Annual Report 2016

SHAPING FUTURE MOBILITY

SHW

Key figures 2016

K EUR	2016	2015	Change %
Sales	405,770	463,478	-12.5%
EBITDA	43,553	42,675	2.1%
as % of sales	10.7	9.2	–
EBIT	18,938	20,132	-5.9%
as % of sales	4.7	4.3	–
Net profit	12,805	14,351	-10.8%
Earnings per share [1]	1.99	2.26	-11.9%
EBITDA adjusted	43,553	43,458	0.2%
as % of sales	10.7	9.4	–
EBIT adjusted	18,938	21,028	-9.9%
as % of sales	4.7	4.5	–
Equity	121,349	116,240	4.4%
Equity ratio	53.2	50.4	–
Operating Free Cash Flow	-4,030	18,097	–
Total Free Cash Flow	-4,030	9,056	–
Net cash / Net debt	1,633	12,328	-86.8%
Investments [2]	24,684	23,923	3.2%
as % of sales	6.1	5.2	–
Working Capital	49,543	32,534	52.3%
as % of sales	12.2	7.0	–
ROCE	13.0	17.2	–
Number of employees (average) [3]	1,287	1,287	0.0%

1) Average number of shares: 2016: 6.436.209 shares / 2015: 6.359.263 shares
2) Additions to property, plant and equipment and intangible assets.
3) Excluding trainees and temporary workers.

Target achievement

EUR million	Target March 2016	Target July 2016	Actual 2016
Sales – Group	440–460	410–430	405,8
Sales – Pumps and Engine Components	340–360	320–340	317,5
Sales – Brake Discs	approx. 100	approx. 90	88,3
Adj. EBITDA – Group	43–47	43–47	43,6
Working Capital Ratio	11 per cent	11 per cent	12.2 per cent

Shaping Future Mobility
With pioneering innovations and top-class vehicle components, the SHW Group is shaping future mobility.

COMPANY

Company profile

The automotive future will be characterised by an increasing global need for mobility as well as a regulatory environment that requires a significant reduction in vehicle emissions. With its comprehensive, CO_2-optimising product portfolio, the SHW Group is well positioned to benefit from this trend.

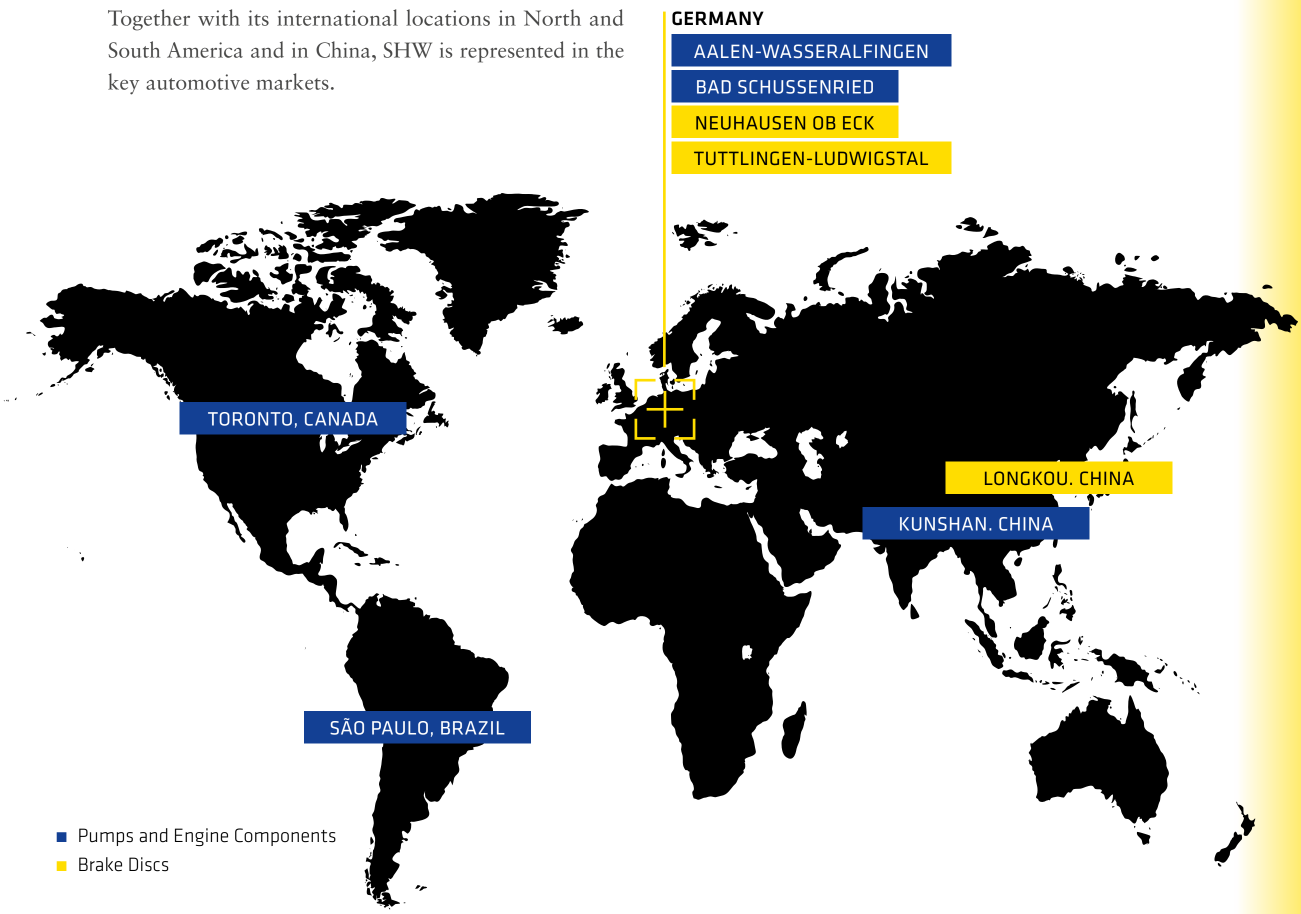
We began early on to develop forward-looking components for engine and transmission applications that boost the efficiency of combustion engines and their auxiliaries while minimising fuel consumption. SHW brake discs also help to reduce the unsprung masses and the vehicle weight.

As a reliable partner, we create long-term added value for our customers and our shareholders. We aim to be one of the world's leading manufacturers of pumps and engine components for all powertain concepts, and to achieve greater market penetration with composite brake discs by extending our range to include additional vehicle classes – while always aiming to support our customers in fulfilling the CO_2 targets of today and tomorrow and ensuring environmentally friendly mobility.

With its Pumps and Engine Components business segment, SHW is represented in the strategically relevant markets of Europe, North and South America, and China or will launch own production sites there. The Brake Discs business segment is also undergoing a strategic development. A first milestone was reached in the internationalisation of the Brake Discs segment with the launch of the brake discs joint venture SHW Longji Brake Discs (LongKou) Co., Ltd. on 1 April 2015.

Locations

Together with its international locations in North and South America and in China, SHW is represented in the key automotive markets.



BUSINESS SEGMENTS

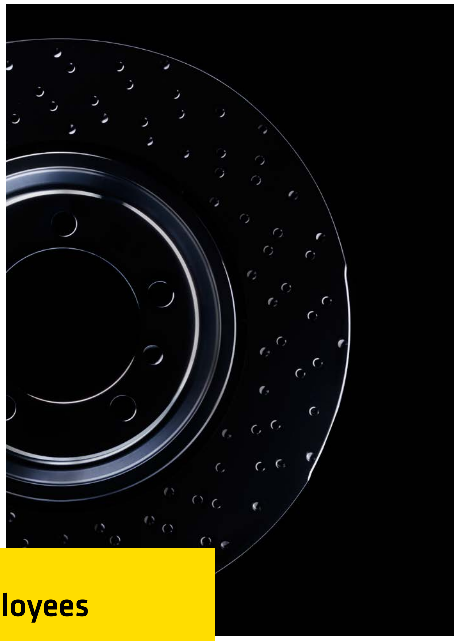
Pumps and Engine Components

In its Pumps and Engine Components business segment, the SHW Group develops and produces engine and transmission components for various areas of application. The Group's passenger car products mainly include variable engine oil pumps, electric start-stop auxiliary transmission oil pumps, primary transmission oil pumps and oil/vacuum pumps with/without a balancer shaft unit. Its product range also includes pumps for industrial applications. Further important engine and transmission components are manufactured using sintered steel and aluminium. SHW's pumps and engine components are fitted exclusively in new vehicles.

Sales	Adjusted EBITDA	Employees
318	**37,5**	**845**
€ million	€ million	as of 31 December 2016
13.0% compared to previous year	+6.4% to compared previous year	-3.4% compared to previous year

Brake Discs

In the Brake Discs business segment, the SHW Group develops and produces monobloc, ventilated, cast iron brake discs as well as lightweight brake discs (so-called composite brake discs) comprising a combination of an iron friction ring and an aluminium pot. The Company initially manufactures brake disc blanks at its own foundry, most of which it then finishes itself. They are almost entirely used for the original equipment business, and the remainder primarily for the original equipment service business.



Sales	Adjusted EBITDA	Employees
88	**7.9**	**384**
€ million	€ million	as of 31 December 2016
–10.2% compared to previous year	–19.4% compared to previous year	-3.3% compared to previous year

CO_2-optimised components and their ongoing development represent the key to an environmentally friendly automotive future. SHW once again helped shape this trend in 2016 with corresponding innovative pump and brake disc concepts.

CONTENTS

PUMPS

Page 12

Powertrains in the spotlight: Head of Development Gerd Jäggle talks about the increasingly diverse range of pumps and engine components at SHW

Contents

SINTERED PARTS

Page 18

Heinrich Wiedemann, Head of Technology at Powder Metallurgy, talks about the key benefits of SHW sintered parts in an interview

FOREWORD BY THE MANAGEMENT BOARD

Andreas Rydzewski
Member of the Management Board

Martin Simon
Chief Financial Officer

Dr Frank Boshoff
Chief Executive Officer

Dear shareholders,

We have achieved a lot in 2016: despite a significant decline in sales of 12 per cent to € 406 million, we were able to slightly improve our adjusted EBITDA figure on the previous year. This was possible thanks to our manifold measures to improve our production and business processes.

All in all Group's net profit amounted to € 12.8 million. The Management Board and the Supervisory Board will propose a dividend of € 1.00 per share to the Annual General Meeting.

Let's take a look at the development of the company's two business segments.

In the Pumps and Engine Components business segment, the decline in sales is attributable, in particular, to the discontinuation of a major order for camshaft phasers for diesel vehicles because of a customer's technology switchover, as well as declining call-offs for specific individual products. Lower costs for external processing and expedited freight as well as increased productivity have made a significant contribution to an improvement in the EBITDA margin from 9.6 per cent to 11.8 per cent.

In the Brake Discs business segment, the positive volume growth for high-value composite brake discs has only partly compensated for the decline in sales figures for monobloc brake discs. Reduced material surcharges that were passed on to the customers were a further factor. The margin decline from 10.0 to 9.0 per cent is mainly attributable to the fixed cost remanence. This effect was partially compensated for through improvements in the product mix, i.e. a higher share of composite brake discs.

These results were made possible by our more than 1,250 employees, with their great commitment. We would like to express our thanks to them here.

It is already clear that 2017 will be a year of transition for SHW and, in particular, of setting the course for the future. This means that we will consistently follow through on internationalising our business as part of our "SHW 2020" strategy.

Within two years, we will ramp up our production in China, North America and Eastern Europe with a substantial investment programme in excess of € 30 million. In 2020, we will realise almost a quarter of our Group sales outside Europe.

In the period up to 2020, we want to increase sales by an average rate of more than 10 per cent per year. In this period, our EBITDA figure should increase by around 15 per cent per year on average. Our return on capital employed (ROCE) and operating free cash flow should improve significantly as well.

Our components for engine and transmission applications for conventional drive concepts and brake discs and their continuous development, will continue to form the basis of our business success over the next few years. The development of an electrically driven cooling and lubricating pump for e-axles for a European company, which can be used in both hybrid and battery-powered electric vehicles, marks SHW's entry into the market of fully electric vehicles. The Brake Discs business segment is also active in the field of e-mobility. Our composite brake disc for fully electric vehicles meets a high demand.

The mobility of the future offers plenty of new opportunities. SHW has the right strategy, suitable products and technologies and, above all, the right team to make use of these opportunities. We would be delighted if you, our shareholders, accompany us on this path.

Aalen, March 2017

Dr Frank Boshoff
Chief Executive Officer

Martin Simon
Chief Financial Officer

Andreas Rydzewski
Member of the Management Board

SCALED DOWN COOLED DOWN STAYED CALM

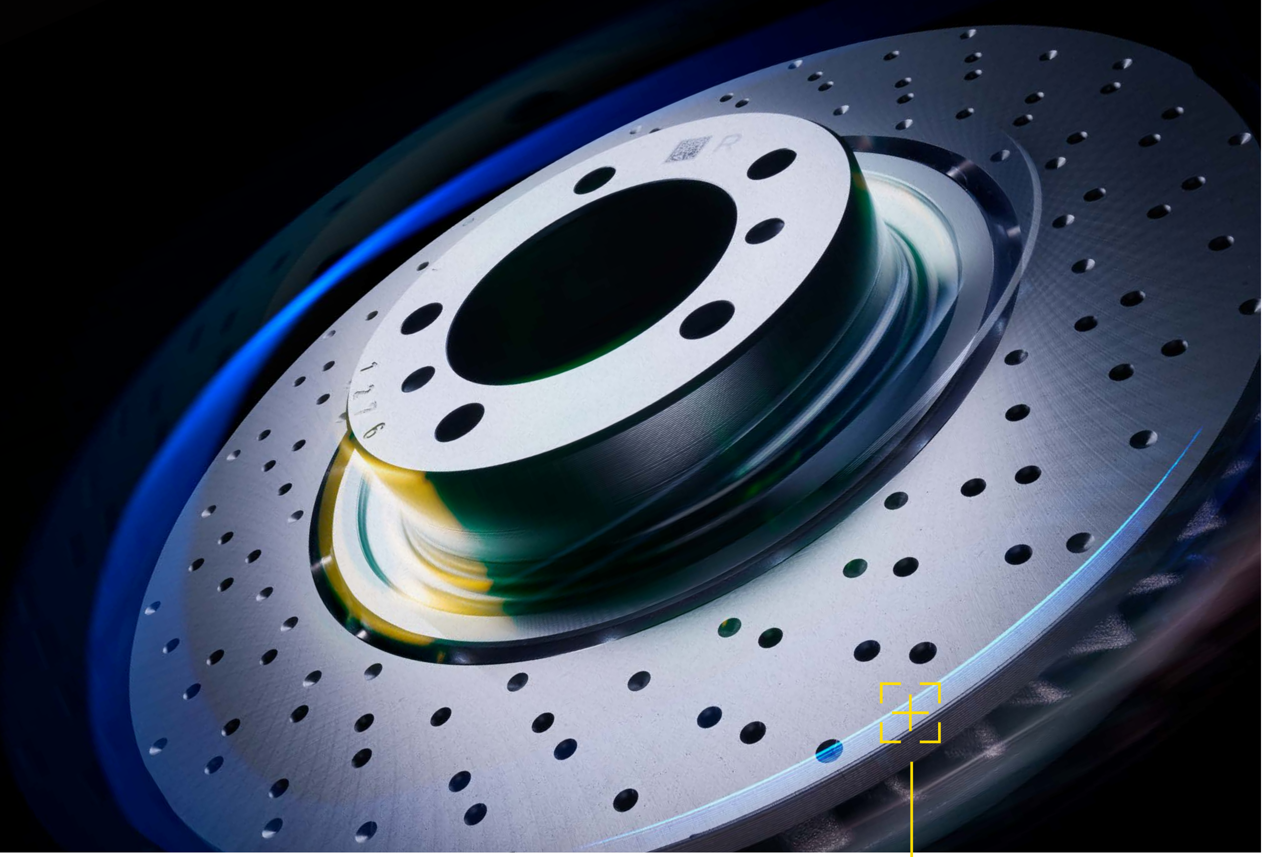
Brake discs are a key product in the SHW portfolio and are optimised on an ongoing basis. The composite brake disc, in particular, offers considerable potential for innovative enhancements in the future as well.

SHW has been making brake discs for passenger cars in series production for more than 60 years. Over this period, this vital vehicle component has undergone many changes in terms of shape and functionality.

In the 1960s, for example, solid brake discs were replaced by ventilated brake discs. Their inner ventilation channels ensured that the heat generated during braking was discharged more quickly. However, the best and most pioneering type of brake disc was developed by SHW engineers in 1994: the composite brake disc. It comprises an iron friction ring and an aluminium pot that are attached by means of stainless steel pins – a construction that enables the friction ring to expand independently of the pot. As a result, composite brake discs are not only exceptionally resilient and safe, but are also lighter than other models. When coupled with their continuous innovation potential, this fact makes them a state-of-the-art solution and the answer of the SHW Brake Discs business segment to the challenges of tomorrow's mobility.

BRAKE DISCS

Brake discs from SHW,
in particular composite brake discs,
help reduce the weight by up to 8 kg,
depending on the vehicle



420 MM

Through the development of a front-axle composite brake disc with a friction ring with an external diameter of 420 mm (16.53"), SHW will accelerate into new dimensions from 2017 onward. One of the target vehicles reaches top speed of 333 km/h (207 miles per hour) and weighs approx. 2.8 t.

State of the Art

SHW's brake discs and especially its composite brake discs have always set standards. They undergo continuous development in line with the latest customer requirements such as durability, weight reduction and braking comfort.

Sooner or later, anyone who picks up speed needs to come to a stop again. This everyday process is also an essential one, in which one particular safety component plays a key role: the brake disc. SHW draws upon decades of experience in manufacturing brake discs at its sites in Tuttlingen and Neuhausen. Through basic research, the Company ensures that its product development process considers current trends and topics such as electromobility, connectivity – i.e. linking up vehicles and connecting them with their environment – as well as autonomous driving and environmental issues. "The innovation cycles for brake discs may be longer than for other vehicle components, on product-related grounds," says Torben Keller, Head of Development for Brake Discs. "But the crucial point is that our work at SHW represents state-of-the-art anytime." The composite brake disc demonstrates this leading edge technology like no other. Thanks to its outstanding technical characteristics, the two-part shape with an aluminium pot is not only durable it also reduces the vehicle's weight by up to eight kilograms. "In this way, our composite brake discs reduce CO_2 emissions and help passenger car manufacturers to comply with the targets stipulated by law."

Nevertheless, Keller and his team are not content to rest on their laurels. Friction rings with a reduced mass will deliver improved cooling performance and further reduction in fuel consumption over the next few years. Moreover, in the future new materials and coatings will ensure that less brake dust is produced during braking. With improvements such as these, the composite brake disc will shape the market in the coming years.

