrease (-) in trade payables and other liabilities	(29)	13,220	-14,023
Cash flow from operating activities		**17,988**	**3,566**

K EUR	Note	2022	2021
2. Cash flow from investing activities			
Cash received (+) from the disposal of property, plant and equipment		5,470	51
Cash paid (-) for investments in property, plant and equipment		-35,220	-35,698
Cash paid (-) for investments in intangible assets		-6,276	-4,737
Cash paid (-) for the acquisition of subsidiaries		0	0
Cash received (+) from disposal of financial assets	(7)	0	2,980
Cash received (+) from the sale of consolidated companies	(7)	0	250
Cash paid (-) for investments in financial assets		0	0
Cash flow from investing activities		**-36,026**	**-37,154**
3. Cash flow from financing activities			
Cash received (+) from the assumption of financial liabilities	(29), VI.	33,354	33,398
Cash paid (-) for the redemption of financial liabilities	(29), VI.	-8,496	-4,705
Dividends paid (-) to shareholders	(26)	0	0
Cash paid (-) for leases	VI., VIII.	-2,735	-2,214
Cash flow from financing activities		**22,123**	**26,479**
4. Cash and cash equivalents at the end of the period			
Cash-effective changes in cash and cash equivalents (sum of positions 1-3)		4,085	-7,109
Exchange rate-related changes in cash and cash equivalents		-40	1,250
Changes in cash and cash equivalents due to changes in the consolidation basis		0	-127
Cash and cash equivalents at the beginning of the period	(25)	8,838	14,824
Cash and cash equivalents at the end of the period	**(25)**	**12,883**	**8,838**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the fiscal year from 1 January to 31 December 2022

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**

K EUR	Subscribed capital (Note 31)	Capital reserves (Note 31)	Revenue reserves (Note 31)	Other reserves (Note 31)	**Total equity**
As at 1. January 2022	**6,436**	**38,510**	**89,889**	**–7,464**	**127,371**
Changes from actuarial gains and losses	0	0	0	6,464	6,464
Changes in the fair value of derivates held for hedging purposes recognised in equity	0	0	0	483	483
Foreign currency translation differences	0	0	0	–107	–107
Other comprehensive income	**0**	**0**	**0**	**6,840**	**6,840**
Net profit for 2022	0	0	–6,746	0	–6,746
Total comprehensive income for the period	**0**	**0**	**–6,746**	**6,840**	**94**
Others*)	0	0	0	0	0
As at 31.December 2022	**6,436**	**38,510**	**83,143**	**–624**	**127,465**

*) 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 2022 were approved by the Management Board on 17 March 2023 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 2022 as to be applied in the EU. All interpretations of the International Financial Reporting Interpretations Committee (IFRIC) relevant for fiscal year 2022, 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 2023, 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 10 March 2023. According to Section 264b 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.

3. New and amended standards and interpretations applicable in the year 2022

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 1 January 2022:

Standard/ Interpretation		Status	Applicable from
Amendment IAS 37	Onerous Contracts	revised	01.01.2022
Amendment IFRS 16	Leases	revised	01.01.2022
Amendment IFRS 3	Amendments to references to the conceptual framework	revised	01.01.2022
Amendment IAS 16	Income before planned use	revised	01.01.2022

4. Standards, interpretations and amendments to published standards not yet mandatory in 2022 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 the fiscal year 2022 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 to IAS 1	Classification of debt as current or non-current	revised	01.01.2023
Amendments to IFRS 17	Insurance contracts	revised	01.01.2023
Amendments to IAS 1 und IFRS Practice Statement 2	Disclosure of the accounting method	revised	01.01.2023
Amendments to IAS 8	Definition of Accounting Estimates	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.

5. 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.

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 (20) "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. First-time recognition is only permitted when all of the following criteria are met. Firstly, completion of the intangible asset must be technically feasible This is based on the management's assessment that technical and economic feasibility has been demonstrated. Generally, this is the case when a development project has achieved a certain degree of maturity. Secondly, it must be possible to demonstrate that the intangible asset will generate future economic benefits, either from using the asset internally or by selling it, and that the development costs can be reliably measured. In order to determine the capitalisable amounts of such assets, assumptions and estimates regarding the expected cash flows from the assets and their market potential are included in the calculation, along with the applicable discount rates and the period of expected future cash flows which the assets generate. Thirdly, there must be an intention to complete the intangible asset and to use or sell it thereafter. Fourthly, the entity must have the ability to use or sell the intangible asset. Finally, the entity must have adequate technical and financial resources available to complete the development. As at 31 December 2022, capitalised development costs amount to €16,896 thousand (previous year €14,672 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 2022, the provision for pensions and similar obligations amounted to €18,368 thousand (previous year €27,439 thousand). More details on this can be found in Note (27) "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 (16) "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

6. 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 formation or 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.

7. Scope of consolidation

Due to the formation of SHW Brake Systems (Haimen) Co., Ltd., Nantong Haimen, China, in the fiscal year 2022 the consolidated group changed, effective 24 May 2022. This entity is a wholly-owned subsidiary of SHW Brake Systems GmbH, Tuttlingen, Germany.

8. 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	**2022**	2021	**2022**	2021
Brazil	BRL	5.6386	6.3101	5.4051	6.3786
Canada	CAD	1.4440	1.4393	1.3704	1.4804
China	RMB	7.3582	7.1947	7.0744	7.6069
Romania	RON	4.9495	4.9490	4.9340	4.9251

III. Notes to the income statement

9. Sales

The sales[1] 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 €318,684 thousand in fiscal year 2022 (previous year €303,068 thousand). The Brake Discs business segment achieved sales of €153,820 thousand in fiscal year 2022 (previous year €124,255 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	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Revenue from contracts with customers	252,487	231,813	135,479	111,046	47,017	36,949	37,494	47,514	27	1	472,504	427,323

As at 31 December 2022 contract liabilities amounted to €247 thousand (previous year €402 thousand). Contract liabilities mainly consist of the advance payments received from customers for preparatory work prior to the commencement of serial production. Revenue of €370 thousand (previous year €851 thousand) was realised in the course of fiscal year 2022 from the net balance of contract liabilities carried at the beginning of fiscal year 2022.