The composite brake disc – a bestseller

SHW is the world's leading manufacturer of brake discs in a composite design. The number of vehicles fitted with this lightweight component has grown continuously in recent years.

"Our composite brake disc is getting continuously lighter and better. As an invention, it remains the greatest milestone."

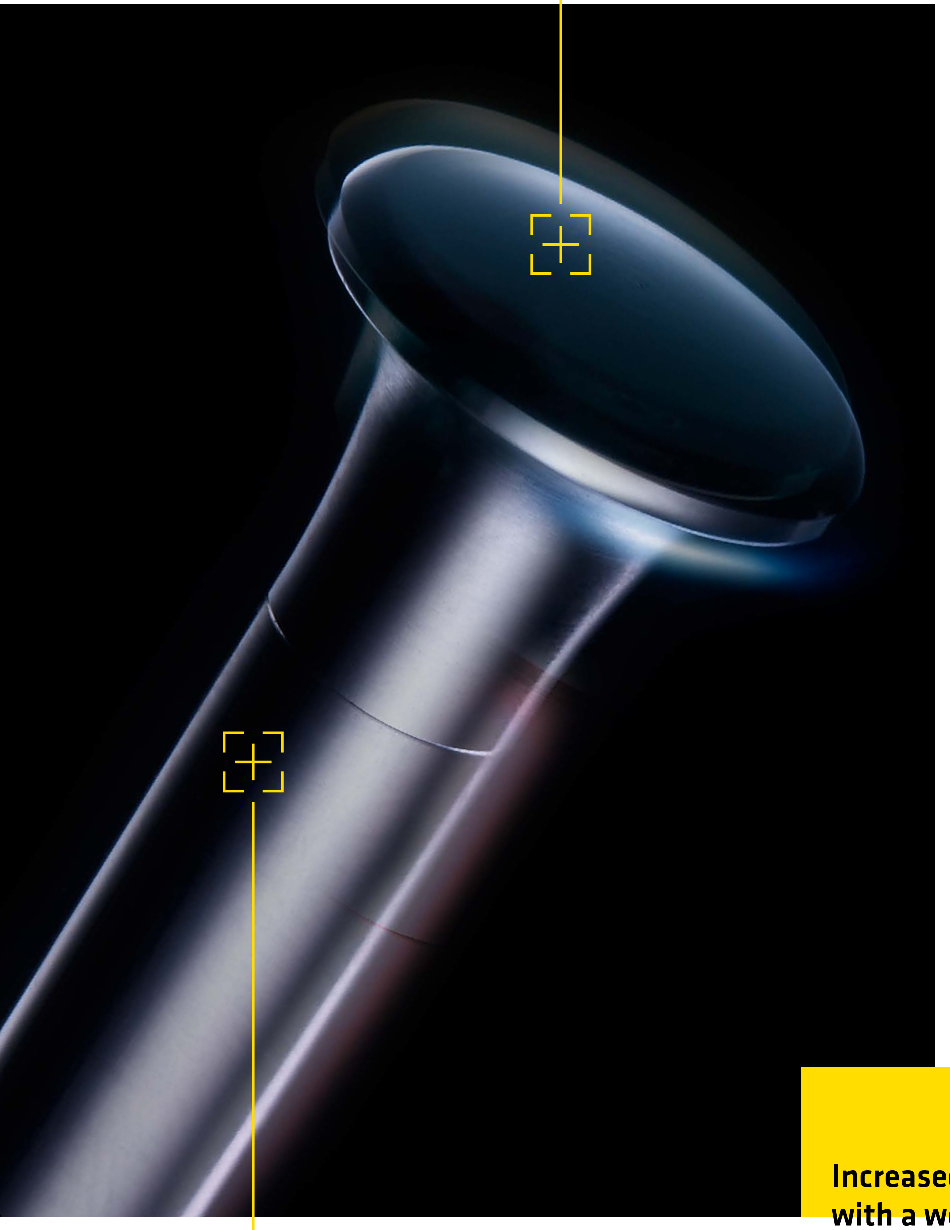
LIGHT-WEIGHT

Optimised shape
By optimising the shape of the stainless steel pin, tension is reduced at the point where the pin shaft meets the head, enabling further lightweight construction potential to be leveraged.

Cohesion is in the details

The requirements for brake discs are constantly evolving. With innovative brake disc concepts, SHW will also shape the age of electromobility.

There is more than one type of braking system – especially in fully electric vehicles, the brake discs are stressed less and thus have a longer life span than conventionally driven vehicles. This is due to the regenerative brake, which relieves the conventional braking system to a certain degree. Torben Keller and his team have developed a solution for this specific requirements profile. They have optimised the shape of the stainless steel pins which connect the aluminium pot with the grey cast iron friction ring and have thus extended its life span. "But this is just the beginning of a series of improvements which are precisely suited to the topic of electromobility," Keller emphasises. "For instance, we are working on reducing braking noises in a quieter overall environment. It is clear that in the medium term brake discs will be smaller and lighter in electrically driven and connected vehicles. In the long term, this will once again offer us the opportunity to position SHW as a technology leader in lightweight design."

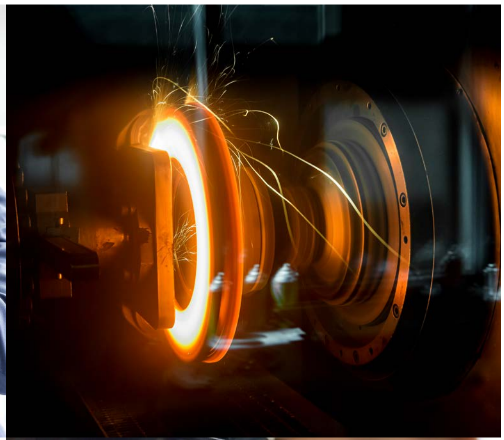


Increased service life coupled with a weight reduction

The stainless steel pin is the main connecting element between the iron friction ring and the aluminium pot and therefore plays a key role in transmitting braking torque. Alongside a compact construction, its optimised shape enables a longer service life and opens up further potential for weight reduction.

DURABLE

Increased service life
The reduction in tension leads to an extension in the service lives of the stainless steel pins, thus lengthening the service life of the brake disc itself.



Big impact

Stainless steel pins
with an enhanced service life get composite brake discs ready for use in electric vehicles, inter alia

INNOVATIVE

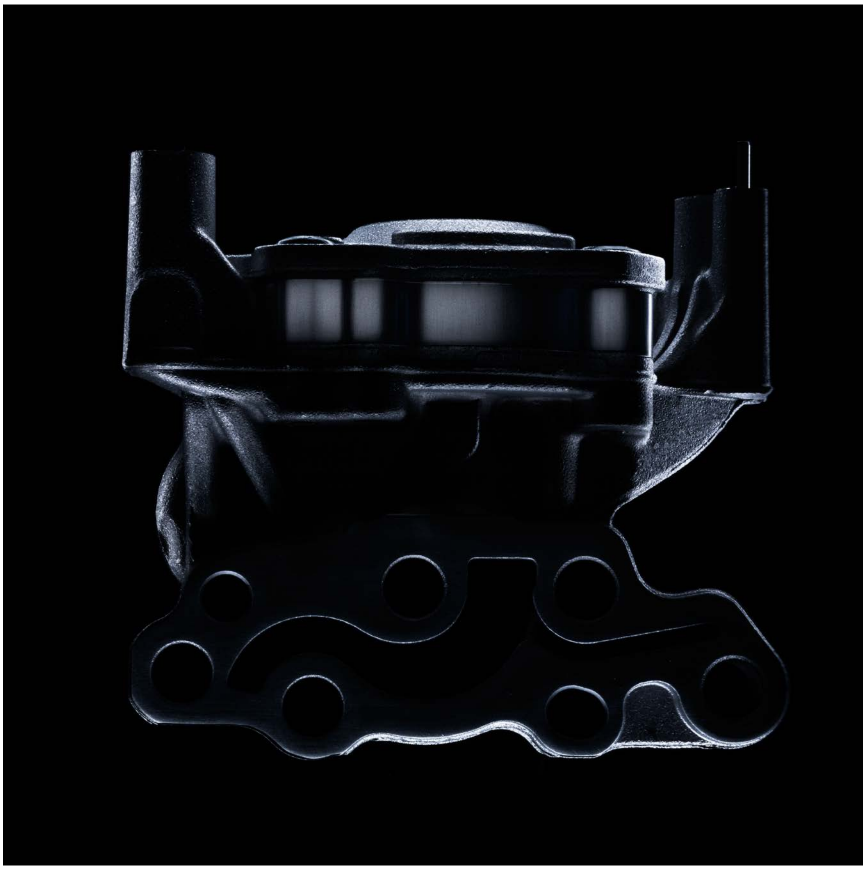
Meeting the demands of tomorrow
With his development team, Torben Keller is working on competitive and sustainable brake disc concepts based on an awareness of ever-changing requirements in this area.

WITH HEART AND SOUL ENERGISED ELECTRIFIED

The powertrain is currently one of the most dynamic areas of vehicle technology. SHW is reflecting this trend with an increasingly vast array of pumps and engine components.

SHW offers a broad range of components for engine and transmission applications.

These components optimise consumption and boost the efficiency of combustion engines and their auxiliaries. These components are developed and manufactured at our site in Bad Schussenried. Here, in close corporation with our automotive customers, innovative product solutions are created for passenger cars in particular, but also for trucks, agricultural and construction machinery, stationary engines and even wind power stations. It is always our goal to be the provider offering the best technical solutions for the various areas of application and powertrain concepts. In 2016 the highlight was the development of a forward-looking component for a European company: a pump for the electrified axle drive.

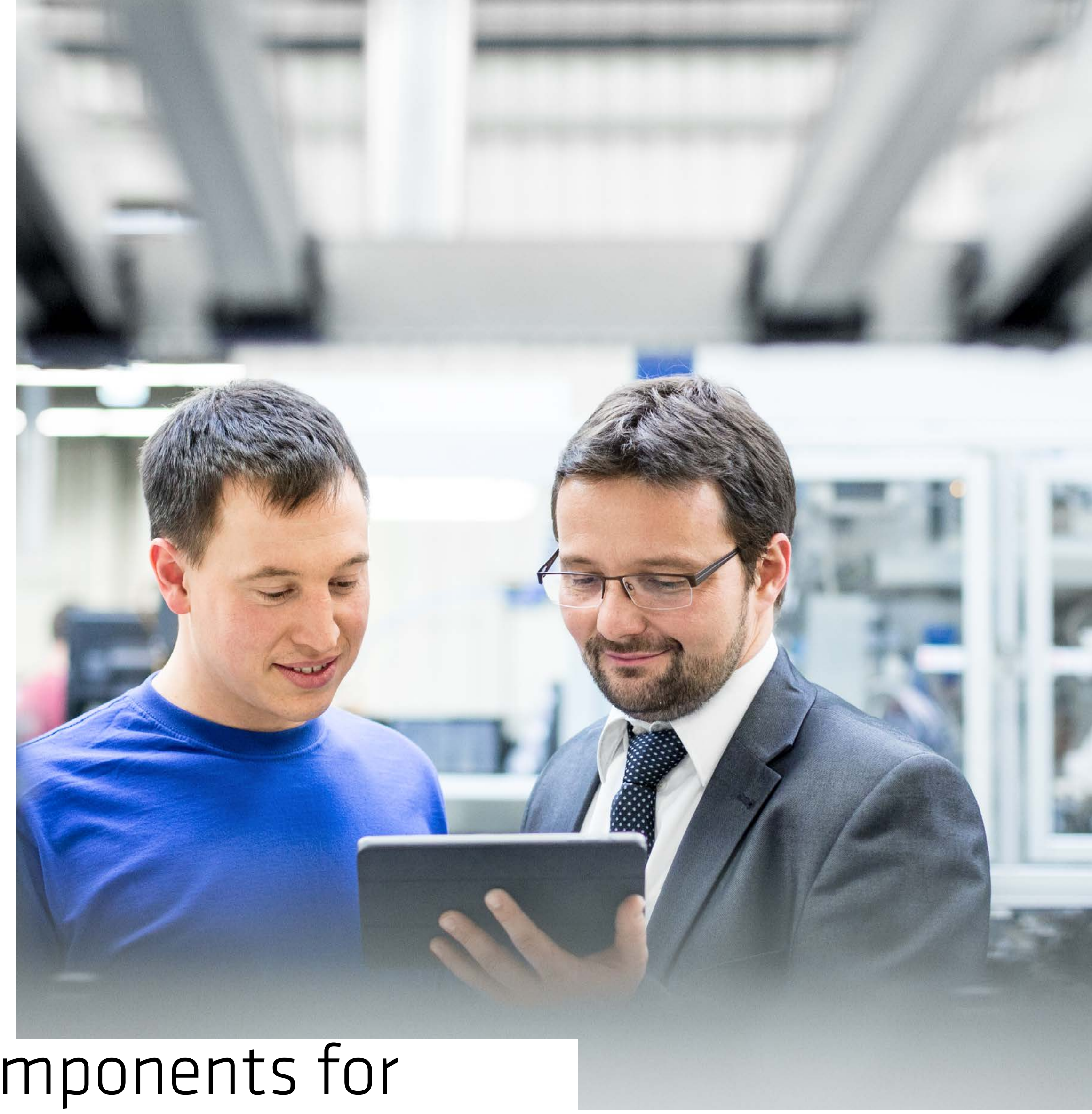


PUMPS

The manufacture of innovative pumps,
such as tandem pumps for combustion engines, is a core competence of SHW

“

We provide answers for the various power-train concepts.”



Key components for tomorrow's automobility

The current variety of powertrain concepts offers the opportunity for both, conventional and new types of pump technology – we asked Gerd Jäggle, Head of Pumps Development, to tell us more.

When asked to identify the core expertise of the Pumps and Engine Components business segment, it doesn't take Gerd Jäggle long to come up with an answer. "Very clearly, it's bringing components for series production that satisfy our customers' different needs. Especially our tandem pump for combustion engines demonstrates this strength clearly. It is being requested frequently by our customers; in 2016 we received another series production order. The tandem pump combines an oil pump with a vacuum pump and is driven by a combined shaft," Jäggle explains. "Only a few suppliers are able to provide this type of system, herein we are a technological pioneer. A current core area of development is the further reduction of the necessary drive power of the pump and therefore improving CO_2 emissions. Through our components, we provide a key contribution to our customers' success in achieving environmentally friendly mobility." The tandem pump is only one of many SHW products, which for example ensure the engine lubrication, control pressure or supply oil and water for the engine, transmission and coolant circuit as necessary – and according to Gerd Jäggle there is no end in sight to this broad range of products. Since hybrid solutions and electric powertrains are increasingly appearing on the market alongside conventional powertrains, SHW is deliberately diversifying its product range and expanding its commitment in the field of electrically driven pumps.

Finger on the pulse of time

The requirements and trends of the automotive industry are both a benchmark for, and a driving force behind, the development work carried out at SHW. Our engineers, technicians and experts work hand in hand with customers to develop just the right solution for every application.

The “e” makes the difference

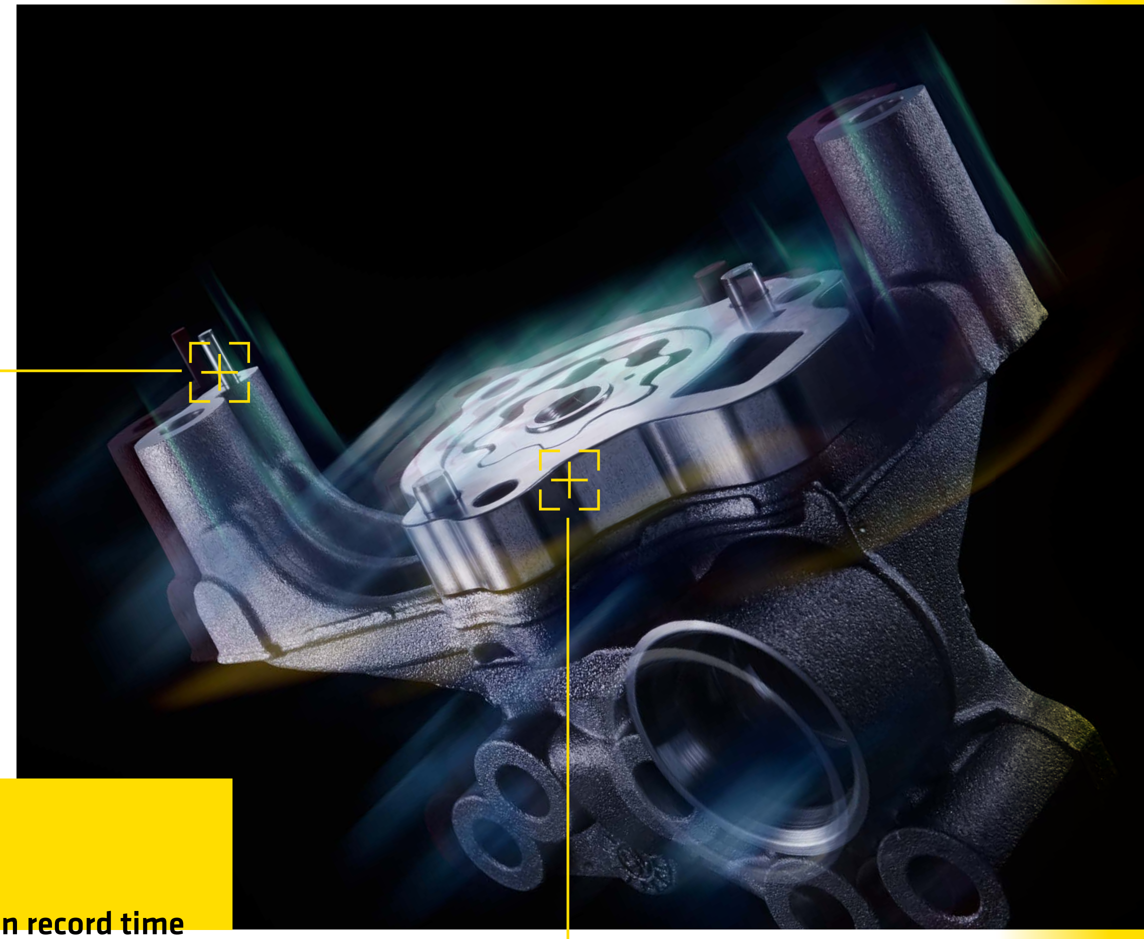
Over the past few years, Gerd Jäggle and his team have intensively researched various levels of hybridisation and electrification and worked on the development of new solutions. For instance, hybrid vehicles require an engine oil pump as well as one to two transmission oil pumps for lubrication and for the hybrid driving functions. The development of an electrically driven cooling and lubricating pump for e-axles for a European company, which can be used in both hybrid and fully electric vehicles, was an important milestone in the fiscal year 2016.

“Our pump for electrically driven axles marks SHW’s entry into the market for fully electric vehicles. It lubricates the transmission while also cooling the traction machine and the transmission,” Jäggle explains. “It is in continuous operation during the driving cycle and meets the requirements of a fully electric vehicle in terms of its efficiency and power consumption. There is also a trend towards mechatronic overall systems. Over the next few years, we will develop our expertise in this area, in order to carry out hydraulic and all electronic testing on site.”

SHW’s approach to diversity is particularly important for Gerd Jäggle: “As long as there are combustion engines and trends such as the boom for SUVs, the EU standards will remain highly relevant for our customers and for us as a component manufacturer. We will be focusing on the major trend of CO_2 reduction for conventional concepts as well as on alternative concepts. While being equally passionate about both of them, we will shape the change process toward the electrification of the powertrain. It is clear that there will be a market for all of the different technologies going forward.”

QUIET

Electric vehicles
Driving situations without a combustion engine require exceptionally quiet pumps

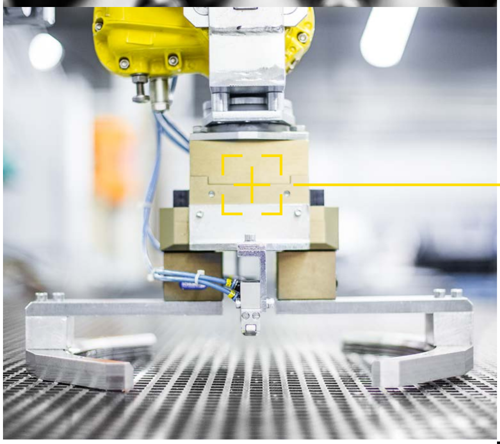


Assembly in record time

SHW has been manufacturing oil / vacuum pumps in Bad Schussenried since 2012, using cutting-edge assembly lines that produce various pump types fully automatically and that make it possible to quickly and easily change the pump type.

LIGHTWEIGHT

design
Innovative pump design for weight reduction

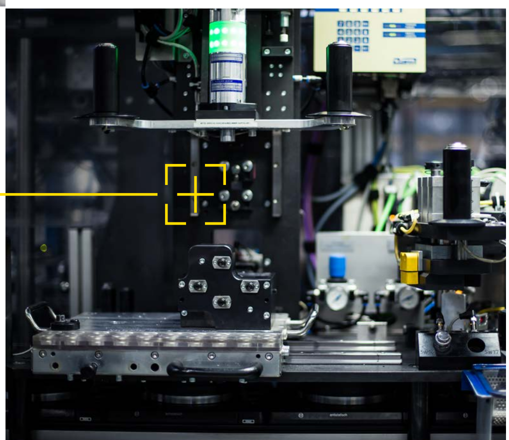


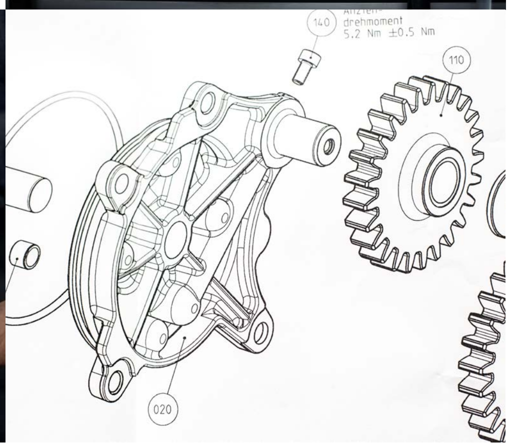
100%

checked
Final inspection to meet highest quality standards

PRECISELY

assembled
Fully automated assembly lines monitor all key assembly parameters





MAJOR INVESTMENT MAXIMUM EFFORT JOB DONE

Powder metallurgy is essential when it comes to developing and manufacturing CO_2-optimised components. The team once again took some important steps in the year under review.

At the Aalen-Wasseralfingen plant, Powder Metallurgy produces components made of siliceous aluminium for the international automotive industry.

Here, SHW works closely with its customers in order to quickly and flexibly find the best solution in line with requirements. The versatility of sintered parts is most evident in the range possible applications. They are used as cost-effective rotors and adjustment rings for pumps, as rotors and starters for camshaft phaser parts, as scissor gears and as engine and transmission components. Roughly a third of products are delivered to the Bad Schussenried site, where they are later used as the linchpin of SHW oil pumps and help develop more efficient and cleaner engine and transmission generations. Therefore, the innovative strength of the Powder Metallurgy team is one of the cornerstones of future growth at the company.

SINTERED PARTS

By producing sintered parts in wear-resistant aluminium, such as rotors and adjustment rings, SHW combines shape, precission, stability and cost efficiency

Less is More

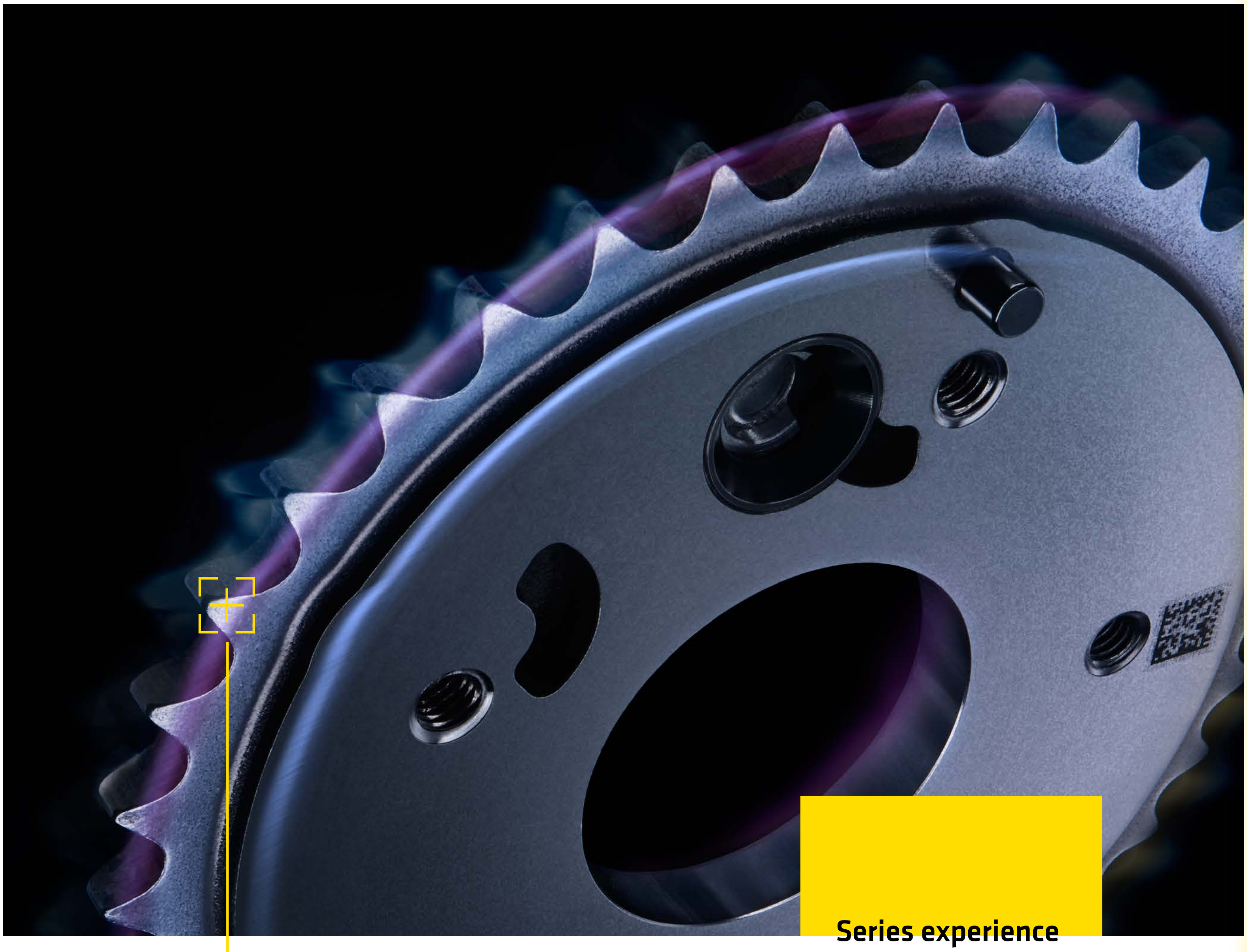
Customers' requirements are what counts: in an interview, Heinrich Wiedemann, Head of Technology at SHW Powder Metallurgy, talks about the advantages of sintered parts and the year 2016.

Mr Wiedemann, Powder Metallurgy is part of the Pumps and Engine Components business segment. Sintered parts and the related manufacturing process play a very special role there.

It is true that we work very closely together with our colleagues in Bad Schussenried, for example in the production of sintered parts for oil pumps and further engine applications. Intensive cooperation in the areas of development, logistics and production ensures significant synergy effects. Furthermore, SHW has a unique selling point with its powder metal manufacturing process for wear resistant sintered aluminium parts, which in itself is meaningful.

What are the characteristics of SHW sintered parts?

Our sintered parts offer multiple advantages: they are flexible in terms of their shape, precise in their tolerances, economical in terms of their material utilization and competitive from a manufacturing point of view. We can also adapt their characteristics to suit our customers' requirements: strength and toughness of sintered parts can be enhanced



ROBUST

Wear-resistant sintered aluminium chain wheels are an important element in the lightweight construction of modern engines.

Series experience

The SHW Group is the only manufacturer in Europe with series-production capability for sintered aluminium parts – for many years.

"When it comes to sintering technology, we speak our customers' language."

by means of innovative densification processes, so that their characteristics resemble those of steel. Therefore they can withstand the high stress levels seen during continuous operation and they can be used in application areas which were previously reserved for steel parts only. Sintered aluminium is also considerably lighter than conventional sintered materials, hence, less is certainly more. For instance, if a customer replaces sintered steel with sintered aluminium in a camshaft phaser, it will be 50 per cent lighter (450gr. vs. 900gr.).
All of these characteristics are very much appreciated by our automotive customers. And of course our Swabian virtues: diligence, inventiveness, toughness and pushing the technical boundaries in order to find the right solutions for their requirements, make us a supplier of choice.

How would you describe the past fiscal year from your point of view?
2016 was a very positive year. Positive because multiple products which we had developed in previous years went into serial production. A particular highlight was the start of production for an aluminium chain sprocket for a well-known automotive OEM. Four of these are installed in each engine – at the two intake camshafts and the two exhaust camshafts – and their low weight helps to reduce CO_2 emissions. In addition, in 2016 we have won many new and follow-up projects which provide a positive outlook for Powder Metallurgy going forward.

What are the long-term challenges for you and your team?
As in any other industry we see a constant pressure of making a better product for a better price. In order to stay competitive we use the latest lean manufacturing processes and cost efficient production technologies. We also see the challenges faced by our customers to meet ever more stringent government stipulated CO_2 targets. To achieve these targets our customer's engineering teams will need more information and data relating to the sintered powder metal components and the related manufacturing process. Our task will be to provide a tailored product that meets or exceeds the customer's requirement.
For example, our customers are increasingly using thinner oils to reduce friction. This requires our manufacturing method to be capable of producing parts with very tight tolerances in order to reduce leak paths within the assemblies. In 2016, we developed such a method together with our colleagues in Bad Schussenried with very positive results.

Up to date as a team

In order to actively shape the megatrend of CO_2 reduction with product innovations, SHW is committed to the ongoing transfer of knowledge and experience.

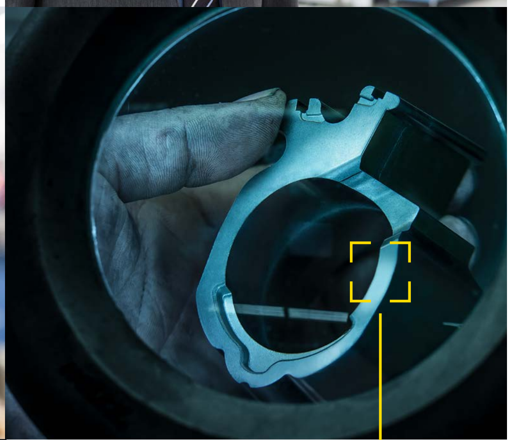
What does this method involve?
One of our sub-assemblies consists of a rotor and drive shaft. The manufacturing process requires the shaft to be press fitted into the rotor. While a 100 per cent perpendicularity is targeted there is always a deviation from this target. This deviation has usually to be addressed by additional gaps, opening up a leak path within the pump, making it less efficient. SHW developed the impulse straightening method reducing the requirement for opening these leak paths, resulting in more efficient and smaller pump systems.

CO_2 reduction is a continuously recurring theme in our conversation.
That's right! As you can see, with our customers' interests in mind, we never lose sight of this goal. I am confident that we will make an important contribution to SHW's growth, with process innovations such as impulse straightening, aluminium components and many others.

Many thanks for the interview!

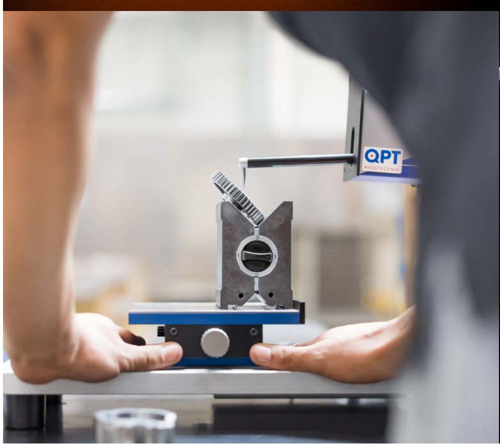
PRECISE

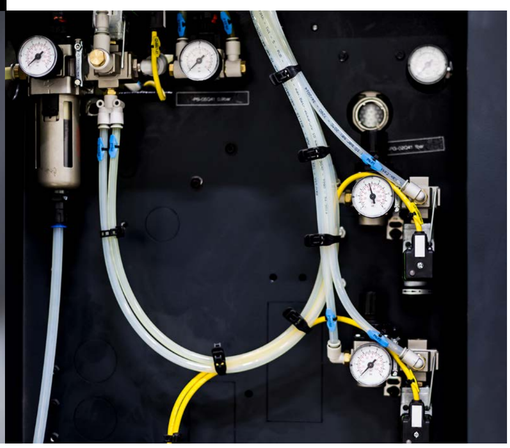
Precision enables our customers to meet the demanding CO_2 targets.



Perfection

of the production process ensures high quality standards.





REPORT OF THE SUPERVISORY BOARD OF SHW AG

General information

In the reporting year 2016, the Supervisory Board fulfilled its duties as required by law, the Company's Articles of Association and the Supervisory Board's Rules of Procedure. The Supervisory Board considered the Company's position in detail and continuously monitored and advised the Company's Management Board.

In line with its obligations, the Management Board regularly, promptly and comprehensively notifies the Supervisory Board in writing or orally of any corporate strategy, planning, business development, risk, risk management and compliance issues of relevance for the Company and includes the Supervisory Board in decision-making processes for particularly significant matters. For this purpose, the Management Board produces a monthly report which includes detailed information on the economic and financial position of SHW AG and its subsidiaries (SHW Group). In addition, detailed reporting is provided at the regular meetings of the Supervisory Board, where the Supervisory Board discusses the Company's business development, planning and corporate strategy with the Management Board. The members of the Supervisory Board also maintained contact with the Management Board outside the scope of its regular meetings, in particular through the relationship between the chairpersons of these two executive bodies. The Supervisory Board was thus at all times promptly informed of current developments affecting the Company's business position and significant business transactions.

Where the consent of the Supervisory Board or a committee was required by law or according to the Company's Articles of Association or the Supervisory Board's Rules of Procedure for individual measures, it voted on these matters. Where necessary, besides an oral explanation of matters requiring consent, the Management Board also prepares statements in writing which provide the necessary information for the Supervisory Board's decision-making process.

In the reporting year, the Supervisory Board carefully reviewed the Management Board's reports and draft resolutions and discussed them in detail at its meetings. Other than the documents submitted to the Supervisory Board, it was not necessary for the Supervisory Board to inspect other Company documents in the reporting year.

In general, the Supervisory Board passes resolutions during its meetings. Where necessary, resolutions are also passed outside of meetings, in particular during telephone conferences or by circulating relevant documents. The Supervisory Board also meets without the Management Board if necessary.

Meetings of the Supervisory Board and key matters

Four regular face-to-face meetings and one extraordinary face-to-face meeting were held in the reporting year. All of the members of the Supervisory Board attended the face-to-face meetings of the Supervisory Board.

At its meetings held in 2016, the Supervisory Board was comprehensively briefed by the Management Board via oral and written reports regarding all relevant issues of corporate strategy, planning, business development, risk, risk management and compliance of the SHW Group. The Management Board outlined matters such as the current sales and earnings trends for the SHW Group and commented in detail on the business performance of the individual business segments, while considering the competitive environment. The following issues were key concerns in the reporting year:

- At its regular meeting held on 23 March 2016, the Supervisory Board approved in particular the Annual Financial Statements and Consolidated Financial Statements as well as the Combined (Group) Management Report of SHW AG as at 31 December 2015. The Supervisory Board also considered the Management Board's proposal for the appropriation of earnings and passed resolutions on the draft resolutions for the agenda of the regular Annual General Meeting on 10 May 2016 as well as the Supervisory Board's report for fiscal year 2015 and the 2015 Corporate Governance Report and Declaration on Corporate Governance. The Supervisory Board also passed resolutions on the grant of consent for transactions requiring consent and on formal approval of the acts of the managing directors of subsidiaries and other investments. The Supervisory Board also passed resolutions concerning various transactions of the Management Board of SHW AG requiring consent. In addition, the Supervisory Board considered issues relating to the development of the Pumps and Engine Components and Brake Discs business segments. Other topics included regular information on risk management, quality assurance and the implementation of the Company's partnership strategy. Finally, the members of the Supervisory Board were kept informed of impending changes to capital market and company law of relevance for the Company and for the members of its executive bodies.

- The constituent meeting of the new Supervisory Board was held on 10 May 2016, immediately after the Annual General Meeting of SHW AG. Mr Georg Wolf was elected as the chairman and Mr Christian Brand as the deputy chairman. The Supervisory Board also elected the members of the Supervisory Board committees and their chairmen.

- In addition, at its regular meeting held on 10 May 2016 following the Annual General Meeting the Supervisory Board was informed of the development of the Company's business segments. The Supervisory Board passed resolutions regarding the Declaration of Conformity with the German Corporate Governance Code. The Supervisory Board also considered the development of the Group's joint venture in China and obtained information on the status of the establishment of a plant in Eastern Europe as well as the implementation of the Company's partnership strategy. Quality assurance and risk management were additional items on the agenda. Following this meeting, an external lawyer outlined and explained impending changes to capital market and company law of relevance for the Company and for the members of its executive bodies.