As in the previous year, the incremental costs of obtaining contracts of €4,633 thousand (previous year €5,883 thousand) are presented under non-current other assets and €1,170 thousand (previous year €1,083 thousand) under current other assets as at 31 December 2022. 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 line with the later call-offs for the delivery of series products and came to €1,042 thousand in the fiscal year (previous year €1,011 thousand). As at 31 December 2022, the impairment losses on contract assets amounted to €970 thousand (previous year €0 thousand). We refer to Notes (21) and (24).

Reference is made to Note (23) for more information on the impairments recorded on trade receivables.

10. 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. Direct selling expenses also contain freight and shipping costs.

11. 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.

[1] The terms "sales" and "revenue" are used synonymously

12. 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 2022, the additionally capitalised development costs amounted to €5,373 thousand (previous year €3,734 thousand). Additional development services were billed within the scope of customer orders.

13. Other operating income

Other operating income includes non-recurring effects in the project/product business and also the insurance indemnification received of €16,200 thousand (previous year non-recurring effects from insurance indemnification of €3,370 thousand). In addition, other operating income includes income from exchange gains of €2,154 thousand (previous year €1,185 thousand) and the release of provisions and other liabilities of €869 thousand (previous year €2,814 thousand).

14. Other operating expenses

Other operating expenses mainly comprise non-recurring effects in the project/product business and expenses for insured losses of €9,462 thousand (previous year €1,734 thousand). In addition, other operating expenses include exchange losses of €1,815 thousand (previous year €954 thousand).

15. Financial result

The financial result breaks down as follows:

K EUR	**2022**	2021
Financial income	178	163
Financial expenses		
Interest and similar expenses	–2,632	–1,983
Interest in the addition to pension provisions	–375	–310
Interest expense from leases	–306	–285
	–3,313	**–2,578**
Financial result	**–3,135**	**–2,415**

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

Other interest and similar expenses refer in particular to interest and borrowing costs from the syndicated loan of €1,904 thousand (previous year €1,383 thousand) determined using the effective interest rate method (see Note (29) "Liabilities").

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

K EUR	Net results		of which impairment losses / reinstatements	
	2022	2021	**2022**	2021
Loans and receivables (AC)	–1,666	–255	–1,844	–418
Other non-current financial assets (AC)	–16	–9	–16	–9
Financial liabilities (AC)	–2,938	–2,268	0	0
Total	**–4,620**	**–2,532**	**–1,860**	**–427**

16. 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 €570 thousand (previous year €1,375 thousand) relate to rights to receive tax refunds of provisional tax payments during the year 2022. Tax liabilities in fiscal year 2022 amount to €1,032 thousand (previous year €556 thousand). Income tax assets and income tax liabilities are presented net in the balance sheet.

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	2022	2021
Current taxes	**-2,231**	**-1,848**
Current year	-2,231	-2,155
Adjustments for previous years	0	307
Deferred taxes	**-4,415**	**603**
Recognition / reversal of temporary differences	-644	-1,694
Effect of tax loss recognised	0	2,297
Recognition of previously unrecognised tax losses	-3,771	0
Total	**-6,646**	**-1,245**

The deferred tax expenses recognised directly in equity resulted from the revaluation of defined benefit obligations (pensions) and derivatives and come to €2,631 thousand (previous year €377 thousand).

b) Reconciliation of the effective tax rate

K EUR	2022	2021
Earnings before tax	-100	624
Expected income tax (28.4 [previous year 28.4] per cent)	-28	177
Tax-free income, non-deductible expenses	-6	479
Tax effect of joint ventures accounted for using the equity method	0	0
Taxes from previous years	68	0
Reduction in assessed value	-15	-15
Add backs (pursuant to Section 8 of the German Trade Tax Act- GewStG)	89	65
Income from a change in the tax rate	0	-6
Unrecognised deferred tax assets from loss carryforwards	3,002	0
Impairment losses on deferred tax assets from loss carryforwards	3,336	426
Recognition of the tax effects arising from unused tax loss carryforwards not recognised to date	0	0
Deviating foreign tax rates	-197	-272
Nicht anrechenbare Quellensteuer	373	413
Tax effect from the impairment of goodwill	0	0
Currency differences	0	0
Other	24	-22
Income taxes	**6,646**	**1,245**
Effective tax rate	-6646.0%	199.5%

In Germany, corporate income tax (including the solidarity surcharge) totalled 15.8 per cent in 2022. Trade tax amounts to 12.5 per cent, with an average assessment rate of 356.4 per cent.

This resulted in a total statutory tax burden of 28.3 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 €15,448 thousand (previous year €8,268 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 2023.

c) Composition of deferred taxes

K EUR	Consolidated balance sheet 31.12.2022	31.12.2021
Deferred income tax assets		
Property, plant and equipment	0	0
Inventories	489	293
Other current assets	0	0
Employee benefits	1,791	4,499
Non-current liabilities and provisions	3,993	3,646
Current liabilities, provisions and accruals	395	265
Unused tax losses	4,114	7,725
Total	**10,782**	**16,428**
Deferred income tax liabilities		
Intangible assets	4,870	4,167
Property, plant and equipment	4,517	3,802
Other non-current assets	71	8
Inventories	393	427
Other current assets	123	74
Non-current liabilities and provisions	201	680
Current liabilities, provisions and accruals	26	26
Total	**10,201**	**9,184**

Of the total deferred tax assets recognised on unused tax losses, an amount of €2,888 thousand (previous year €4,931 thousand) is attributable to SHW AG.

It can be assumed that these deferred tax assets recognised on unused tax losses are recoverable to the extent that, after taking account of the *de minimus* rule, taxable temporary differences exceed deductible temporary differences.

In the fiscal year SHW AG recognised impairment losses of €2,043 thousand on deferred tax assets recognised on unused tax losses.

The Canadian subsidiary, SHW Pumps & Engine Components Inc. carried deferred tax assets of €721 thousand on unused tax losses (previous year €1,191 thousand) as at 31 December 2022. In fiscal year 2022 an impairment loss of €213 thousand was recorded. In the opinion of SHW, it can be assumed as at 31 December 2022 that the deferred tax assets are recoverable because it will be able to offset the unused tax losses against taxable income in the near future due to the measures taken and the improvement in earnings.

Of the total deferred tax assets recognised on unused tax losses an amount of €505 thousand (previous year €943 thousand) is attributable to the Brazilian subsidiary, SHW do Brasil Ltda. Impairment losses of €418 thousand were recognised on unused tax losses due to the absence of sufficient taxable income in the next five years against which they could be realised. After being severely impacted by the corona pandemic (including temporary plant closures), a profit was once again generated in Brazil in fiscal year 2022. Due to the measures taken, SHW anticipates sustained profits to be made in the coming years.