- At its extraordinary meeting held on 15 July 2016, the Supervisory Board resolved the appointment of Mr Martin Simon as the new Chief Financial Officer of SHW AG with effect from 1 September. The Supervisory Board also provided its consent for the acceptance of a prospective major order as a system supplier of electric axle drive pumps for a leading global manufacturer of fully electric vehicles.

- At its regular meeting held on 23 September 2016, the Supervisory Board initially discussed the report on the Company's business development. In addition, it obtained information on the status of the establishment of a plant in Eastern Europe and on the development of electronics expertise. The Supervisory Board also obtained information on the status of potential partnership agreements. The Supervisory Board likewise examined the status of the Group's joint venture in China. It also provided its consent for transactions requiring approval and obtained information on the status of quality assurance and risk management. Finally, the Supervisory Board performed an efficiency review.

- At its regular meeting on 2 December 2016, the Supervisory Board was informed of the development of the Company's business segments. It was also notified of the status of the implementation of the Company's cooperation strategy. In addition, the budget for fiscal year 2017 and the medium-term planning for the period from 2018 to 2021 were approved and the list of transactions requiring consent was adjusted. The Supervisory Board also obtained information on the development of the Company's electronics expertise, the status of the establishment of a plant in Eastern Europe and the status of quality assurance and risk management. The Supervisory Board passed resolutions regarding transactions of the Management Board requiring consent.

Work of the committees

To ensure the efficient fulfilment of its duties, as in the previous year the Supervisory Board appointed three committees: the Executive Committee, the Audit Committee and the Nomination Committee. All of the committee members attended the various face-to-face meetings.

- The *Executive Committee* prepares the meetings of the Supervisory Board. It also performs the duties of a personnel committee and as such prepares personnel decisions to be taken by the Supervisory Board, in particular the appointment and dismissal of the members of the Management Board and determination of their remuneration. It also prepares other personnel issues to be considered by the Supervisory Board, including a regular review of the remuneration system for the Management Board and the Management Board's long-term succession planning. Moreover – except where such matters must be mandatorily referred to the overall Supervisory Board by law – in place of the Supervisory Board it resolves the conclusion, amendment and termination of the Company's employment contracts with the Management Board members and other legal transactions relating to Management Board members and related parties for which the Company is represented by the Supervisory Board pursuant to Section 112 AktG. The Executive Committee also passes resolutions in place of the Supervisory Board on the grant of consent to secondary employment and other activities of a Management Board member in accordance with Section 88 AktG, the grant of loans to the group of persons indicated in Section 89 and Section 115 AktG and consent to agreements with members of the Supervisory Board in accordance with Section 114 AktG. Finally, it also decides on the grant of consent to transactions and measures requiring consent which are referred to it for decision-making purposes in place of the overall Supervisory Board. In the period under review, the Executive Committee passed five resolutions by circulating documents in writing.

- The *Audit Committee* prepares the resolutions of the Supervisory Board concerning the Annual Financial Statements and Consolidated Financial Statements as well as the agreements with the auditor, in particular the audit engagement, the determination of core audit areas and the fee agreement. It also considers the necessary independence of the auditor. In addition, it prepares the Supervisory Board's decision as to the choice of auditor to be referred to the Annual General Meeting and provides the Supervisory Board with a recommendation in this respect. It also considers reporting issues including monitoring of the reporting process, the effectiveness of the internal control system, risk management and compliance. In accordance with item 7.1.2 of the German Corporate Governance Code, the Audit Committee also discusses the Company's interim reports with the Management Board prior to their publication. Overall, the Audit Committee met on six occasions over the course of the reporting year.

- The *Nomination Committee* acts in a preparatory role in case of elections of the shareholder representatives to the Supervisory Board. It provides the Supervisory Board with suggestions for suitable candidates for it to propose to the Annual General Meeting for the election of the shareholder representatives to the Supervisory Board. The Nomination Committee met once in the period under review and considered the preparation of the election of the shareholder representatives to the Supervisory Board by the Annual General Meeting in 2016.

- At its full meetings the Supervisory Board was regularly and comprehensively notified of the work of its committees. Further details of the composition of the committees may be found in the Declaration on Corporate Governance and in the Corporate Governance Report which are available as a single document on the Company's website at http://www.shw.de/cms/en/investor_relations/corporate_governance/cg_report_declaration_cg.

Audit of the annual financial statements and the consolidated financial statements

The Annual Financial Statements of SHW AG prepared by the Management Board in accordance with the German Commercial Code (HGB) and the Management Report which is combined with the Group Management Report for fiscal year 2016 have been audited by the Company's auditor, Ebner Stolz GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, 70174 Stuttgart, and awarded an unqualified audit opinion. The Consolidated Financial Statements of SHW AG for fiscal year 2016 and the Group Management Report which is combined with the Company's Management Report have been prepared pursuant to Section 315a HGB on the basis of the International Financial Reporting Standards

(IFRS) as applicable in the European Union. The Consolidated Financial Statements and the Combined Management Report were both awarded an unqualified audit opinion.

Ebner Stolz GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, 70174 Stuttgart, has audited the Annual Financial Statements and Consolidated Financial Statements as well as the Combined management and Group Management Reports of SHW AG every year since fiscal year 2013. In this period, Mr Christoph Brauchle and Mr Christoph Lehmann were responsible for signing the audit opinions for the Annual Financial Statements and the Consolidated Financial Statements of SHW AG. The auditing firm is appointed for one fiscal year at a time for the audit of the Annual Financial Statements and the Consolidated Financial Statements.

The Audit Committee specified the following core audit areas: fair value of financial assets and receivables from affiliated undertakings, German Accounting Directive Implementation Act (BilRUG), subsequent measurement of SHW Longji (review), impairment testing, consolidation measures, completeness of the notes to the Consolidated Financial Statements, Combined Group Management Report and Management Report, particularly the Risk Report and Outlook.

The Supervisory Board reviewed the above-mentioned documents in detail. The members of the Supervisory Board received all documents associated with the financial statements and the auditor's audit reports in good time. The Annual Financial Statements and Consolidated Financial Statements and also the Combined Management Report and Group Management Report were discussed in detail, initially by the Audit Committee and subsequently at a meeting of the overall Supervisory Board, in each case in the presence of the responsible auditor. The auditor reported the key findings of its audit. It also provided details of the scope, core areas of focus and costs of its audit.

There were no indications of any possible bias on the part of the auditor. The auditor provided the Audit Committee with confirmation of its independence. In the reporting year, in addition to its auditing services for the financial statements the auditor provided services amounting to € 15 thousand for the Company (including associated companies).

The Supervisory Board agreed to the audit findings and, upon completing its own audit, determined that it did not have any objections. The Supervisory Board approved the Annual Financial Statements and the Consolidated Financial Statements prepared by the Management Board and audited by the auditor as well as the Combined Management Report and Group Management Report. The Annual Financial Statements were thus adopted. Finally, the Supervisory Board also reviewed the Management Board's proposal for the appropriation of earnings and agreed to this proposal, in particular in view of the profit for the year, the liquidity and the financial planning of the Company.

Conflicts of interest

No conflicts of interest arose on the Supervisory Board in the reporting year 2016.

Corporate Governance

In May 2016, the Management Board and the Supervisory Board submitted a joint annual Declaration of Conformity in accordance with Section 161 AktG.

This declaration was made permanently available on the Company's website at http://www.shw.de/cms/en/investor_relations/corporate_governance/cgcodex. SHW AG largely complies with the recommendations of the German Corporate Governance Code.

Make-up of Management Board and Supervisory Board

In the reporting year 2016, the following changes occurred in the make-up of the Management Board:

Mr Sascha Rosengart resigned from his position as a member of the Company's Management Board upon expiry of 29 February 2016. Since 1 September 2016, Mr Martin Simon has held his position on the Management Board of SHW AG.

The make-up of the Supervisory Board was subject to the following changes in the reporting year 2016:

The election of the six members of the Supervisory Board was held as scheduled at the Annual General Meeting of SHW AG on 10 May 2016. The Annual General Meeting re-elected five of the existing members of the Supervisory Board for a further five-year term. As a newly elected Supervisory Board member, Mr Eugen Maucher replaced Mr Frank Meißner. Mr Frank Meißner did not stand for re-election, and his mandate thus ended upon expiry of the Annual General Meeting. The Supervisory Board would like to thank Mr Frank Meißner for his dedication and for his work on behalf of the Company. At the constituent meeting held following the Annual General Meeting, Mr Georg Wolf was elected as the chairman of the Supervisory Board and Mr Christian Brand was elected as the deputy chairman of the Supervisory Board. In addition, the Executive Committee was reconstituted with the same members and with Mr Georg Wolf as its chairman, the Audit Committee was reconstituted with the same members and with Mr Christian Brand as its chairman and, finally, the Nomination Committee was reconstituted with the same members and with Mr Georg Wolf as its chairman.

The Supervisory Board would like to thank the Management Board as well as all of the Company's employees for their work and commitment over the past year, which enabled the successful business development of SHW AG.

Aalen, March 2017

For the Supervisory Board

Georg Wolf
Chairman

THE SHW SHARE

Positive overall trend on the international stock markets

Robust US labour market data, stable growth rates for China's gross domestic product throughout the past four quarters, the recovery of the oil price following OPEC's announcement of supply cuts in late November, the rise in leading indicators to several-year highs, declining deflation fears, strong new registration figures for passenger cars in China and Europe and the extension of the ECB's bond purchasing programme up to the end of 2017 buoyed the stock markets in 2016. Share prices were adversely affected by the devaluation of the renminbi, the temporary fall of the oil price to a 12-year low, the unexpected outcome of the United Kingdom's EU membership referendum ("Brexit"), repeatedly emerging concerns about the stability of the banking sector of the eurozone, the terror attacks in Nice, Brussels and Berlin, the attempted coup in Turkey and the second rise of US central bank's key interest-rate.

In this context, with exception of the Shanghai Composite Index, the key international market indexes consistently posted price gains following a year-end rally due to the surprising result of the US presidential election. The Dow Jones Industrial Index led the way, with growth of 13.4 per cent.

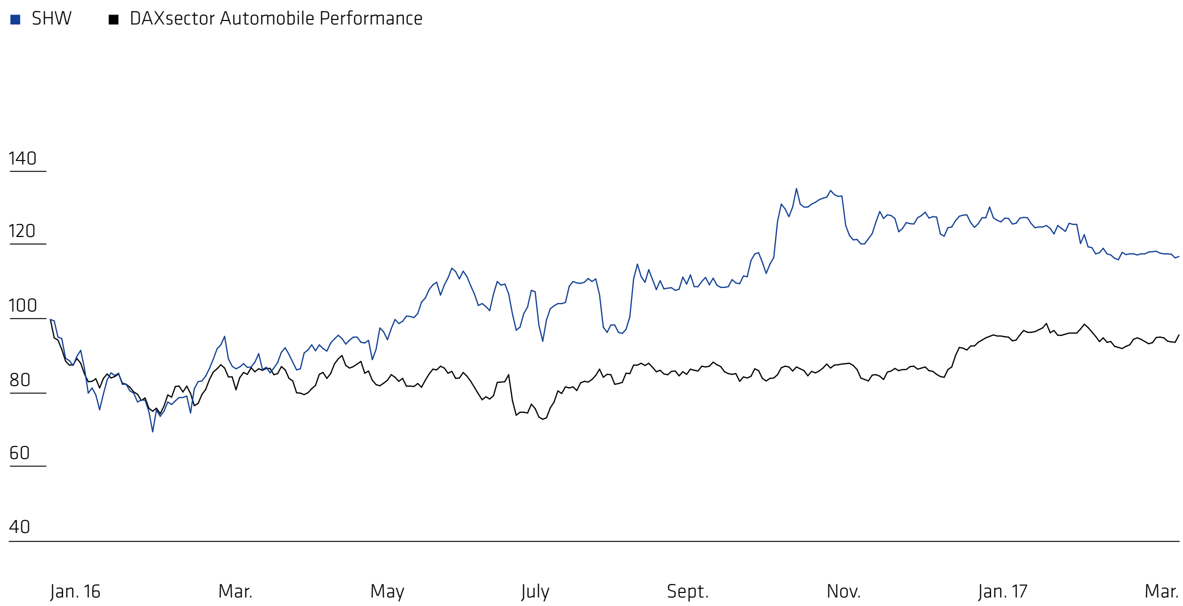
SHW share significantly outperforms benchmark index

Unlike the broader market indexes, the DAXsector Automobile Performance (CXPA) benchmark index, which is relevant for SHW, was unable to fully recover from the losses in the first half of 2016. In comparison with the end of 2015, the stocks featured in the CXPA fell by 5.6 per cent to 1,506 points. The SHW share performed much better than the benchmark index, ending the 2016 stock market year at a share price of € 32.67, this corresponds to an outperformance of 31,7 percentage points in comparison to the DAXsector Automobile Performance . The SHW share is currently quoting at € 31.31 (as at 23 March 2017).

Dividend remains stable

Due to the clear increase in efficiency and solid balance-sheet structure, the Management Board and the Supervisory Board have decided to propose an unchanged dividend of € 1.00 per share at the Annual General Meeting which will be held in Heidenheim on 9 May 2017. This represents an overall distribution of € 6.4 million or a payout ratio of 50.3 per cent of the Group's net profit. SHW has thus exceeded the range of 30 to 40 per cent defined in its dividend policy.

PRICE TREND FOR SHW SHARE AND DAXSECTOR AUTOMOBILE PERFORMANCE INDEX (CXPA) IN THE PERIOD FROM JANUARY 2016 TO MARCH 2017



Source: Bloomberg

Annual Report honoured with LACP Gold award

Following the Bronze award in the previous year, SHW picked up an LACP Gold award for its 2015 Annual Report "Focus on efficiency" in the category "Automobile & Components". This is one of the major international competitions for annual reports. It is organised every year by the League of American Communications Professionals. The Company's Annual Report was also silver awarded at the FOX FINANCE Awards – the competition for efficient corporate reporting.

Analysts' estimates: average price target € 30

Currently five banks and research companies publish regular studies of SHW. One bank is providing a buy recommendation, while two advise holding the share (as at: March 2017). The average price target is currently € 30.

Institution	Analyst	Recommendation	Price target
Bankhaus Lampe	Malte Schmidt	Buy	€ 37
Commerzbank	Sascha Gommel	Hold	€ 30
Kepler Cheuvreux	Michael Raab	Reduce	€ 28
LBBW	Stefan Maichl	Hold	€ 31
Oddo Seydler	Henning Steinbrink	Reduce	€ 24

Significant change in shareholder structure

With exception of Universal-Investment (Germany), all of the individual shareholders who held more than 3 per cent of the voting rights in mid-March 2017 have acquired their interests only since the beginning of 2016. The largest individual shareholder with 11.7 per cent is QCP Swiss AG (Switzerland), followed by Sterling Strategic Value Fund (Luxembourg) with 10.4 per cent and Anhui International Holding (China) with 10.0 per cent. Between 5 and 10 per cent of our shares were held by Gilead Capital (USA). Universal-Investment (Germany), BlackRock (USA), Duke University (USA) and Dimensional Holdings (USA) held voting right shares of between 3 and 5 per cent.

Within the scope of Managers' transactions, the Company hereby provides notice that two Management Board members held SHW shares as of the end of 2016: Dr Frank Boshoff (8,500 shares) and Andreas Rydzewski (2,600 shares).

Intensive dialogue with capital market participants

SHW Investor Relations aims to ensure a fair evaluation of the SHW share by the capital market. Basis for this is a continuous and open dialogue with all market participants and by providing precise and valuation-relevant information.

As a capital market-oriented industrial firm quoted in the Frankfurt Stock Exchange's Prime Standard segment, SHW mainly satisfies market participants' information requirements by its Annual Report, its quarterly financial reports published three times a year and by actively participating in investor conferences and road shows.

In 2016, the Management Board and the Investor Relations team of SHW AG participated in seven capital market conferences and in one road show in London and Edinburgh. SHW also recorded a heightened level of interest on the part of value-oriented investors in individual talks and plant visits.

SHW is intended to step up their Investor Relations activities in 2017. In this connection the Company will attend capital market conferences as well as management and investor relations road shows in response to the increasing level of interest shown by investors in Scandinavia and the Benelux countries.

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

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IMPORTANT INFORMATION CONCERNING THE SHARE

German securities identification number (WKN)	A1JBPV
ISIN	DE000A1JBPV9
Ticker symbol	SW1 GY
Type of shares	No-par value ordinary bearer shares
Number of shares	6.44 million
Share capital	€ 6.44 million
Market capitalisation [1]	€ 210,2 million
Free float	100 per cent
Stock exchange	Frankfurt Stock Exchange
Market segment	Regulated market (Prime Standard)
Initial quotation	7 July 2011
Designated sponsor	Bankhaus Lampe KG

1) On the basis of the closing price of € 32,67 as at 30 December 2016.

CONSOLIDATED GROUP MANAGEMENT REPORT AND SHW AG MANAGEMENT REPORT

BASIC INFORMATION ABOUT THE SHW GROUP

Group Business Model

SHW AG is the parent company of the SHW Group and a pure holding company. It holds all shares in SHW Automotive GmbH, Aalen. The Company also holds all shares – directly and indirectly – in its Brazilian subsidiary SHW do Brasil Ltda., São Paulo. SHW Automotive GmbH holds all shares in the foreign subsidiaries SHW Automotive Pumps (Kunshan) Co., Ltd., Kunshan, China, and SHW Pumps & Engine Components Inc., Toronto, Canada, as well as in the shelf company, SHW Automotive Industries GmbH, Aalen. In addition, SHW Automotive GmbH holds a 51 per cent interest in the joint venture SHW Longji Brake Discs (LongKou) Co., Ltd., Longkou, China. This joint venture is included in the consolidated financial statements of SHW AG in accordance with the equity method.

SHW Automotive GmbH, its subsidiaries and SHW do Brasil Ltda. handle the operating activities of the SHW Group.

A company focusing on CO_2 reduction with two distinct business segments

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

The Company comprises two distinct business segments: Pumps and Engine Components and Brake Discs. 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.

On the road to becoming a global player for pumps and engine components

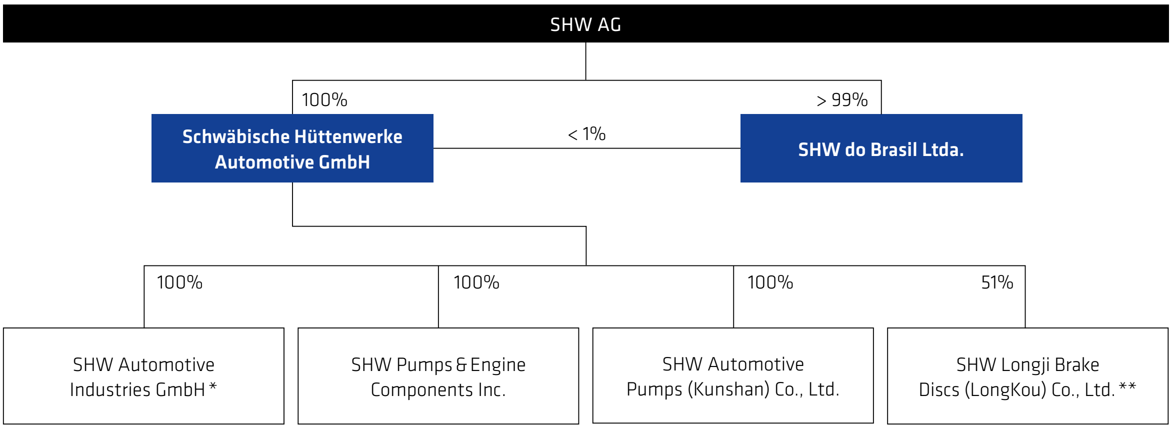
The Pumps and Engine Components business segment is the SHW Group's largest operating segment and has production and development facilities in the three strategically relevant automobile markets, Europe, China and NAFTA.

The Pumps and Engine Components business segment consists of the Passenger Cars, Industry and Powder Metallurgy divisions. The Passenger Car division operates plants in Bad Schussenried (Germany), Kunshan (China), Toronto (Canada) and São Paulo (Brazil). In particular, the Bad Schussenried plant manufactures variable engine oil pumps, primary transmission oil pumps, electric start-stop auxiliary transmission oil pumps, electric power pack pumps, oil / vacuum pumps with and without a balancer shaft unit and camshaft phasers. At its Kunshan plant, the SHW Group's Chinese subsidiary SHW Automotive Pumps (Kunshan) Co., Ltd., launched series production of variable engine oil pumps for a Chinese-European automobile manufacturer in September 2016 as scheduled. Based on current orders, the production programme for the next few years will be expanded to include primary transmission oil pumps and electric auxiliary transmission oil pumps.

BUSINESS AND PRODUCT SEGMENTS

PUMPS & ENGINE COMPONENTS			BRAKE DISCS
BAD SCHUSSENRIED / KUNSHAN / SÃO PAULO / TORONTO		AALEN-WASSERALFINGEN	TUTTLINGEN-LUDWIGSTAL NEUHAUSEN OB ECK
Passenger Cars	**Industry**	**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 shafts	Fuel pumps Electric pumps	Sintered components for engines and transmissions	Composite brake discs
Electric auxiliary pumps for start-stop			

OVERVIEW OF GROUP SUBSIDIARIES



* As of 1 October 2016 consolidated.
** As of 1 April 2016 accounted for according to the equity method.

The Company's Canadian plant situated close to Toronto continues to focus on gaining new contracts as well as applications engineering, particularly for US automobile manufacturers. Following its nomination as a series supplier for variable engine oil pumps for a global engine platform, series production is due to begin in 2018. In Brazil, SHW do Brasil Ltda., São Paulo, currently exclusively produces engine oil pumps.

In the Industry division, at its Bad Schussenried plant the SHW Group produces engine oil, transmission oil and fuel pumps for trucks, agricultural and construction machinery, stationary engines and wind power stations.

In its Powder Metallurgy division at its Aalen-Wasseralfingen plant, the Company produces sintered engine and transmission components. In particular, its product range comprises adjustment rings and rotors for variable consumption-optimised engine oil pumps and camshaft phaser parts made of steel and aluminium powder, as well as scissor gears, which are supplied both to external customers and to the Company's Bad Schussenried plant.

Technology leader in the field of lightweight brake discs

The SHW Group is a technology leader in the manufacturing of brake discs for high-performance vehicles. 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.

The joint venture, founded by SHW Automotive GmbH and China's Shandong Longji Machinery Co., Ltd. in April 2015, exclusively produced unprocessed brake discs for the Chinese joint venture partner's aftermarket business in fiscal year 2016. Following the foundry's successful ISO/TS 16949 certification, the installation of a machining line and the acquisition of OEM customer orders are currently key areas of focus.

Management and control

SHW AG is seated in Aalen and is subject to the German Stock Corporation Act as a German company. The Management Board, the Supervisory Board and the Annual General Meeting are the Company's executive bodies. SHW AG has a dual management system comprising its Management Board and Supervisory Board – management and control are strictly separate.

The Management Board is responsible for managing the Company's business activities with the goal of a sustainable increase of the Company's enterprise value and in the interests of the Company, i.e. considering the concerns of its shareholders, its employees and the other groups associated with the Company (stakeholders). In accordance with the Company's Articles of Association, the Management Board consists of one or more persons. In line with the Management Board's Rules of Procedure, each member is responsible for his or her own area of responsibility. Nevertheless, the members still have joint responsibility for the management of the SHW Group. As part of this overall responsibility, the members of the Management Board are required to work together in their respective areas of responsibility in a trusting and cooperative manner in the interest of the Company.

The Management Board is responsible for the Company's strategic orientation, which it agrees with the Supervisory Board. In addition to its statutory reporting obligations, the Management Board is required to keep the Supervisory Board of SHW AG regularly informed of any planning, business development, risk situation, risk management and compliance issues of relevance for the Company.

The Supervisory Board of SHW AG advises and oversees the Management Board in its management of the Company. In principle, the Supervisory Board may not perform any management function. However, the Management Board's Rules of Procedure stipulate that the Management Board may not implement certain business activities and measures (e.g. significant changes to the Group's structure, acquisitions, opening up new markets) without the consent of the Supervisory Board of SHW AG.

In accordance with its Rules of Procedure, the Supervisory Board has six members who are all elected by the Annual General Meeting. The Supervisory Board meets at least twice in each half of the calendar year. The Supervisory Board of SHW AG has established an Executive Committee and an Audit Committee with a view to increased efficiency and in order to handle complex issues. In addition, a Nomination Committee acts in a preparatory role in case of elections of the shareholders' representatives to the Supervisory Board.

Market and competition

SHW is one of the leading European manufacturers of engine oil pumps for passenger cars. It has a market share of approx. 25–30 per cent. Its key competitors are Rheinmetall Automotive (Germany), Magna Powertrain (Canada), Mahle (Germany), TCG Unitech (Austria), Stackpole International (Canada) and NIDEC GPM (Japan). In addition, some vehicle manufacturers such as Mercedes and VW have their own engine oil pump assembly divisions.

In Brazil, Rheinmetall Automotive (Germany), Pricol (India), NIDEC GPM (Japan), Schadek (Brazil) and Aisin (Japan) are the Company's main competitors.

In the NAFTA region, the key competitors of SHW Pumps & Engine Components Inc. are Magna Powertrain (Canada), Stackpole International (Canada) and, to a lesser degree, Melling (USA) and SLPT (USA). Japanese transplants are mainly supplied by the Japanese automotive suppliers Aisin and Yamada.

In the field of primary mechanical transmission oil pumps, Magna Powertrain (Canada) is the leading competitor worldwide. Other significant competitors include ZF-TRW (Germany), NIDEC GPM (Japan), SLPT (USA) and Aisin (Japan). Our competitors in Asian countries are Hunan Oil Pumps (China) and Youngshin Precision (Korea). In addition, Chrysler maintains a transmission oil pump assembly division.

Competitors in the field of secondary electric transmission oil pumps include Magna Powertrain (Canada), ZF-TRW (Germany), Rheinmetall Automotive (Germany), NIDEC GPM (Japan), SLPT (USA) and the German firms Brose, EBM-Papst, Bühler Motor, FTE Automotive and Continental.

In Europe, the Industry division mainly competes with Rheinmetall Automotive (Germany), NIDEC GPM (Japan), Concentric (Sweden), Rickmeier (Germany) and Kracht (Germany).

In the field of Powder Metallurgy, GKN (United Kingdom), Miba (Austria), PMG (Germany) and Schunk Sintermetalltechnik (Germany) are the main competitors.

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

The main competitors of the brake discs joint venture SHW Longji Brake Discs (LongKou) Co., Ltd. are Brembo (Italy), Chassis Brakes International (Netherlands), the Korean company Lioho Machine Works and the two Chinese companies Zhejiang Asia-pacific Mechanical & Electronic and SAIC.

Legal and economic environment

Due to global climate change and the increasing scarcity of fossil fuels, by 2050 the European Union aims to reduce man-made greenhouse gas emissions within the EU by 80 to 95 per cent in comparison with their 1990 baseline level. The European Commission's "Roadmap for moving to a competitive low carbon economy in 2050" and its "White paper – Roadmap to a Single European Transport Area – Towards a competitive and resource efficient transport system" require the transport sector to cut its greenhouse gas emissions by at least 60 per cent by 2050.

Reduction of CO_2 emissions from new passenger cars and light commercial vehicles is a central instrument at the European level in order to achieve lower road transport emissions. The relevant EU regulation prescribed average CO_2 emissions of 130 g CO_2/km for newly registered passenger cars in 2015. By 2021, these emissions must be reduced to 95 g CO_2/km. The relevant limits for the type approval were determined based on the "New European Driving Cycle (NEDC)".

However, a new study by the International Council on Clean Transportation (ICCT) shows that CO_2 emission levels and hence also fuel consumption for new passenger car models are on average around 42 per cent higher in everyday use than the official NEDC values. The discrepancy between test values and real values has increased by a factor of four since 2001, especially in the period between 2009 and 2015. The analyses point to a rapid increase in the gap between the two values whenever a new model generation is introduced. The ICCT attributes this, in particular, to vehicle manufacturers' increasing use of "loopholes" in the test procedure. According to ICCT estimates, the gap between official and real CO_2 emissions could reach approx. 50 per cent by the year 2020.

According to the ICCT's study, the growing divergence in emission levels has significant implications for the various stakeholders, such as:

a) Unexpected additional fuel expenses of approx. € 450 per year for the average consumer

b) Undermining the European Union's efforts to mitigate the consequences of climate change and to reduce dependence on fossil fuels

c) Undermining public subsidy programmes for vehicles with low CO_2 emissions through the loss of motor vehicle tax revenues

d) Undermining the public's confidence in relation to the vehicle manufacturers' vehicle efficiency information.

To achieve more realistic consumption values which are comparable worldwide, from September 2017 the European Union will replace the currently applicable "New European Driving Cycle (NEDC)" with the "Worldwide Harmonized Light Vehicles Test Procedure (WLTP)". The CO_2 limit for 2021 would increase by 5.7 per cent, from 95 g CO_2/km to 100 g CO_2/km (excluding the temperature correction) or by 7.7 per cent to 102 g CO_2/km (including the temperature correction) as a result of the changeover from the NEDC to the WLTP method. WLTP will be applied as the sole measurement method from 2020, meaning that automobile manufacturers still have several years in which to implement the necessary measures. According to the ICCT, the introduction of the WLTP is expected to reduce the discrepancy between test and real values to approx. 30 per cent. To ensure that this new approval procedure is representative and to prevent the gap between test and real values from getting any larger, the WLTP is to undergo a formal review every 5 years. Measuring CO_2 emissions from real driving (Real Driving Emissions – RDE) plays an important role in this, particularly in connection with the proposals expected in 2017 for CO_2 target levels after 2020. Regardless of the measurement method applied, over the next few years vehicle manufacturers will remain under very strong pressure to reduce the CO_2 emissions of their vehicle fleets.

Measures influencing fuel consumption and CO_2 emissions may be categorised as follows:

- Measures reducing the energy requirements for vehicle use (tyres with reduced rolling resistance, lightweight construction, aerodynamic optimisation)

- Efficiency-boosting measures for the process of converting energy from the original energy source to the mechanical drive wheel output through:

  – Conventional combustion engine optimisation (direct injection, cooled exhaust gas recirculation, downsizing and turbocharging, variable valve train, cylinder deactivation, variable compression, combustion processes, friction reduction, thermal loss reduction)

  – Transmission optimisation (automated manual transmissions, dual clutch transmissions, automatic powershift transmissions or stepped automatic transmissions)

  – Powertrain electrification (micro hybrid incl. start-stop function, mild hybrid, full hybrid, plug-in hybrid, electric vehicle)

  – Optimisation of the energy use of auxiliaries (alternator, coolant pumps and oil pumps, vacuum pump for brake boosters, power steering, air conditioning compressor etc.)

- Use of alternative fuels in combustion engines

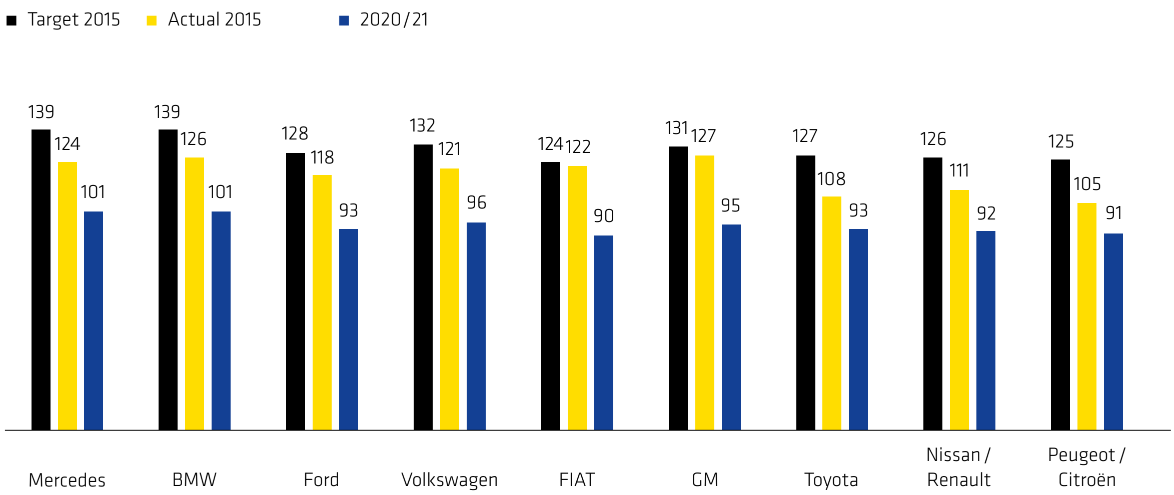
SHW began to intensively explore these technological approaches early on and has developed relevant products. Today, the Company has a broad product range of fuel-efficient components for engine and transmission applications which boost the efficiency of the conventional combustion engine and its auxiliaries and the transmission. SHW brake discs also help to reduce vehicle weight and the unsprung masses. The SHW Group is thus significantly benefiting from the major trend of CO_2 reduction.

The following overview shows the average specific CO_2 emissions of various passenger car manufacturers' vehicle fleets in Europe in 2015, in comparison with the target for 2021.

This comparison shows that all vehicle manufacturers achieved their individual targets for 2015. Some vehicle manufacturers such as PSA and Toyota are already well on the way to achieving their targets for 2021, while others such as FIAT and General Motors still have a long way to go.

Mandatory CO_2 targets for passenger cars also apply in the Company's other key automobile markets – North America and China – which will require the manufacturers to deliver significant reductions over the next few years. CO_2 emissions must be lowered to 125 g/km in North America by 2020, a reduction of 21 per cent. China also has ambitious CO_2 targets which require a 27 per cent reduction to 117 g/km. SHW believes that it has a strong opportunity to establish itself with its innovative product portfolio in these markets, which are an absolute "must" for a global player due to their market size and their growth outlook.

CO_2 EMISSIONS BY MANUFACTURER IN G/KM (NEDC)



Source: ICCT

Company strategy, management and objectives

Company strategy

SHW AG aims to further expand its strong market position in its Pumps and Engine Components and Brake Discs business segments in order to achieve capital-efficient future growth. In the context of these market and industry trends, improvements in the Company's operational excellence, the expansion of its international presence and strengthening its technology and innovation leadership are priorities for SHW. Supplementing its core hydraulic competence, SHW pursues M&A strategy with the goal of obtaining the necessary electronic drive and control unit expertise by means of acquisitions and partnership agreements.

Strategic field: Operational excellence

In order to maintain its long-term competitiveness and to achieve a sustainable improvement in its earnings position, the Company continuously reviews its internal processes and production procedures in all of its divisions. Capacity-enhancing measures, lean management and optimisation of its production network are key levers in this respect.

The measures planned for the period from 2014 to 2016 to increase capacities and boost productivity in the field of powder metallurgy at the Aalen-Wasseralfingen plant were successfully completed at the end of the first quarter of 2016. The operational and logistical bottlenecks in pump assembly at the Bad Schussenried plant have thereby also been eliminated. Considerably lower costs for external processing and expedited freight as well as increased productivity have made a significant contribution to the improved EBITDA margin.

In fiscal year 2017, further automation of production processes for moulded parts is a key focus in Powder Metallurgy. At the Bad Schussenried plant, the agenda includes productivity improvements for existing assembly lines, the technical start-up of new investments while ensuring a high level of quality and the issue of "technical cleanliness".

At the iron foundry at the Tuttlingen plant, in the past fiscal year investments were realised as scheduled for the laser-supported cooling channel control system and for automation of the casting control system in the moulding shop. Increased productivity is a core priority for the future. The Company's Neuhausen plant, where the mechanical processing of monobloc brake discs and composite brake discs takes place, expanded its capacities as planned and constructed a new logistics building. The Company made further progress over the course of the year with productivity-enhancing projects in mechanical processing and the concentration of finishing of composite brake discs within a single building. In future, the positive market trend for composite brake discs will require additional capacities at every process level as well as the ongoing organisational development of business processes.

The third key component relates to the optimisation of the Company's European production network, with the planned establishment of an additional plant in Romania. This will be accompanied by the transfer of selected existing pump projects with reduced technological complexity as well as the allocation of some specific new projects. Start of production is planned for the second half of 2017.

Strategic field: Internationalisation

SHW is present in the three strategically relevant regions in order to satisfy the growing demand from its customers in Europe, NAFTA and China. The scalability of its pump business enables

SHW to expand relatively easy and in a capital-efficient manner into countries where existing customers or new customers already have engine and transmission production sites or intend to establish new production sites in future, while pursuing a structured best-cost country approach.

Within the scope of this defined business strategy, SHW will pursue the targeted expansion of its international presence in its Pumps and Engine Components business segment.

In the past fiscal year, in addition to its variable engine oil pumps order for a global engine platform the Group's Canadian subsidiary SHW Pumps & Engine Components Inc. secured an order from the same customer for a variable engine oil pump featuring a control valve for 3-cylinder and 4-cylinder engines. The current planning envisages the start of production for 2019. In its further development of the North American market, for passenger car applications SHW Pumps & Engine Components Inc. will continue to focus on the leading North American vehicle manufacturers as well as suppliers of vehicle transmissions. Besides engine oil pumps, electric transmission oil pumps are especially seen as offering further potential. In the area of industrial applications, the Company will intensify its existing business relationships with North American agricultural and construction machinery manufacturers.