No deferred tax assets have been presented for unused tax losses at the Romanian subsidiary, SHW Pumps & Engine Components SRL as at 31 December 2022 (previous year €660 thousand). The existing deferred tax assets on unused tax losses were written off in full on the reporting date.

d) Deferred taxes directly recognised in equity

K EUR	Before tax	Tax income / expense	After tax
2022			
Actuarial gains / losses from pension provisions and similar obligations	8,901	-2,437	6,464
Currency translation differences	-107	0	-107
Derivatives	677	-194	483
Total	**9,471**	**-2,631**	**6,840**
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**

The balance of deferred taxes carried in other comprehensive income amounted to € -358 thousand as at 31 December 2022.

e) Unrecognised deferred tax assets

Initially, no deferred tax assets were recognised as at 31 December 2022 with regard to tax losses of €3,002 thousand as it is assumed that they will not be realised in the foreseeable future. An amount of €2,987 thousand of these tax losses is allocable to Germany and €15 thousand to the Romanian subsidiary, SHW Pumps & Engine Components SRL.

17. 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	2022	2021
Cost of raw materials and supplies	289,165	248,736
Cost of purchased services	13,302	13,933
Total cost of materials	**302,467**	**262,669**

PERSONNEL EXPENSES

K EUR	2022	2021
Wages and salaries	94,255	91,398
Social security contributions and pension expenses	19,979	19,455
Total personnel expenses	**114,234**	**110,853**

Social security contributions and pension expenses include pension expenses of €9,039 thousand (previous year €8,680 thousand). Pension expenses comprise the addition to pension provisions (excluding the interest component) of €668 thousand (previous year €755 thousand). Statutory pension insurance expenses totalled €8,138 thousand (previous year €7,708 thousand).

Depreciation and amortisation

Depreciation and amortisation of intangible assets and property, plant and equipment totalled €33,243 thousand (previous year €31,642 thousand), of which €2,920 thousand (previous year €2,391 thousand) is due to applying IFRS 16 in fiscal year 2022 and €325 thousand (previous year €0 thousand) that is recorded under the cost of sales. 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 (20).

18. Auditor's fees

K EUR	2022	2021
Auditing services	289	275
of which for previous years	0	0
of which other audit services	0	0
Other assurance services	3	3
Tax advisory services	0	9
Other services	0	0

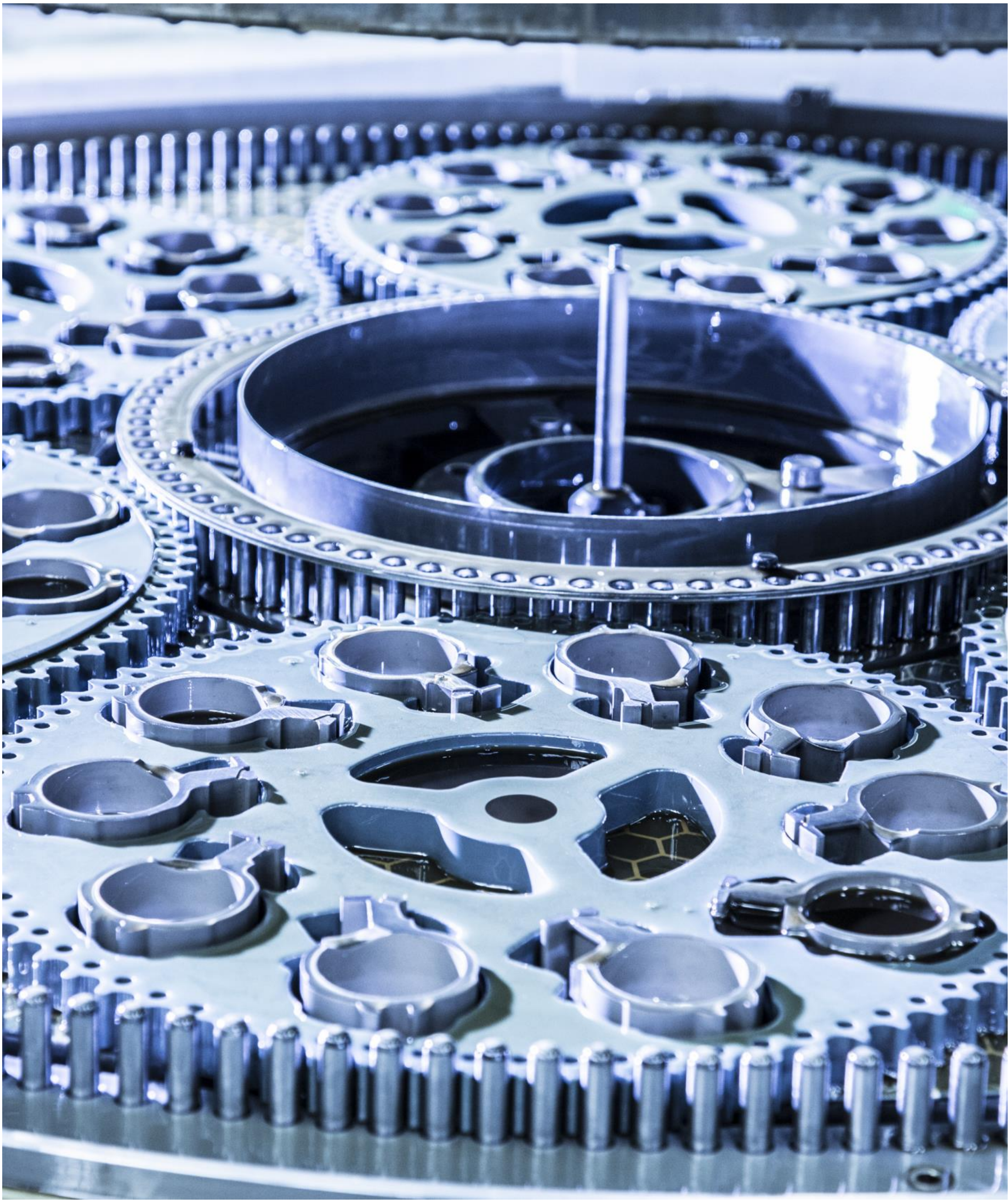
19. Employees

Annual average number of employees:

EMPLOYEES

	2022	2021
Pumps and Engine Components business segment		
direct employees	494	525
indirect employees	627	651
Brake Discs business segment		
direct employees	322	293
indirect employees	174	171
Corporate		
indirect employees	50	45
	1,667	**1,685**

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

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

	Acquisition and production costs						
K EUR	As at 1.1.2022	Additions	Reclassi-fications	Disposals	Exchange rate differences	Reclassifi-cation to "held-for-sale"	As at 31.12.2022
Intangible assets							
Goodwill	7,055	0	0	0	0	0	7,055
Customer base	0	0	0	0	0	0	0
Internally generated assets	27,314	5,373	0	–904	0	0	31,783
Other intangible assets	14,308	903	19	–8	16	0	15,238
	48,677	**6,276**	**19**	**–912**	**16**	**0**	**54,076**
Property, plant and equipment							
Land, land rights and buildings	77,843	4,640	1,221	0	–154	0	83,550
Technical equipment and machinery	227,213	15,843	7,079	–520	–245	0	249,370
Other equipment, operating and office equipment	50,048	5,385	626	–1,185	2	0	54,876
Advance payments and assets under construction	12,348	13,834	–8,945	–3,574	–36	0	13,627
	367,452	**39,702**	**–19**	**–5,279**	**–433**	**0**	**401,423**
Total	**416,129**	**45,978**	**0**	**–6,191**	**–417**	**0**	**455,499**

	Acquisition and production costs						
K EUR	As at 1.1.2021	Additions	Reclassi-fications	Disposals	Exchange rate differences	Reclassifi-cation 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	73,428	1,332	2,285	–57	855	0	77,843
Technical equipment and machinery	209,824	16,017	8,821	–9,423	1,974	0	227,213
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**

Depreciation and amortisation								Net carrying amounts	
As at 1.1.2022	Additions	Reclassi-fications	Disposals	Impairment	Exchange rate differences	Reclassifi-cation to "held-for-sale"	As at 31.12.2022	31.12.2022	1.1.2022
0	0	0	0	0	0	0	0	7,055	7,055
0	0	0	0	0	0	0	0	0	0
12,642	2,245	0	0	0	0	0	14,887	16,896	14,672
10,849	1,145	0	–1	0	4	0	11,997	3,241	3,459
23,491	**3,390**	**0**	**–1**	**0**	**4**	**0**	**26,884**	**27,192**	**25,186**
25,929	4,413	0	0	0	–99	0	30,243	53,307	51,914
149,784	19,931	0	–186	0	–240	0	169,289	80,081	77,429
31,107	5,509	0	–1,155	0	–5	0	35,456	19,420	18,941
0	0	0	0	0	0	0	0	13,627	12,348
206,820	**29,853**	**0**	**–1,341**	**0**	**–344**	**0**	**234,988**	**166,435**	**160,632**
230,311	**33,243**	**0**	**–1,342**	**0**	**–340**	**0**	**261,872**	**193,627**	**185,818**

Depreciation and amortisation								Net carrying amounts	
As at 1.1.2021	Additions	Reclassi-fications	Disposals	Impairment	Exchange rate differences	Reclassifi-cation 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**
21,927	3,820	9	–57	0	230	0	25,929	51,914	51,501
139,530	19,008	–9	–9,408	0	663	0	149,784	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**

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 €5,373 thousand (previous year €3,734 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 €18,506 thousand (previous year €28,216 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 two) cash-generating units (CGUs) for impairment testing:

- Pumps and Engine Components CGU
- Brake discs CGU

The recoverable amount of the two (previous year two) 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 2023 to 2027 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 1.0 per cent).

For the EBIT forecasts a 12.8 per cent discount rate was used (previous year 10.4 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	**31.12.2022**	31.12.2021
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 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 3.1 and 9.1 per cent.

Discount rates

The discount rate was derived from a base interest rate after tax of 2.16 per cent and an after-tax market risk premium of 7.34 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. If the value in use is higher than its carrying amount, the CGU is not measured at 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.

With regard to internally-generated intangible assets that are not yet eligible for amortisation, an impairment test is conducted each reporting date in accordance with the relevant requirements of IFRS, regardless of whether there is any indication of impairment or not.

Borrowing costs

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

21. Other non-current financial assets and other assets

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

K EUR	31.12.2022	31.12.2021
Cash surrender value of pension insurance policies	207	223
Interest swaps used for hedging purposes	566	0
Total	**773**	**223**

Of the other non-current assets, a total of €4,783 thousand (previous year €5,957 thousand) are prepaid expenses, of which €4,633 thousand (previous year €5,883 thousand) are incremental costs of obtaining contracts.

22. Inventories

K EUR	31.12.2022	31.12.2021
Raw materials and supplies	31,505	28,802
Unfinished products	28,992	23,116
Finished products	18,089	18,411
Total	**78,586**	**70,329**

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 2022 amounted to €3,963 thousand (previous year €4,220 thousand). The change compared to the previous year is posted through profit or loss under the cost of sales and the applicable other functional costs.

The acquisition and production costs of inventories, which are recognised as an expense under the cost of sales and other functional costs, amounted to €302,467 thousand (previous year €262,669 thousand).

The net realisable value totalled €78,586 thousand (previous year €70,329 thousand).

23. Trade receivables

K EUR	31.12.2022	31.12.2021
Receivables from customers	49,555	38,253
Impairment losses	−1	−7
Allowance for doubtful debt	−3,321	−1,477
Total	**46,233**	**36,769**

As in previous years, SHW has concluded factoring agreements (non-recourse factoring) to improve its liquidity. As at 31 December 2022 the net balance of sold receivables came to €11,878 thousand (previous year €12,182 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 (33).

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

K EUR	2022	2021
Allowance for impairment losses as at 1 January	**1,484**	**1,097**
Additions (expenses from impairment losses)	0	0
Utilisation	−6	−31
Reversals (other operating income)	0	0
Change in the allowance for doubtful debts	1,844	418
Allowance for impairment losses as at 31 December	**3,322**	**1,484**

24. Current other financial assets and other assets

Current other financial assets mainly consist of insurance claims related to non-recurring effects of €5,402 thousand (previous year €0 thousand) and security deposits of €326 thousand (previous year €285 thousand).