The Group's Chinese subsidiary SHW Automotive Pumps (Kunshan) Co., Ltd. launched production of a controlled engine oil pump for a Chinese/European joint venture in September 2016. In 2017, it will commence production of a primary transmission oil pump and an electric auxiliary transmission oil pump for a leading Chinese automobile manufacturer. Two further new orders have also been acquired: a variable engine oil pump with a balancer shaft for a Chinese/North American joint venture and an electric auxiliary transmission oil pump for a European automobile manufacturer. In both cases, production is set to begin in 2018. Overall, the order book with local and international OEMs represents annual sales of approx. € 100 million in 2020/2021.

In 2017, the Chinese subsidiary will focus on safeguarding the launch of its first series production runs. The validation of prototypes and the initial operation of assembly lines will require close cooperation between on-site project management and the central divisions in Bad Schussenried.

In Brazil, the Company has manufactured engine oil pumps for a well-known US vehicle manufacturer since July 2014. Production of an identical engine oil pump will begin for this customer's European market in fiscal year 2017. In the past fiscal year, the SHW Group's Brazilian subsidiary won a contract from another North American customer for the delivery of variable engine oil pumps. Production for this contract is set to begin in 2019. Further projects are currently in the tendering phase. SHW's Brazilian plant plays an important role in its global production network. Together with its plants in North America and China, SHW thus has the global presence which the North American vehicle manufacturers in particular require.

In the Pumps and Engine Components business segment, the Company's internationalisation strategy will increasingly be reflected in its sales and earnings figures 2018.

In the Brake Discs business segment, the Chinese joint venture SHW Longji Brake Discs (LongKou) Co., Ltd. launched its operational activities on 1 April 2015. This joint venture is currently producing unprocessed brake discs for the Chinese partner's aftermarket business. Projects for the development and production of processed monobloc ventilated brake discs for passenger cars and light commercial vehicles – mainly for multinational automobile manufacturers in the Asian market – are currently in the tendering phase.

Strategic field: Innovation

SHW is a success story which is characterised by product innovations that help to significantly reduce vehicles' fuel consumption and consequently their CO_2 emissions. The Company intends to focus on this core competence in the future and to expand its position as a technology and innovation leader for the full range of drive concepts.

In fiscal year 2016, SHW decided to develop an electrically driven cooling and lubricanting pump which could be used in both hybrid and fully electric vehicles. This marketable pump for e-axles marks SHW's entry into the market of fully electric vehicles.

Due to the growing demand for vehicles with an automatic transmission, SHW sees strong growth potential over the next few years in the area of transmission oil pumps. SHW is confident of its ability to repeat the success story of engine oil pumps based on a new generation of primary transmission oil pumps. SHW has developed primary transmission oil pumps as two-stroke vane pumps which offer significant advantages in terms of weight, efficiency and size. Moreover, standardisation of secondary transmission oil pumps for the start-stop function will be stepped up in combination with a modular system.

SHW sees the increasing electrification of auxiliaries in connection with the hybridisation of the powertrain and the introduction of the 48V wiring system as an area of development which offers additional market potential. In this respect, SHW will develop its electronic drive and control unit expertise to supplement its core hydraulic competence. As well as recruiting qualified development experts, the Company is intensively evaluating potential acquisition targets and opportunities for partnerships.

The Brake Discs business segment is benefiting from the trend towards lighter vehicle parts. With its composite brake disc, SHW has an innovative product in its portfolio which combines weight reduction with an improvement in braking performance.

These three strategic areas of focus are underpinned by a long-term financial strategy. The consistent objective of this strategy is to safeguard the Company's strategic and operational capacity to act at all times. SHW is clearly committed to an environmentally friendly automotive future. Its financial stability provides it with leeway that represents a significant advantage in competition with other automotive suppliers and will safeguard long-term growth options. Based on this financial profile, SHW AG is a trustworthy and respected partner for its customers and business partners worldwide.

Its financial strategy consistently respects the following parameters:

- Safeguarding a stable long-term capital structure – balance sheet equity ratio of at least 30 to 40 per cent

- Ratio of net financial debt to EBITDA (also in case of non-organic growth): less than 2.5

- Continuous, result-oriented dividend policy – distribution volume amounting to between 30 and 40 per cent of the consolidated net income for the year, allowing for statutory restrictions and considering the financing requirements of the SHW Group

- Safeguarding solid liquidity – with the SHW Group's current credit line of € 60 million for a term up to September 2017, it is able to take out additional loans of up to € 15 million and additional capital market liabilities (e.g. promissory note loans) of up to € 20 million. The necessary measures for the follow-up financing of the current credit line have been initiated. These measures are promising in view of the current capital market situation, the long-term financial strategy of SHW AG and credit institutions' indicative rates. This follow-on financing is expected to be agreed timely.

- Preserving the option of implementing further capital measures for potential non-organic growth – on the basis of the resolutions of the Annual General Meeting on 12 May 2015, SHW may increase its share capital once or several times by a total of up to 50 per cent in return for cash contributions and/or contributions in kind in the period to 11 May 2020 by issuing up to 3,218,104 shares. In addition, based on the resolutions of the Annual General Meeting of 10 May 2016 SHW is authorised to issue bearer and/or registered convertible and/or warrant bonds (hereinafter jointly referred to as "bonds") on one or more occasions until 9 May 2021 (inclusive) for a total nominal amount of up to € 65 million with a limited or unlimited term to maturity. It is also authorised to grant conversion or warrant rights to the bearers/creditors of bonds entitling them of subscribe for up to 1.25 million 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 with a pro-rata amount of the share capital of up to € 1.25 million in total in accordance with the more detailed provisions of the terms and conditions of the convertible/warrant bonds (hereinafter referred to as the "terms and conditions of the bonds") and/or to afford the Company corresponding conversion rights.

Performance indicators

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.

Financial performance indicators

For the SHW Group, besides its sales trend its adjusted EBITDA (defined as adjusted consolidated earnings before interest, tax and depreciation and amortisation) is its key performance indicator. The company is increasingly focusing on its adjusted EBITDA margin (adjusted EBITDA in relation to Group sales). This measures the quality of the Company's sales trend and indicates the level of efficiency achieved in the management of its operating business. The operating result (EBIT) shown in the Consolidated Income Statement is used as the initial value for the calculation of the adjusted EBITDA figure.

Besides earnings indicators, liquidity-related indicators are highly significant. Accordingly, the SHW Group continuously monitors and manages the key factors influencing working capital (defined as the total of inventories and trade receivables less trade payables). The working capital ratio – i.e. the ratio of working capital to Group sales in the past twelve months – is the key indicator in this respect.

These income-based performance indicators are planned, calculated and monitored both for the SHW Group and for its two operating reporting segments – i.e. its Pumps and Engine Components and its Brake Discs business segments – while its working capital ratio is only determined at the level of the Company as a whole.

SHW's control system also includes financial management indicators. In particular, the Company focuses on liquidity, the capital structure and possible market price risks, above all in relation to interest rates and currencies.

The business activities of the SHW Group focus on the sustainable increase of its enterprise value and on capital-efficient growth. Its paramount goals are a medium-term and long-term increase in its sales, adjusted consolidated earnings before interest, tax and depreciation and amortisation in relation to Group sales (adjusted EBITDA margin) and a long-term improvement in its working capital ratio.

Non-financial performance indicators

As well as financial goals, the management strategy of the SHW Group also includes a series of non-financial goals. These include the following factors which are critical to success:

- Customer satisfaction
- Product quality
- Qualified and motivated personnel
- Environmental awareness

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 logistical 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 and even realise further improvements in the Company's high level of quality. We aim to be the global supplier of choice for current customers and for potential new customers.

The employees of the SHW Group make a significant contribution to its economic success. Their identification with the Company – which is reflected in a long average period of employment – and their commitment are the cornerstones of future business success. Further important personnel indicators are the average number of workdays lost to sickness and the level of fluctuation. As an employer of choice, SHW fosters employee commitment, supports lifelong learning and continuous development, offers an attractive working environment, operates a health management system and guarantees occupational safety. We constantly strive to be the employer of choice for current and future employees.

Responsible corporate governance and sustainability are the foundations of SHW's business success. For this reason, besides focusing our product portfolio on CO_2-optimising vehicle components we pay particularly close attention to resource-friendly production processes. Through active environmental and energy management, we keep energy use and CO_2 emissions low compared to our value added.

Research and development

Electrically driven transmission oil pumps continue to gain ground

Over the past few years, with the support of automotive suppliers automobile manufacturers have introduced a large number of new CO_2-optimised engine and transmission generations to the market. In optimising the conventional combustion engine, a series of measures have already been realised in order to optimise both the combustion process and the level of efficiency of the related pumps. Moreover, considerable progress has already been made in optimising the energy use of auxiliaries (alternator, coolant pumps and oil pumps, vacuum pump for brake boosters, power steering, air conditioning compressor etc.).

Variable and map-controlled pump systems for engine lubrication are now standard in the new engine generations.

The process of functional integration also continues. SHW was the first company to develop variable oil/vacuum pumps (known as "tandem pumps") which are installed as a single unit in the engine's oil pan. It has been supplying these pumps to a leading European automobile manufacturer since late 2012. Since this time, SHW has been the market leader in Europe.

In the field of automated manual, dual clutch and automatic transmissions, there is likewise a clear trend towards the use of an auxiliary electrically driven transmission oil pump, which enables considerable potential savings through start-stop and sailing concepts. This extends the engine's standstill times and thus reduces power consumption. While the first generation of this engine only switches off while the vehicle is standing still, in expanded start-stop systems the engine switches off even while the vehicle is coasting to a stop, e.g. leading up to a red traffic light. With start-stop-sailing, the engine is switched off during driving once the driver's foot is no longer on the accelerator. Further fuel savings are possible in combination with navigation devices, e.g. by automatically turning off the engine upon entering built-up areas.

In the future, electrically driven pumps will also be used in electrified powertrains, both in plug-in hybrid vehicles (PHEV) and in purely electrically driven vehicles (BEV). Depending on the powertrain concept, they will be used either for shifting and lubricating the transmission or for cooling and lubricating the electric traction engine. SHW is developing suitable electric pumps for these applications.

In this respect, SHW will develop its electronic drive and control unit expertise to supplement its core hydraulic competence. As well as recruiting qualified development experts, the Company is intensively evaluating potential acquisition targets and opportunities for partnerships.

Overall, the trend of electrically driven pumps will enable a further reduction in CO_2 emissions, since this demand-control system can switch from “zero” to peak performance regardless of the engine’s speed and condition.

In spite of these electrification trends, stronger consideration of real driving emissions (RDE) and the charge level of the vehicle’s battery before and after the test cycle plus general cost pressure in the automobile industry cause that in many cases mechanically driven engine and transmission components continue to make sense in terms of a cost/benefit analysis.

The variable water pump for engine cooling likewise offers further potential for reductions in consumption. As well as reducing the vehicle’s drive power, such pumps also enable a significant reduction in the engine’s warm-up phase. This technology is currently in advance development for the start of series development projects. The development department is also pursuing other new concepts which in some cases offer considerable potential for reductions in consumption.

Development activities are accompanied by the establishment and optimisation of modern product-specific and fully automatic test benches and test facilities. For instance, a further efficient cooling chamber with a related pump drive unit for function-specific and endurance testing recently went into operation. Testing laboratories and testing stations are also to be established at international sites, to enable a prompt response to customers’ inquiries.

SHW’s Powder Metallurgy division has further expanded its core competences in the manufacturing of sintered parts for consumption-reducing oil pumps, high-precision components for camshaft phasers, scissor gears for improved NVH behaviour and lightweight, sintered aluminium parts.

The improved joining processes developed in the previous year for oil pump parts, a sintered aluminium component and further products went into series production in 2016. Within the scope of the focused investment activities at the Aalen-Wasseralfingen plant, a large number of components were developed, sampled and released at the new facilities. Progress was also made in a series of ratio and CIP projects relating to productivity and quality.

In the second half of 2016 especially, SHW acquired and developed a highly encouraging number of projects – some of these were follow-up projects for existing series, while others were new projects.

In addition, projects were pursued in the advance development stage with the goal of powder metallurgy-based manufacturing of products which are currently mainly conventionally produced. The combination of flexible shaping possibilities and specifically adjustable material properties offers customer-related product improvements combined with a more economical production method.

Demand for lightweight brake discs continues to rise

The Brake Discs business segment has been committed to lightweight construction for some years now. 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 so-called 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.

For a long time, the core issue was which production method to use in order to combine the cast-iron friction ring with the lighter brake disc pot in the most cost-favourable manner. Based on traditional screwing and riveting methods, SHW has made new concepts commercially viable. Together with its partners, the Company has also tested joining concepts such as aluminium forging and hybrid applications, i.e. a direct cast connection between the friction ring and aluminium. The number of vehicles fitted with SHW composite brake discs has continuously increased over the past few years. As the technology leader, SHW is by far the largest manufacturer of composite brake discs globally today.

On the development side, the past fiscal year was marked by a number of application projects based on the composite brake disc, in particular, as well as the conventional integral brake disc. Existing limits have been pushed back in terms of the dimensions, weight and performance of the composite brake disc. With a mass of 21 kg, the largest and highest-performance composite brake disc currently featured in SHW’s product portfolio has an external diameter of 420 mm and has hereby been designed for a vehicle with an overall weight of approx. 2.9 tonnes and a top speed of 330 km/h.

New ground was also broken in relation to the fields of use and application of SHW’s composite brake discs. In the past fiscal year, SHW developed composite brake discs for fully electric vehicles for a European manufacturer of premium vehicles.

Progress was also made in various basic projects, e.g. extending the life span of the stainless steel pins that connect the aluminium pot with the brake disc friction ring. Further weight reductions, improved corrosion resistance and the reduction of brake dust are particular areas of focus for future developments.

Intellectual property safeguarded on a long-term basis

The SHW Group protects its know-how and intellectual property relating to pumps and other engine components, brake discs, alloys and sintered metal parts through a large number of industrial property rights such as patents, utility models and design patents and by filing registrations for these industrial property rights. These rights are mainly registered in Germany and in various countries of the European Union and, in some cases, in the USA, Canada, Mexico and Asia. Several patents are jointly held with customers (Porsche, BMW and Audi) but may be unrestrictedly used by both parties.

REPORT ON THE ECONOMIC SITUATION

Economic environment

World economy suffers a further slight loss of momentum

The global economic trend was once again subdued in the past year. According to the present data (Bankhaus Lampe, January 2017), the world economy grew by 3.0 per cent and thus suffered a slight loss of momentum compared to the previous year's figure of 3.2 per cent. There are still a large number of factors hindering a stronger pace of global economic growth. Besides the (geo) political tensions, these include the high level of debt in the public and private sectors, the lack of structural reforms to provide fresh growth impetus and the ongoing tensions in the European banking sector. Increased protectionist tendencies were a further factor in 2016. However, expansionary monetary policy in the industrialised countries in particular prevented an economic downturn. In the emerging markets, growth stabilised at a low level, while Russia and Brazil remained in recession.

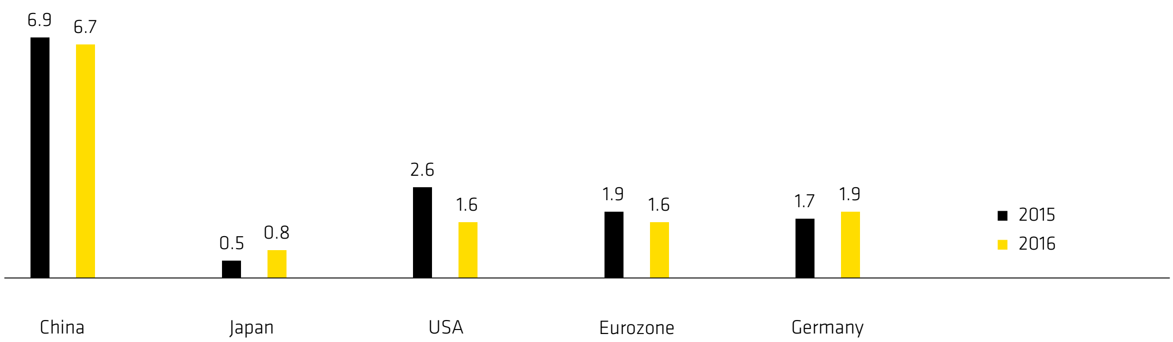
The US economy registered its weakest year since the global financial crisis of 2009. Gross domestic product increased by just 1.6 per cent (previous year 2.6 per cent), but economic activity picked up significantly in the second half of the year. Over the year as a whole, the declining investments in particular had an adverse impact. This is partially attributable to the reduced profitability of oil and gas extraction. However, private consumption also suffered a loss of impetus.

In the eurozone, the moderate economic upturn continued. The growth rate is forecast to amount to 1.7 per cent (previous year 1.9 per cent). Private consumption is the key pillar of growth and benefited from lower energy prices and the improved labour market situation. The decline in the euro's external value provided further positive momentum. However, structural problems continue to apply.

As in the eurozone, the upturn in Germany is mainly based on private consumption. This has gained in significance compared to external trade. Real wages and the positive economic outlook are buoying consumer spending. Moreover, government consumption – partly due to the increased volume of expenditure on account of the high level of immigration – provided a stronger growth contribution than in previous years. Overall, the German economy grew by 1.9 per cent in 2016 (previous year 1.7 per cent).

In Japan, the Abe government missed its growth targets. The pace of economic growth picked up over the summer of 2016, but internal economic activity remains weak. The stimulus package resolved back in August has not yet had much of an impact on the real economy. Over the year as a whole, economic output likely grew by 1.0 per cent (previous year 0.6 per cent).

GDP GROWTH BY REGION IN %



Source: Datastream. Forecast for 2016: Bankhaus Lampe Economic Research

According to its official gross domestic product figures, China registered remarkably stable economic growth of 6.7 per cent in 2016, compared to 6.9 per cent in the previous year. However, the monthly economic indicators such as freight volumes, electricity consumption and bank lending show that the economy went through a weak phase in the first half of the year. This also had an impact on German exports to China. The economy picked up halfway through the year. The loosening of monetary policy and lending terms as well as tax incentives to encourage car purchases made themselves felt here.

Industry environment

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

Increase in global automobile production mainly triggered by China

According to data from the research institute IHS, production of light vehicles (vehicles < 6 tonnes) increased worldwide by 4.4 per cent in 2016, from 88.7 million units to 92.7 million units. The trend varied considerably in the world's key regions.

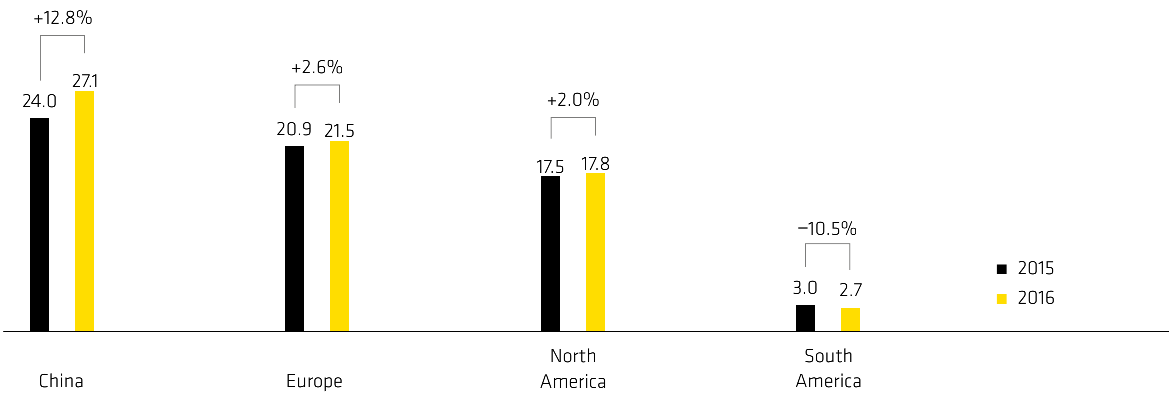
In China (incl. Taiwan), production figures increased by 12.8 per cent, from 24.0 million vehicles to 27.1 million vehicles. In Europe (incl. Russia) too, the upward trend of the past few years continued. The number of vehicles manufactured rose by 2.6 per cent, from 20.9 million vehicles to 21.5 million vehicles. Spain (+6.4 per cent to 2.9 million units), the UK (+8.6 per cent to 1.8 million units), Turkey (+10.5 per cent to 1.4 million units) and France (+6.3 per cent to 2.1 million units) were the main sources of this volume growth. In Germany, the key production location in Europe, the level of production amounted to 6.0 million vehicles. A slight increase of 0.5 per cent on the previous year. Vehicle production once again declined sharply in Russia, which with 1.2 million units fell short of the previous year's level by 7.9 per cent.

In North America, 17.8 million vehicles (+2.0 per cent) came off the production line due to consumer demand remaining robust. Most of this related to the increase in production in the USA (+1.3 per cent to 12.0 million units) and Canada (+5.2 per cent to 2.4 million units). In South America, the vehicle production once again declined significantly. Light vehicle production fell by 10.5 per cent to 2.7 million units, particularly in the context of a persistently serious recession in Brazil.

Slight increase in gasoline engine market share

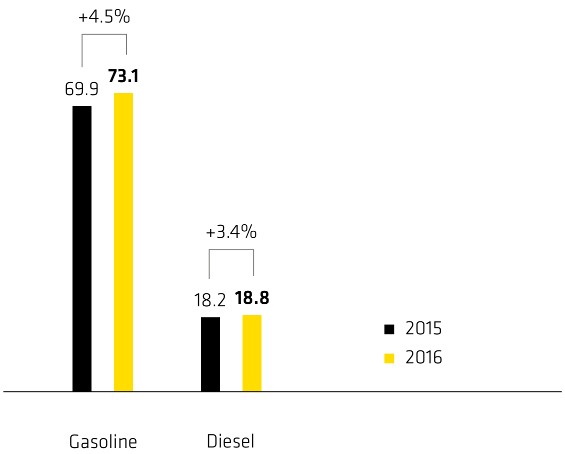
In 2016, production of drive units for light vehicles (< 6 tonnes) increased worldwide by 4.4 per cent to 92.7 million units. Production growth for gasoline engines was slightly above average and rose by 4.5 per cent to 73.1 million units. With a share of 78.9 per cent (previous year 78.8 per cent), gasoline engines remained the dominant drive concept in 2016. With 0.5 million units, electrical engines continued to play a minor role.

LIGHT VEHICLE PRODUCTION BY REGION (IN M UNITS)



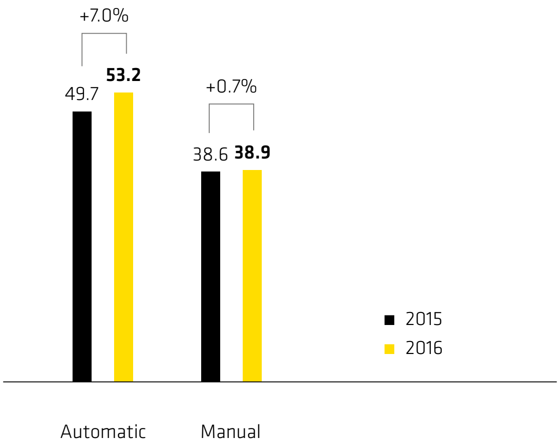
Source: IHS – January 2017

ENGINE PRODUCTION WORLDWIDE (IN M UNITS)



Source: IHS – January 2017

TRANSMISSION PRODUCTION WORLDWIDE (IN M UNITS)



Source: IHS – January 2017

In Europe (incl. Russia), a total of 23.2 million engines were manufactured (+2.8 per cent on the previous year). Production of diesel engines increased by 4.0 per cent to 11.2 million units, while production of gasoline engines was up by 1.7 per cent to 11.9 million units. There were hardly any changes in 2016 on the North American engine market. With an engine production volume totalling 16.1 million units, gasoline engines continued to account for a market share of 96.0 per cent. Production of diesel engines stagnated at the previous year's level of 0.5 million units. Engine production in China increased by a total of 12.3 per cent to 27.0 million units in 2016. Of this, 24.9 million units related to gasoline engines (market share: 92.4 per cent), and 1.8 million units to diesel engines (market share: 6.5 per cent).

Strong growth in automatic transmissions

In 2016, transmission production increased worldwide by 4.4 per cent to 92.7 million units. Production of automatic transmissions increased at an above-average rate of 7.0 per cent, from 49.7 million units to 53.2 million units. Their share of overall production thus rose from 56.1 per cent to 57.4 per cent. China was the main source of growth here, with 27.8 per cent growth in automatic transmissions to 9.2 million units. In Europe, the share of automatic transmissions likewise continued to increase. Production in Europe rose by 3.9 per cent to 8.5 million units; These transmissions' share of overall production thus increased from 37.5 per cent to 38.2 per cent. In North America, with 14.7 million units, 3.5 per cent more automatic transmissions were manufactured than in 2015. The share of overall production amounts to 98.3 per cent.

Actual business development by comparison with the outlook for 2016

At € 405.8 million, Group sales of SHW AG came close to the target range published in the ad hoc announcement of 26 July 2016 and in the financial report for the first six months of fiscal year 2016, which had envisaged Group sales of € 410 million to € 430 million. The original sales forecast had assumed Group sales between € 440 million and € 460 million, which was adjusted because of individual customers' cautious dispositions.

The earnings forecast which was confirmed in the ad hoc announcement of 26 July 2016 and in the financial report for the first six months of the year – despite a reduced sales forecast – envisaged an improved operating earnings margin compared to the previous year and an adjusted EBITDA figure at the lower end of the € 43 million to € 47 million range. With adjusted consolidated earnings before interest, tax, depreciation and amortisation (adjusted EBITDA) in the amount of € 43.6 million the earnings target was achieved. The adjusted EBITDA margin significantly increased from 9.4 per cent to 10.7 per cent. In particular, this reflects the positive effects of the implementation of the efficiency-enhancing measures to improve the business processes in both business segments.

The working capital trend in fiscal year 2016 was influenced by three factors in particular: in connection with the above-mentioned structural improvements, targeted measures were implemented in order to improve delivery capability, which resulted in a corresponding increase in inventories. In addition, inventories were deliberately built up for specific high-volume products, to ensure delivery capability for a customer during the technical changeover of an assembly line. In addition, the volume of trade receivables rose due to the Group's foreign companies' increased receivables from customers and a disclosure change. Trade payables have predominantly declined in line with the business development. At 12.2 per cent at the end of the year, working capital thus exceeded the target level of 11.0 per cent.

At € 317.5 million, sales in the Pumps and Engine Components business segment came close to the target range of € 320 million to € 340 million which had been predicted in the financial report for the first six months of the year. The original sales forecast had assumed a figure between € 340 million and € 360 million for this business segment.

The Brake Discs business segment achieved sales of € 88.2 million and thus fulfilled its forecasted figure of around € 90 million.

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

Results of operations

Group sales down by 12.5 per cent to € 405.8 million

One customer's technology switchover and declining call-offs for specific individual products in the Pumps and Engine Components business segment, as well as declining brake disc volumes and lower material surcharges in the Brake Discs business segment, led to a 12.5 per cent total fall in Group sales to € 405.8 million (previous year € 463.5 million).

Further improvement in cost of sales ratio

Cost of sales declined in fiscal year 2016 compared to the previous year by € 56.4 million or 13.6 per cent from € 416.3 million to € 359.9 million. Because of significantly reduced production and logistics costs, the cost of sales ratio improved from 89.8 per cent to 88.7 per cent. Optimised purchasing costs for purchased parts in the Pumps and Engine Components business segment and changes in the product mix in the Brake Discs business segment which resulted in a higher share of composite brake discs had a positive impact.

Selling expenses increased in fiscal year 2016 by € 1.5 million compared to the previous year and totalled € 8.4 million. The selling expenses ratio rose from 1.5 per cent to 2.1 per cent. General administrative expenses increased by € 1.3 million to € 13.2 million. The administrative expenses ratio therefore rose from 2.6 per cent to 3.2 per cent. Both of these trends are associated with the SHW Group's internationalisation strategy.

At € +2.5 million, the balance of other operating expenses and income is higher than the previous year's level of € –0.7 million which is attributable, in particular, to the reversal of accruals and insurance compensation.

Research and development costs slightly above previous year's level

Research and development costs of € 7.9 million in the fiscal year 2016 were slightly above previous year's level of € 7.5 million. In addition, development costs of € 0.9 million (previous year € 1.4 million) were capitalised as fixed assets. The R&D ratio (including the capitalised development costs) increased to 2.2 per cent of sales (previous year 1.9 per cent). Amortisation of capitalised development costs amounted to € 2.4 million in fiscal year 2016 (previous year € 2.3 million). Further development services were billed within the scope of customer orders. Electrically driven transmission oil pumps are the core area of development in the Pumps and Engine Components business segment. The Brake Discs business segment is focusing on the ongoing development of high-quality composite brake discs and other lightweight concepts.

KEY FIGURES: SHW GROUP

K EUR	**2016**	2015	Change %
Sales	405,770	463,478	-12.5%
EBITDA	43,553	42,675	2.1%
as % of sales	10.7%	9.2%	–
EBIT	18,938	20,132	-5.9%
as % of sales	4.7%	4.3%	–
Net profit	12,805	14,351	-10.8%
EBITDA adjusted	43,553	43,458	0.2%
as % of sales	10.7%	9.4%	–
EBIT adjusted	18,938	21,028	-9.9%
as % of sales	4.7%	4.5%	–
Equity	121,349	116,240	4.4%
Equity ratio	53.2%	50.4%	–
Working capital	49,543	32,534	52.3%
as % of sales	12.2%	7.0%	–
Investments	24,684	23,923	3.2%
as % of sales	6.1%	5.2%	–

EBITDA (adjusted) slightly improved, with significant increase in EBITDA margin (adjusted) from 9.4 to 10.7 per cent

Adjusted consolidated earnings before interest, tax, depreciation and amortisation (EBITDA adjusted) improved by € 0.1 million to € 43.6 million. At 10.7 per cent, the EBITDA margin is significantly higher than the previous year's figure of 9.4 per cent. The margin trends differed in the two business segments; we refer to our comments in this respect (see pages 43 to 45).

Because of the high investements in the past three fiscal years, depreciation and amortisation increased by € 2.1 million to € 24.6 million in fiscal year 2016.

Adjusted consolidated earnings before interest and tax (EBIT adjusted) accordingly decreased in fiscal year 2016 by € 2.1 million or 9.9 per cent compared to the previous year to € 18.9 million (previous year € 21.0 million). The adjusted EBIT margin amounts to 4.7 per cent, compared to 4.5 per cent in the previous year.

RECONCILIATION STATEMENT: SHW GROUP

K EUR	**2016**	2015
Sales	**405,770**	**463,478**
Operating result (EBIT)	**18,938**	**20,132**
PPA[1] property, plant and equipment	–	113
Costs for Management Board changes	–	783
EBIT adjusted	**18,938**	**21,028**
as % of sales	4.7%	4.5%
Other depreciation / amortisation	24,615	22,430
as % of sales	6.1%	4.8%
EBITDA adjusted	**43,553**	**43,458**
as % of sales	10.7%	9.4%

1) Amortisation resulting from the purchase price allocation

One-off factors in fiscal year 2016 and the previous year

No significant one-off expenses arose in fiscal year 2016. In fiscal year 2015, consolidated earnings before interest and tax (EBIT) were adversely affected by one-off expenses associated with two changes to the Management Board amounting to € 0.8 million as well as amortisation resulting from the purchase price allocation in the amount of € 0.1 million.

Financial result unchanged

The net financial result comprised expenses of € 1.2 million and was thus almost unchanged on the previous year. Higher interest expenses for pension and anniversary obligations contrasted with reduced interest expenses for the working capital loan due to lower interest rates as well as a reduced rate of utilisation.

Lower tax ratio

Income taxes amounted to € 5.1 million in 2016 (previous year € 5.9 million). The SHW Group's tax ratio amounted to 28.7 per cent for fiscal year 2016, compared to 29.2 per cent in the previous year. The increased tax ratio in 2015 was mainly attributable to the tax audit which was completed in the previous year.

Fall in net profit due to higher depreciation and the absence of one-off income

Net profit declined by € 1.5 million or 10.8 per cent to € 12.8 million, due to the higher depreciation. The previous year's result also included a one-off income from the initial measurement of the Chinese brake disc joint venture, in the amount of € 1.1 million. Earnings per share decreased from € 2.26 to € 1.99. The weighted average number of shares for the calculation of earnings per share amounted to 6,436,209 shares in fiscal year 2016 (previous year 6,359,263 shares).

Business segments

Pumps and Engine Components

Declining sales trend in line with expectations

The Pumps and Engine Components business segment achieved sales of € 317.5 million in fiscal year 2016 (previous year € 365.2 million). Sales in the Passenger Car division declined from € 306.6 million to € 262.9 million. In particular, this trend is attributable to the discontinuation of a major order for camshaft phasers for diesel vehicles, because of a customer's technology switchover, as well as declining call-offs for specific individual products. The Industry division achieved an unchanged sales contribution of € 27.7 million. The Powder Metallurgy division amounted sales of € 26.9 million in fiscal year 2016 (previous year € 30.9 million).

KEY FIGURES: PUMPS AND ENGINE COMPONENTS

K EUR	**2016**	2015	Change %
Sales	317,521	365,158	-13.0%
EBITDA	37,454	35,201	6.4%
as % of sales	11.8%	9.6%	–
EBIT	17,528	17,312	1.2%
as % of sales	5.5%	4.7%	–
EBITDA adjusted	37,454	35,201	6.4%
as % of sales	11.8%	9.6%	–
EBIT adjusted	17,528	17,342	1.1%
as % of sales	5.5%	4.7%	–
Investments	17,624	17,981	-2.0%
as % of sales	5.6%	4.9%	–

Adjusted EBITDA increased to € 37.5 million and EBITDA margin increased to 11.8 per cent

Adjusted segment earnings before interest, tax, depreciation and amortisation (EBITDA adjusted) improved from € 35.2 million to € 37.5 million. The corresponding EBITDA margin increased from 9.6 per cent to 11.8 per cent.

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

Overall, the earnings trend for the Group's foreign subsidiaries was in line with expectations. Expenses for the forward-looking establishment and expansion of foreign plants are included in the operating segment earnings.

Due to the high investments of the past three fiscal years, depreciation in the Pumps and Engine Components business segment increased by € 2.0 million to € 19.9 million.

Adjusted earnings before interest and tax (EBIT adjusted) for the Pumps and Engine Components business segment increased accordingly in fiscal year 2016 by € 0.2 million or 1.1 per cent compared to the previous year to € 17.5 million (previous year € 17.3 million). The adjusted EBIT margin amounts to 5.5 per cent (previous year 4.7 per cent).

RECONCILIATION STATEMENT: PUMPS AND ENGINE COMPONENTS

K EUR	**2016**	2015
Sales	**317,521**	**365,158**
Segment EBIT	**17,528**	**17,312**
PPA [1] property, plant and equipment	–	30
EBIT adjusted	**17,528**	**17,342**
as % of sales	5.5%	4.7%
Other depreciation / amortisation	19,926	17,859
as % of sales	6.3%	4.9%
EBITDA adjusted	**37,454**	**35,201**
as % of sales	11.8%	9.6%

1) Amortisation resulting from the purchase price allocation

One-off factors in fiscal year 2016 and the previous year

As in the previous year, no significant one-off items occurred in fiscal year 2016 at the level of the Pumps and Engine Components business segment.

Brake Discs

Sales decrease to € 88.2 million

In fiscal year 2016, sales in the Brake Discs business segment decreased by 10.2 per cent compared with the prior-year period to € 88.2 million (previous year € 98.3 million).

With 3.39 million units, the total number of brake discs sold was 20.0 per cent lower than in the previous year. The volume decline is mainly attributable to unprocessed monobloc brake discs and, to a lesser degree, to processed monobloc brake discs. By contrast, volume growth of 43.6 per cent was achieved with the high-value composite brake discs. Sales were also depressed by lower cost prices for scrap and correspondingly reduced material surcharges which were passed on to the customers.

KEY FIGURES: BRAKE DISCS

K EUR	**2016**	2015	Change %
Sales	88,249	98,320	-10.2%
EBITDA	7,899	9,797	-19.4%
as % of sales	9.0%	10.0%	–
EBIT	3,511	5,427	-35.3%
as % of sales	4.0%	5.5%	–
EBITDA adjusted	7,899	9,797	-19.4%
as % of sales	9.0%	10.0%	–
EBIT adjusted	3,511	5,510	-36.3%
as % of sales	4.0%	5.6%	–
Investments	6,508	5,424	20.0%
as % of sales	7.4%	5.5%	–

EBITDA and EBITDA margin below target value

Adjusted segment earnings before interest, tax, depreciation and amortisation (EBITDA adjusted) declined in fiscal year 2016 by € 1.9 million to € 7.9 million. The EBITDA margin amounts to 9.0 per cent (previous year 10.0 per cent) and thereby falls short of the target of 10 per cent. The decline in margins is mainly attributable to residual fixed remanence. This effect was partially compensated by improvements in the product mix, i.e. a higher share of composite brake discs.

Because of continuing high investments, depreciation in the Brake Discs business segment remained at the previous year's level of € 4.4 million.

Adjusted earnings before interest and tax (EBIT adjusted) decreased from € 5.5 million to € 3.5 million. The adjusted EBIT margin accordingly decreased to 4.0 per cent, compared to 5.6 per cent in the previous year.