Current other assets mostly consist of input tax receivables of €7,684 thousand (previous year €4,917 thousand), outstanding refunds of electricity and energy tax of €1,712 thousand (previous year €606 thousand), the current portion of the incremental costs of obtaining contracts of €1,170 thousand (previous year €1,083 thousand), advance payments and prepaid expenses of €1,127 thousand (previous year €787 thousand)

and advance payments for inventories of €341 thousand (previous year €476 thousand).

25. Cash and cash equivalents

K EUR	31.12.2022	31.12.2021
Cash in banks, cheques, cash in hand	12,883	8,838
Total	**12,883**	**8,838**

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.

26. 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 2022, other reserves decreased by €6,464 thousand mainly due to a change in the actuarial assumptions used to measure pension obligations. 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 2020). 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 2021	–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**
Other comprehensive income	6,464	483	–107	6,840
As at 31.December 2022	**810**	**405**	**–1,839**	**–624**

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 2020).

Proposal for the appropriation of profits

The Management Board proposes carrying forward the accumulated loss of €2,552,645.68 to new account.

After a careful assessment of the distributable reserves, the capital base of the Group and fluctuations in income caused by the war in Ukraine, the worrying developments on the energy and commodity markets, the sustained difficulties with supply chains and sudden spikes in prices leading to high inflation and higher interest rates, the Supervisory Board has decided to continue the policy of not paying out a dividend on qualifying common shares and non-redeemable preference shares for year 2021. The Supervisory Board is of the opinion that this decision is justified in light of the forecast development of the global economy in 2023 since the beginning of the war in Ukraine.

27. Employee benefit obligations

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

K EUR	31.12.2022	31.12.2021
Pension provisions and similar obligations	18,368	27,439
Provisions for semi-retirement obligations	2,402	2,716
Provisions for service anniversary bonuses	2,099	2,524
Total	**22,869**	**32,679**

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 (21)).

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 €18,368 thousand (previous year €27,439 thousand), including death benefits of €138 thousand (previous year €163 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 €8.1 million were paid to the statutory pension scheme in Germany (previous year €7.7 million). In addition, contributions of approximately €0.2 million (previous year €0.2 million) were paid into special-purpose funds.

The following assumptions have been made:

per cent	31.12.2022	31.12.2021
Interest rate	4.3	1.4
Pension trend	2.0	1.6

A pension trend of 4.25 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 gains) resulting from a change in actuarial assumptions and demographic factors or from experience-based adjustments amounted to €8,901 thousand in the fiscal year (previous year €1,135 thousand).

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

K EUR	31.12.2022	31.12.2021
Defined benefit obligation (funded)	305	314
Defined benefit obligation (unfunded)	18,124	27,288
Total defined benefit obligation (DBO)	**18,429**	**27,602**
Fair value of plan assets	-61	-163
Pension provisions	**18,368**	**27,439**

The pension provision developed as follows:

K EUR	
Provision as at 1 January 2021	**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
Other	0
Compensation	0
Reversal	0
Provision as at 31 December 2021	**27,439**
Current service cost	668
Interest cost	376
Gain from plan assets, excluding amounts already recognized in interest income	104
Pension payments	-1,214
Actuarial gains and losses from the change in actuarial assumptions	-8,629
Actuarial gains and losses from the change in demographic factors	0
Actuarial gains and losses from experience adjustments	-376
Compensation	0
Reversal	0
Provision as at 31 December 2022	**18,368**

The defined benefit obligation (DBO) developed as follows:

K EUR	2022	2021
Defined benefit obligation (DBO) 1 January	**27,602**	**28,943**
Current service cost	668	755
Interest cost	378	311
Pension payments	-1,214	-1,278
Actuarial gains and losses from the change in actuarial assumptions	-8,629	-1,481
Actuarial gains and losses from the change in demographic factors	0	0
Actuarial gains and losses from experience adjustments	-376	352
Compensation	0	0
Reversal	0	0
Defined benefit obligation (DBO) 31 December	**18,429**	**27,602**

Plan assets developed as follows:

K EUR	2022	2021
Fair value of plan assets as at 1 January	**163**	**155**
Interest income	2	2
Gain from plan assets, excluding amounts already recognized in interest income	-104	6
Plan assets as at 31 December	**61**	**163**

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 2023.

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

K EUR	2022	2021
Current service cost	668	755
Net interest cost	376	309
Net pension cost	**1,044**	**1,064**

Liabilities from defined benefit plans are as follows:

K EUR	31.12.2022	31.12.2021
Active employees	5,977	10,939
Former employees with vested rights	1,363	2,139
Pensioners / other	11,028	14,361
Pension provisions	**18,368**	**27,439**

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 €1,167 thousand in fiscal year 2023. Pension payments of this amount are also expected for the years to come. The pension plan costs in 2023 are expected to amount to €1,033 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 2022 interest rate of 4.43 per cent, inflation rate of 2.0 per cent) would have the following impact on the present value of the Defined Benefit Obligation (DBO):

K EUR		DBO
Change in interest rate 3.8% (-0.5%)	19,661	18,429
Change in interest rate 4.8% (+0.5%)	17,338	18,429
Change in inflation rate 1.5% (-0.5%)	17,652	18,429
Change in inflation rate 2.5% (+0.5%)	19,269	18,429
Change in life expectancy +1 year	19,198	18,429

The weighted duration of pension provisions as at 31 December 2022 comes to 12.8 years (previous year 17.0 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 2021	**5,257**
Additions	1,165
Utilised	–1,182
Provision as at 31 December 2021	**5,240**
Additions	430
Utilised	–1,169
Provision as at 31 December 2022	**4,501**

28. Other provisions

K EUR	As at 31.12.2021	Utilised	Reversals	Reclass-ification	Additions	**As at 31.12.2022**
Warranties	1,090	-210	-30	0	743	1,593
Other business-related obligations	1,458	-536	-279	0	812	1,455
Other provisions	88	-70	-15	0	84	88
Total	**2,636**	**-817**	**-324**	**0**	**1,639**	**3,135**
of which non-current provisions	29	0	0	0	0	29

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

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 €1,080 thousand (previous year €906 thousand).

29. Liabilities

K EUR	**31.12.2022**	31.12.2021
Non-current liabilities to banks	91,471	69,763
Other non-current financial liabilities	12,171	11,063
Other non-current liabilities	0	58
Non-current liabilities	**103,642**	**80,884**
Current liabilities to banks	9,358	8,208
Trade payables	57,702	49,232
Contract liabilities	247	402
Other current financial liabilities	18,645	13,567
Income tax liabilities	462	0
Other liabilities	12,240	9,984
Current liabilities	**98,654**	**81,393**
Total	**202,296**	**162,277**

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. In June 2022, Supplement No. 3 was agreed with the creditors to raise the credit volume by €20.0 million to €100.0 million. 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 2022. 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 €73,597 thousand had been drawn from the syndicated loan (previous year €46,842 thousand) and €2,050 thousand (previous year €2,253 thousand) for bank guarantees. In addition, the SHW Group took out three long-term loans in fiscal year 2022 of a total amount of €4,600 thousand. The interest paid on the loan lies in the range of the interest paid under the syndicated loan agreement. The current portion of long-term loans was repaid on schedule by an amount of €8,496 thousand. Reference is made to Note (30).

Trade payables

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 €11,599 thousand (previous year €10,419 thousand) are non-current and €2,839 thousand (previous year €2,916 thousand) are current. Reference is made to Note (34) for more information.

In addition, current other financial liabilities mainly consist of liabilities for factoring of €8,122 thousand (previous year €6,438 thousand) and expenses for goods and services received in fiscal year 2022 already but for which the invoice was not recorded until fiscal year 2023.

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 (€2,736 thousand, previous year €2,461 thousand), vacation accrued (€1,231 thousand, previous year €982 thousand) bonuses/management incentives (€448 thousand, previous year €692 thousand) and severance payments (€732 thousand, previous year €393 thousand). In addition, a provision of €1,401 thousand (previous year €0 thousand) was established for an inflation adjustment bonus.

Furthermore, liabilities from wage and church tax (€1,102 thousand, previous year €1,054 thousand) and employers' liability insurance (€232 thousand, previous year €52 thousand) are reported under current other liabilities.

Likewise, VAT liabilities of €2,765 thousand (previous year €2,300 thousand) are also reported under other liabilities as well as insurance indemnification of €49 thousand (previous year €394 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.

30. Contingent liabilities and other financial obligations

There were no contingent liabilities in fiscal years 2022 or 2021.

As at 31 December 2022 the contractual purchase obligations for intangible assets and property, plant and equipment amount to €18,506 thousand (previous year €28,216 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 €3,219 thousand (previous year €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 €3,104 thousand (previous year €3,950 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 €4,367 thousand (previous year €2,057 thousand). The increase in comparison to the previous year can be attributed to the lease of a building for the newly formed company in Haimen, China.

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 €60,000 thousand (previous year €40,000 thousand). The loans totalling €60,000 thousand are all short-term loans that mature within twelve months. Under the terms of the syndicated loan agreement it is possible to unilaterally exercise an option to revolve the credit beyond this term. In light of the fact that we intend to exercise this option, these liabilities to banks have been presented under non-current liabilities. In addition, overdraft facilities that are used for cash management purposes were drawn on by an amount of €13,596 thousand (previous year €6,842 thousand). According to the syndicated loan agreement, the overdrafts only need to be repaid at the end of the term of the agreement. Therefore these are also classified as non-current. To allow comparison with the previous year, the comparative figures were restated accordingly (reclassification from current liabilities to banks to non-current liabilities to banks of €46,842 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 2022	**69,763**	**8,208**	**13,335**	**0**	**91,306**
Changes in due term (non-current to current)	–1,150	1,150	0	0	0
Cash received (+) from the assumption of financial liabilities	31,354	0	0	2,000	33,354
Cash paid (-) for the redemption of financial liabilities	–8,496	0	0	0	–8,496
New leases	0	0	3,532	0	3,532
Interest expense from leases	0	0	306	0	306
Cash paid (-) for leases	0	0	–2,735	0	–2,735
Fair value adjustments	0	0	0	0	0
As at 31.December 2022	**91,471**	**9,358**	**14,438**	**2,000**	**117,267**

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**
Change due to disposals of held-for-sale liabilities	0	0	0	0	0
Changes in due term (current to non-current)	16,637	−16,637	0	0	0
Cash received (+) from the assumption of financial liabilities	33,398	0	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	**69,763**	**8,208**	**13,335**	**0**	**91,306**

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

31. 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 (33) and (23).

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.

32. 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 31.12.2022**	**Fair value as at 31.12.2022**	Valuation Amortised cost	Fair value through OCI	Fair value through profit or loss
ASSETS						
Other non-current financial assets	AC	207	207	207	–	–
Zu Sicherungszwecke eingesetzte Zinsswaps	FVOCI	566	566	–	566	–
Trade receivables	AC	46,233	*)	46,233	–	–
Other financial assets	AC	5,735	*)	5,735	–	–
Cash and cash equivalents	AC	12,883	*)	12,883	–	–

*) 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 2022.

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	Fair value through OCI	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

AC: Amortized cost

K EUR	Measurement category acc. to IFRS 9	**Carrying amount as at 31.12.2022**	**Fair value as at 31.12.2022**	Valuation: Amortised cost	Valuation: Fair value through OCI	Valuation: Fair value through profit or loss
EQUITY AND LIABILITIES						
Liabilities to banks	AC	100,829	100,829	100,829	–	–
Trade payables	AC	57,702	57,702	57,702	–	–
Other non-current financial liabilities						
Interest swaps used for hedging purposes	FVOCI	0	0	–	0	–
Other non-interest-bearing liabilities	AC	572	572	572	–	–
Liabilities from leases	AC	11,599	11,599	11,599	–	–
Other current financial liabilities						
Other interest-bearing liabilities	AC	2,002	2,002	2,002	–	–
Other non-interest-bearing liabilities	AC	13,804	13,804	13,804	–	–
Liabilities from leases	AC	2,839	2,839	2,839	–	–

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	–	–

The following overview of maturities illustrates how the cash flows from liabilities (not discounted) affect the Group's liquidity situation as at 31 December 2022:

K EUR	**Total**	2023	2024	2025	2026	2027 et seq.
Non-current liabilities						
Liabilities to banks	91,471	0	81,523	4,465	2,886	2,597
Other financial liabilities	12,171	0	3,310	2,433	2,226	4,202
Current liabilities						
Trade payables	57,702	57,702	0	0	0	0
Liabilities to banks	9,358	9,358	0	0	0	0
Other financial liabilities	18,645	18,645	0	0	0	0
Total	**189,347**	**85,705**	**84,833**	**6,898**	**5,112**	**6,799**

The situation as at 31 December 2021 was as follows:

K EUR	Total	2022	2023	2024	2025	2026 et seq.
Non-current liabilities						
Liabilities to banks	69,763	0	8,208	53,619	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	8,208	8,208	0	0	0	0
Other financial liabilities	13,567	13,567	0	0	0	0
Total	**151,833**	**71,007**	**11,016**	**55,910**	**5,174**	**8,726**

33. 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	**31.12.2022**	31.12.2021
Liabilities to banks	100,829	77,971
Trade payables	57,702	49,232
Cash and cash equivalents	–12,883	–8,838
Net financial liabilities	**145,648**	**118,365**

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:

					of which not impaired and overdue in the following time bands					
K EUR	**Carrying amount**	of which neither impaired nor overdue	of which impaired and not overdue	of which impaired and overdue	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 31.12.2022	**49,555**	**41,012**	**0**	**3,321**	**3,238**	**750**	**3**	**60**	**23**	**1,148**
As at 31.12.2021	38,253	29,606	0	1,484	3,901	1,005	762	288	710	497

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 credit-worthiness 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.

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 €47,699 thousand (previous year €33,416 thousand). The composition and development of other financial assets are presented in Notes (21) and (24).

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 weekly financial plans for cash inflows and cash outflows of the forthcoming weeks and 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. A further aim of the Group is to keep its level of working capital as low as possible. A syndicated line of €100.0 million is available to the Group for borrowings. As at the reporting date, this facility has been drawn down by €75.7 million (of which €2.1 million through guarantees). For further information on the maturities of liabilities, please refer to our comments under Note (29) "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. An interest swap was entered into to hedge floating-rate instruments.

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

	nominal value	
K EUR	**2022**	2021
Fixed-interest instruments		
Financial liabilities	-33,177	-33,650
Effects from interest swaps	0	0
	-33,177	**-33,650**
Variabla-interest instruments		
Financial liabilities	-82,090	-57,656
Effects from interest swaps	566	-108
	-81,524	**-57,764**

Foreign exchange risks exist with regards to the foreign subsidiaries and were not material for the Group in the reporting year on a net basis.

Collateral issued

Collateral of €27,233 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 (29).

VII. Leases

34. 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 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 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 2022 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 2022

K EUR	Minimum lease payments	Interest included in lease payments	**Liabilities from leases**
Within one year	3,131	292	2,839
Between one and five years	9,753	606	9,147
More than five years	2,512	60	2,452
Total	**15,396**	**958**	**14,438**

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**

Information on leases where the SHW Group acts as lessee:

RIGHT OF USE ASSETS

K EUR	As 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**

RIGHT OF USE ASSETS

K EUR	As at 1.1.2022	Amortisation of right-of-use assets	Additions to right-of-use assets	Disposals of right-of-use assets	**As at 31.12.2022**
Land, land rights and buildings	9,847	–1,897	3,229	0	11,179
Technical equipment and machinery	1,973	–179	0	–756	1,038
Other equipment, operating and office equipment	1,293	–83	1,028	–574	1,664
Total	**13,113**	**–2,159**	**4,257**	**–1,330**	**13,881**

The total cash outflow from leases amounts to €2,735 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	**2022**
Amortisation of right-of-use assets	–2,159
Interest expense on lease liabilities	–306
Expenses from short-term leases	–1,734
Expenses from leases for low-value assets	0
Expenses from variable lease payments not included in the measurement of lease liabilities	–169

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

VIII. Related party disclosures and company boards

35. 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. 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.

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

BUSINESS RELATIONSHIPS WITH RELATED PARTIES

	Deliveries and services rendered and other income		Puchased goods and services and other expenses		Accounts receivable		Accounts payable	
						As at 31.12.		**As at 31.12.**
K EUR	**2022**	2021	2022	2021	2022	2021	2022	2021
Companies of the Pierer Group	3,807	2,660	4,375	2,563	1,054	1,485	2,619	867
Thereof parent company	84	0	1,183	876	0	0	2	690

36. Boards of SHW AG

Management Board

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
- Director of SHW Pumps & Engine Components Inc., Toronto, Canada
- General Manager of SHW Pumps & Engine Components Inc., Timisoara, Romania
- Executive Director of SHW Automotive Pumps (Kunshan) Co. LTD., Kunshan, China
- Director and Chairman of SHW Brake Systems (Haimen) Co. LTD., Nantong, China
- Chief Executive Officer of Pankl AG, Kapfenberg, Austria
- Chief Executive Officer of Pankl Racing Systems AG, Kapfenberg, Austria
- Member of the Management Board of Pierer Industrie AG, Wels, Austria
- Managing Director of Ocean Consulting GmbH, Vienna, Austria

Other significant mandates:

- Chairman of the Supervisory Board of Pankl Immobilienverwaltungs GmbH, 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
- Director of SHW Pumps & Engine Components Inc., Toronto, Canada
- Supervisor of SHW Automotive Pumps (Kunshan) Co. LTD., Kunshan, China
- Director of SHW Brake Systems (Haimen) Co. LTD., Nantong, China
- Managing Director of L1-Beteiligungs GmbH, Aalen, Germany
- Chief Financial Officer of Pankl AG, Kapfenberg, Austria
- Chief Financial Officer of Pankl Racing Systems AG, Kapfenberg, Austria

Other significant mandates:

Deputy Chairman of the Supervisory Board of Pankl Immobilienverwaltungs GmbH, Kapfenberg, Austria

Supervisory Board

Klaus Rinnerberger, Gießhübl, Austria, Chairman

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

Other significant mandates:

- Chairman of the Supervisory Board of SHW Automotive GmbH
- Chairman of the Supervisory Board of Leoni AG, Nuremberg, Germany
- Deputy Chairman of the Supervisory Board of Pankl AG, Kapfenberg, Austria
- Member of the Supervisory Board of Pierer Mobility AG, Wels, Austria
- Member of the Supervisory Board of Pankl Racing Systems AG, Kapfenberg, Austria
- Chairman of the Advisory Board of Gartner KG, Lambach, Austria

Alfred Hörtenhuber, Wels, Austria, Deputy Chairman

- Chairman of the Supervisory Board of SHW Automotive GmbH
- Member of the Supervisory Board of Pankl Racing Systems AG, Kapfenberg, 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
- Chief Executive Officer of KTM AG, Mattighofen, Austria
- Chief Executive Officer of „Privatstiftung Christina“, Wels, Austria
- Member of the Management Board of Pierer Bajaj AG, Wels, Austria
- Member of the Management Board of KTM Motorsports Inc., Murrieta, California, USA
- Member of the Management Board of KTM North America Inc., Amherst, Ohio, USA
- Managing Director of Pierer Konzerngesellschaft mbH, Wels, Austria
- Managing Director of Pierer Beteiligungs GmbH, Wels, Austria
- Managing Director of PIERER IMMOREAL GmbH, Wels, Austria
- Managing Director of P Immobilienverwaltung GmbH, Wels, Austria

Other significant mandates:

- Member of the Supervisory Board of SHW Automotive GmbH
- 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 Oberbank AG, Linz, Austria
- Member of the Board of Directors of Pierer Swiss AG, Zürich, Switzerland

Josef Blazicek, Perchtoldsdorf, Austria

- Chairman of the Supervisory Board of All for One Group SE, Filderstadt
- Chairman of the Supervisory Board of Pierer Mobility AG, Wels, Austria

- Deputy Chairman of the Supervisory Board of Pierer Industrie AG, Wels, Austria
- Deputy Chairman of the Supervisory Board of Pankl Racing Systems AG, Kapfenberg, Austria
- Member of the Supervisory Board of Pankl AG, Kapfenberg, Austria
- Member of the Supervisory Board of Pierer Bajaj AG, Wels, Austria
- Managing Director of Ocean Consulting GmbH, Vienna, Austria

Friedrich Roithner, Linz, Austria

- Chief Financial Officer of Pierer Industrie AG, Wels, Austria
- Chief Financial Officer of Pierer Mobility AG, Wels, Austria
- Member of the Management Board of Pierer Bajaj AG, Wels, Austria
- Managing Director of Pierer Beteiligungs GmbH, Wels, Austria
- Managing Director of PIERER IMMOREAL GmbH, Wels, Austria
- Managing Director of PIERER IMMOREAL Deutschland GmbH, Ursensollen, Germany
- Managing Director of L1-Beteiligungs GmbH, Aalen, Germany

Other significant mandates:

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

Michaela Friepeß, Wels, Austria

- 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, Wels, Austria
- Member of the Supervisory Board of PIERER Mobility AG, Wels, Austria

Isni Aliji, Tuttlingen

- 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

- 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

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

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

K EUR	**2022**	2021
Benefits due in the short term (remuneration)	698	296
Benefits due in the long term (remuneration)	0	0
Post-employment benefits	0	0
Other benefits due and benefits upon termination of the employment relationship	0	0

The increase in short-term benefits is primarily a result of the reversal of provisions for management bonuses for 2021 in the previous year. A total of €149 thousand has been recognised as provisions for pension obligations to former members of the Management Board (previous year €229 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)

No particularly significant events occurred after the reporting date which require disclosure here.

X. Schedule of shareholdings

as at 31 December 2022 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	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/Timișoara, Romania	100
SHW Brake Systems (Nantong Haimen) Co. Ltd., China	100
SHW Bremsen Beteiligungs GmbH, Tuttlingen	100
SHW Gießerei GmbH & Co. KG, Tuttlingen	100

Aalen, 22 March 2023

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 2022, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year from 1 January to 31 December 2022 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 fiscal year from 1 January to 31 December 2022.

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 2022, and of its financial performance for the fiscal year from 1 January to 31 December 2022, 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 reports 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 and the Supervisory Board are responsible for the other information.

Other information comprises the annual report. However, other information does not include the consolidated financial statements, those contents of the group management report that were audited and the associated 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 referred to above and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the audited content of 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 due to fraud (i.e. fraudulent financial reporting and misappropriation of assets) 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 that misstatements resulting from fraud are not uncovered is higher than the risk that misstatements arising from error are not uncovered as fraud involves collusion, conscious misstatements, intentional omissions, misrepresentation to deceive and the override of internal controls.

- 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, 22 March 2023

KPMG AG

Wirtschaftsprüfungsgesellschaft

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

FIVE-YEAR SUMMARY

K EUR	**2022**	2021	2020	2019	2018
Sales	472,504	427,323	392,931	432,421	420,936
EBITDA	36,278	34,681	25,337	41,542	31,342
as % of sales	7.7%	8.1%	6.4%	9.6%	7.4%
EBIT	3,035	3,039	–4,729	14,617	7,314
as % of sales	0.6%	0.7%	–1.2%	3.4%	1.7%
Net profit	–6,746	–621	–5,059	9,891	3,131
Earnings per share [1]	–1.05	–0.10	–0.79	1.54	0.49
Equity	127,465	127,371	124,652	131,692	124,372
Equity ratio	34.8%	38.1%	39.4%	41.0%	43.4%
Operating free cash flow	–18,039	–36,568	9,556	–197	–32,970
as % of sales	–3.8%	–8.6%	2.4%	0.0%	–7.8%
Total free cash flow	–18,039	–33,588	8,934	–597	–16,751
as % of sales	–3.8%	–7.9%	2.3%	–0.1%	–4.0%
Net liquidity / Net financial liabilities	–87,946	–69,133	–36,101	–42,612	–39,080
Investments [2]	45,978	41,646	32,763	52,551	48,671
as % of sales	9.7%	9.7%	8.3%	12.2%	11.6%
Net working capital	66,870	57,464	36,497	48,702	53,789
as % of sales	14.2%	13.4%	9.3%	11.3%	12.8%
ROCE	1.2%	1.3%	–2.3%	6.6%	3.6%
Number of employees (average) [3]	1,667	1,685	1,619	1,594	1,572

1) Number of shares: 6,436,209 shares

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

3) Excluding trainees and temporary workers.

Financial calendar 2023

March 30, 2023	Annual Report 2022
May 17, 2023	Annual General Meeting 2023

Imprint

Published by
SHW AG
Stiewingstraße 111
D-73433 Aalen

Phone: +49 7361 502 1
Fax: +49 7361 502421
Email: info@shw.de
Website: www.shw.de

Investor Relations
Ramona Zettl
Phone: +49 7361 502 420
Fax: +49 7361 502 852
Email: ramona.zettl@shw.de

Concept, Design, Text
Grafik-Buero Elena Gratzer, 4600 Wels
www.grafik-buero.at

Pichler PR, 4600 Wels
www.pichler-pr.at

Photography
SHW archive
Lucas Kundigraber
Adobe Stock

Production System
firesys GmbH
www.firesys.de

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

Annual Report 2022