The joint venture SHW Longji Brake Discs (LongKou) Co., Ltd., LongKou, China, launched its operating activities on 1 April 2015, and since that time it produces unprocessed brake discs for the Chinese joint venture partner's aftermarket business. In fiscal year 2016, a new production hall was completed and a first machining line was delivered for mechanical processing. Regarding first customer orders for processed brake discs the joint venture is in the acquisition phase.

RECONCILIATION STATEMENT: BRAKE DISCS

K EUR	**2016**	2015
Sales	**88,249**	**98,320**
Segment EBIT	**3,511**	**5,427**
PPA [1] property, plant and equipment	–	83
EBIT adjusted	**3,511**	**5,510**
as % of sales	4.0%	5.6%
Other depreciation / amortisation	4,388	4,287
as % of sales	5.0%	4.4%
EBITDA adjusted	**7,899**	**9,797**
as % of sales	9.0%	10.0%

1) Amortisation resulting from the purchase price allocation

One-off factors in fiscal year 2016 and the previous year

No significant one-off items resulted in fiscal year 2016 at the level of the Brake Discs business segment. For the previous fiscal year 2015, expenses resulted from depreciation and amortisation arising from the purchase price allocation of € 0.1 million.

Net assets and financial position

NET ASSET POSITION

K EUR	**2016**	2015	Change absolute	Change %
Non-current assets	136,625	135,466	1,159	0.9%
of which other intangible assets	9,259	11,346	-2,087	-18.4%
of which property, plant and equipment	96,854	94,810	2,044	2.2%
Joint ventures accounted for using the equity method	16,412	16,669	-257	–
of which other (financial) assets	1,774	918	856	93.2%
Current assets	91,306	94,997	-3,691	-3.9%
of which inventories	46,378	41,630	4,748	11.4%
of which trade receivables	37,967	34,388	3,579	10.4%
of which liquid funds	3,616	14,814	-11,198	-75.6%
Total assets	**227,931**	**230,463**	**-2,532**	**-1.1%**

Slight decrease in balance sheet total

As of the end of fiscal year 2016, the balance sheet total has slightly declined on the previous year. The additions to other intangible assets and property, plant and equipment match with current depreciation and amortisation, so that these non-current assets together remain almost unchanged.

Joint ventures accounted for using the equity method in the amount of € 16.4 million exclusively comprise the Chinese joint venture SHW Longji Brake Discs (LongKou) Co., Ltd., which is allocated to the Brake Discs business segment. SHW Automotive GmbH contributed € 9.0 million to the share capital in the previous year. The still outstanding second purchase price instalment, which translates to € 6.7 million, is due at the end of February 2017 and is included in the other current financial liabilities.

Inventories increased due to targeted strategic measures implemented in order to improve delivery capability. Since the Group's domestic companies' sales in December 2016 almost matched prior year's level, there was no significant change of receivables resulting from operating business as at the balance sheet date. For the Group's foreign companies, an increasing volume of business activities resulted in a rise. In addition, trade receivables increased due to a disclosure change induced reclassification effect with no effect on net profit.

Due to the use of resources for investments, profit distributions and the development of the respective assets and liabilities, liquid funds decreased to € 3.6 million on the reporting date.

FINANCIAL POSITION

K EUR	2016	2015	Change absolute	Change %
Equity	121,349	116,240	5,109	4.4%
Non-current liabilities and accruals	36,546	42,635	-6,089	-14.3%
of which other financial liabilities	1,208	7,855	-6,647	-84.6%
of which liabilities to banks	107	1,297	-1,190	-91.8%
Current liabilities and accruals	70,036	71,588	-1,552	-2.2%
of which liabilities to banks	1,876	1,189	687	57.8%
of which trade payables	34,802	43,484	-8,682	-20.0%
of which other accruals	10,524	9,984	540	5.4%
Total equity and liabilities	**227,931**	**230,463**	**-2,532**	**-1.1%**

Increase in equity ratio to 53.2 per cent

As at 31 December 2016, the Group's equity has increased compared with the previous year by € 11.5 million in total comprehensive income after tax. The profit distribution made in 2016 for fiscal year 2015 in the amount of € 6.4 million had the opposite effect. Due to a slightly lower balance sheet total, the equity ratio increased from 50.4 per cent to 53.2 per cent.

Other non-current financial liabilities declined, in particular due to the reclassification of the second purchase price instalment payable in February 2017 for the joint venture SHW Longji Brake Discs (LongKou) Co., Ltd. to other current financial liabilities.

The € 1.5 million net decrease in current liabilities and accruals despite this reclassification effect is due, above all, to the decrease in trade payables in line with the business development.

Working capital ratio higher than previous year

The working capital ratio, calculated in relation to Group sales of the last twelve months, rose on the previous year, from 7.0 per cent to 12.2 per cent, and thus exceeded the medium-term target of 11.0 per cent.

WORKING CAPITAL

K EUR	2016	2015	Change absolute	Change %
Inventories	46,378	41,630	4,748	11.4%
Trade receivables	37,967	34,388	3,579	10.4%
Trade payables	-34,802	-43,484	8,682	-20.0%
Working capital	**49,543**	**32,534**	**17,009**	**52.3%**
as % of sales	12.2%	7.0%	-	-

Operating cash flow significantly below previous year's level

At € 20.8 million, cash flow from operating activities in the fiscal year 2016 was significantly below the previous year's level of € 40.9 million. In particular, this is attributable to the increase in working capital. In addition, the increase in accruals was higher in 2015 than in 2016.

At € 24.8 million, cash flow from investing activities relating to intangible assets and property, plant and equipment was approx. € 2.0 million higher than the previous year's figure. Within the scope of the internationalisation of the brake disc activities, in 2015 just over € 9 million was invested in financial assets (Joint venture SHW Longji Brake Discs (LongKou) Co., Ltd.).

For fiscal year 2016, the Group's total free cash flow thus amounted to € –4.0 million (previous year € 9.1 million).

DERIVATION OF THE CHANGE IN NET LIQUIDITY

K EUR	2016	2015
Cash flow from operating activities	20,759	40,894
Cash flow from investing activities (intangible assets and property, plant and equipment)	-24,789	-22,797
Operating free cash flow	**-4,030**	**18,097**
Cash flow from investing activities (financial assets)	0	-9,041
Total free cash flow	**-4,030**	**9,056**
Other items (in particular, capital increase / dividend payments)	-6,665	17,628
Change in net liquidity	**-10,695**	**26,684**

Net liquidity amounts to € 1.6 million

Net liquidity of the SHW Group totalled € 1.6 million as at 31 December 2016. On the previous year's balance sheet date, net liquidity amounted to € 12.3 million.

The decrease in net liquidity results from the negative total free cash flow in the amount of € –4.0 million as well as from other cash outflows of € –6.7 million which relate, in particular, to dividend payments made.

As at 31 December 2016, the SHW Group had liquid funds of € 3.6 million (previous year € 14.8 million). Bank debts in the amount of € 2.0 million comprise two amortising loans with a volume of € 1.3 million, as well as drawdowns in the amount of € 0.7 million on the existing working capital loan, as a component of a € 60.0 million credit line which will run until 30 September 2017. Half of this line may also be used for the purpose of acquisitions. At the end of the year, in addition to these drawdowns this credit line had been utilised for the purpose of guarantees in the amount of € 1.0 million. The amounts drawn down attract variable interest on the basis of the three-month EURIBOR plus a margin of between 1.2 per cent and 2.0 per cent per year. The Group does not enter into any interest-rate hedging transactions.

Increasing investments in property, plant and equipment

Additions to property, plant and equipment and intangible assets amounted to € 24.7 million in fiscal year 2016 (previous year € 23.9 million). The discrepancy between the reported additions from property, plant and equipment and intangible assets and payments made in the consolidated cash flow statement reflects the deferral of payments beyond the reporting date and non-cash asset additions from finance leasing.

The Pumps and Engine Components business segment accounts for additions in the amount of € 17.6 million (previous year € 18.0 million), including investments for research and development amounting to € 0.9 million (previous year € 1.4 million). These investments focused on new assembly lines, processing centres and a powder press. The Brake Discs business segment invested a total of € 6.5 million (previous year € 5.4 million). These investments include a new logistics building, new machining lines for brake discs and another automatic aluminium-casting machine.

ROCE influenced by Group's expansion

RETURN ON CAPITAL EMPLOYED (ROCE)

K EUR	2016	2015
Goodwill	7,055	7,055
Other intangible assets	9,259	11,346
Property, plant and equipment	96,854	94,810
Deferred tax assets	5,271	4,668
Joint ventures accounted for using the equity method	16,412	16,669
Other (financial) assets (non-current)	1,774	918
Inventories	46,378	41,630
Trade receivables	37,967	34,388
Other (financial) assets	3,345	4,165
Capital employed asset item	224,315	215,649
Deferred tax liabilities	-2,448	-3,237
Other accruals (non-current)	-4,747	-3,972
Other financial liabilities (non-current)	-1,208	-7,855
Trade payables	-34,802	-43,484
Other financial liabilities (current)	-14,161	-7,088
Income tax liabilities	-1,619	-2,013
Other accruals (current)	-10,524	-9,984
Other liabilities	-7,054	-7,830
Capital employed liability item	-76,563	-85,463
Capital employed	147,752	130,186
EBIT adjusted	18,938	21,028
Profit of joint ventures accounted for using the equity method	252	1,383
EBIT adjusted including profit of joint ventures accounted for using the equity method	19,190	22,411
ROCE	13.0%	17.2%

The return on capital employed (ROCE) decreased from 17.2 per cent to 13.0 per cent in the past fiscal year.

This is mainly attributable to the Group's continuing expansion, which is reflected in an increase in the capital employed and, in the EBIT figure, in increased depreciation and ongoing expenses for internationalisation. In addition, EBIT figure from the previous year had been positively influenced by a one-off income from joint ventures accounted for using the equity method.

Workforce unchanged

In the SHW Group, over the past year the number of employees remained unchanged at 1,287 employees on average.

At the Pumps and Engine Components business segment sites, at 866 the average number of employees is close to the previous year's level of 863. At the two plants of the Brake Discs business segment, the average number of employees declined from 384 to 360.

Personnel expenses decreased by 1.1 per cent in 2016 to € 88.9 million, compared to € 89.9 million in the previous year. As a result of lower Group sales, the personnel expense ratio – the ratio of personnel expenses to Group sales – increased from 19.4 per cent to 21.9 per cent. The development of employee productivity (defined as sales per average number of employees) should also be considered in this context. It decreased by 12.5 per cent on the previous year, from € 360 thousand to € 315 thousand. It should be noted here, however, that in fiscal year 2016 expenses for temporary workers likewise decreased by 25.0 per cent from € 9.2 million to € 6.9 million.

The collectively agreed rates of pay increased by 2.8 per cent from 1 July 2016. A supplementary collective bargaining agreement was concluded for the Bad Schussenried plant in December 2016. This agreement envisages a contribution of the employees to establish this location as a centre of excellence for electric transmission oil pumps in the period up to 2022.

As at 31 December 2016, SHW again had 40 apprentices across all of its plants. New hirings were focused on apprenticeships of industrial mechanics.

In 2016, seven employees celebrated their 40th anniversary, thirteen employees their 25th and twenty-seven employees their 10th anniversary of service with the Company.

Overall statement on the company's economic position

In the prevailing circumstances, the Management Board of SHW AG considers that the Group's overall business performance in 2016 was satisfactory. The Group sales target range – most recently updated in the interim report as at 30 June 2016 – was almost achieved. Adjusted consolidated earnings before interest, tax, depreciation and amortisation (EBITDA adjusted) came in as announced at the lower end of the € 43 million to € 47 million range. Due to the investments in expansion in the past fiscal year and in previous years, total depreciation rose by 9.3 per cent on 2015, from € 22.5 million to € 24.6 million. The EBIT figure thus declined, despite an adjusted EBITDA slightly above the previous year's level. With an unchanged financial result a decline in profit of joint ventures accounted for using the equity method year-on-year, and after deducting income taxes a net profit in the amount of € 12.8 million (previous year € 14.4 million) resulted.

The working capital ratio, calculated in relation to Group sales of the last twelve months, increased on the previous year, from 7.0 per cent to 12.2 per cent, and thus exceeds the medium-term target of 11.0 per cent. This rise was due to strategic increases in inventories, disclosure change induced reclassification effects for trade receivables and the decline in trade payables in line with the business development.

With an equity ratio of 53.2 per cent and net liquidity of € 1.6 million, SHW's financial profile remains above average for its industry.

With its innovative product portfolio and its current orders, the Management Board of SHW AG considers the Group to be well positioned to achieve stronger growth than the underlying vehicle market from 2018 onwards. Moreover, the Company has various equity and debt instruments at its disposal, supporting the expansion of its market position in selected divisions and regions, also via acquisitions and partnerships.

ANNUAL FINANCIAL STATEMENTS OF SHW AG

The Group management report and the management report of SHW AG for fiscal year 2016 have been combined in accordance with Section 315 (3) of the German Commercial Code (HGB) in conjunction with Section 298 (2) HGB. The annual financial statements and the combined Group management report and the management report of SHW AG are simultaneously published in the Federal Gazette (Bundesanzeiger).

The following figures and comments refer to the annual financial statements of SHW AG prepared in accordance with the German Commercial Code (HGB) and the German Stock Corporation Act (AktG).

Due to the German Accounting Directive Implementation Act (BilRUG), which is applicable for the first time for fiscal year 2016 in accordance with the provisions of the German Commercial Code (HGB), the following disclosure change has been made to the income statement of SHW AG prepared in compliance with commercial law. This disclosure change has not had any effect on the consolidated income statement of SHW AG in accordance with IFRS due to consolidation.

From fiscal year 2016 onwards, Management Board cost allocation to the subsidiary SHW Automotive GmbH, which is an affiliated entity under the profit and loss transfer agreement, will be reported as sales. Since these costs are passed on in accordance with a predetermined key without any significant profit mark-up, cost of sales, which in the previous year had been reported as general administrative expenses, result in the same amount. The previous year's figure has been adjusted for reference purposes.

Comments on the results of operations

INCOME STATEMENT

K EUR	**2016**	2015
1. Sales	1,000	853
2. Cost of sales	-1,000	-853
3. Gross profit	0	0
4. General administrative expenses	-2,769	-2,332
5. Other operating income	491	411
6. Other operating expenses	-110	-1,740
7. Income from investments	19,818	20,943
8. Income from tax levies paid over by controlled companies	2,370	2,559
9. Income from loans of financial assets	26	12
10. Other interest and similar income	410	57
11. Interest and similar expenses	-166	-462
12. Income taxes	-5,813	-6,222
13. Earnings after tax	14,257	13,226
14. Other taxes	-21	-318
15. Net income for the year	14,236	12,908
16. Profit carried forward	113	42
17. Net retained profit	**14,349**	**12,950**

Earnings after income tax increased from € 13.2 million in the previous year to € 14.3 million. This is due to the following factors in particular:

- Decline in other operating expenses (in the previous year, mainly increased due to one-off factors caused by changes in the Management Board)
- Improvement in the financial result (resources from last year's capital increase were allocated for financing the subsidiaries and have therefore resulted in increased interest income or reduced interest and similar expenses)
- Reduced income tax expenses, as the effects of the last tax audit had to be taken into consideration in fiscal year 2015

Income from this profit and loss transfer, shown under income from investments, was affected, in particular, by the effects on operating earnings outlined above in both business segments. In this respect, we refer to our comments on the results of operations for the Pumps and Engine Components and Brake Discs business segments.

Other taxes in the previous year likewise mainly increased due to the tax audit.

Comments on the net assets and financial position

STATEMENT OF FINANCIAL POSITION (SUMMARISED)

K EUR	**31.12.2016**	31.12.2015
Non-current assets	143,389	143,401
Current assets, including deferred expenses	27,366	23,013
Total assets	**170,755**	**166,414**
Equity	167,492	159,693
Accruals and liabilities	3,263	6,721
Total capital	**170,755**	**166,414**

Fixed assets mainly comprise the unchanged investment in SHW Automotive GmbH in the amount of € 141.3 million.

Current assets mainly comprise receivables from the transfer of profit and loss in the amount of € 19.8 million (previous year € 20.9 million) as well as an interest-bearing loan to SHW Automotive GmbH of € 6.9 million (previous year liability of € –2.5 million). Value-added tax refund claims decreased from € 1.8 million to € 0.3 million.

SHW AG's equity increased by € 7.8 million compared with the previous year's balance sheet date. This increase resulted from the net income for fiscal year 2016 in the amount of € 14.2 million less a dividend payment to the shareholders in the amount of € 6.4 million. The equity ratio thereby increased from 96.0 per cent in the previous year to 98.1 per cent.

The decrease in accruals and liabilities is primarily attributable to the reduction in liabilities resulting from loans of SHW Automotive GmbH as well as lower income tax liabilities.

Since SHW AG performs a pure holding function, its key performance indicators are limited to its income from investments.

In its business development, SHW AG is essentially subject to the same risks and opportunities as the SHW Group. in generaly SHW AG participates in its subsidiaries' risks and opportunities in line with its respective ownership interest. These are outlined in the "Risk report" and "Opportunities report" sections.

For the year 2017, we expect that SHW AG will generate net income which is equal to the level for fiscal year 2016. Due to the interdependences of SHW AG with the Group companies, we refer to our comments on the SHW Group in the "Outlook" section.

REMUNERATION REPORT

The following remuneration report forms part of the combined (Group) management report. It describes the structure of the remuneration of the members of the Management Board and the Supervisory Board as well as their individual remuneration components. This report complies with the requirements of the German Commercial Code (HGB) as well as the International Financial Reporting Standards (IFRS). It also considers the recommendations of the German Corporate Governance Code (GCGC).

Management Board

Remuneration system

In accordance with the requirements of the German Stock Corporation Act (AktG) and the recommendations of the German Corporate Governance Code, the remuneration of the members of the Management Board consists of fixed (non-performance-related) and variable (performance-related) components. The variable remuneration consists of 40 per cent of an annual bonus and 60 per cent of a rolling sustainability bonus, half of which on a two-year assessment basis and the other half on a three-year assessment basis. The remuneration components are aligned so that they are appropriate individually and collectively while considering the duties of the individual Management Board member, his personal performance and the economic situation, the performance and the future prospects of SHW AG.

Non-performance-related remuneration components

The members of the Management Board receive a fixed annual remuneration which is paid out in twelve equal monthly installments. The members of the Management Board also receive additional benefits in the form of a company car, insurance contributions or the conclusion of insurance policies for the Management Board members, including the payment of the insurance premiums and in the case of one Management Board member also the payment of accommodation costs for the first two months of service as well as the estate agent's fees for renting an apartment. In each case, the Company's expenses for these additional benefits may not exceed € 200 thousand per annum.

Variable remuneration components

For the performance-related remuneration, a target bonus has been determined in each Management Board member's employment contract which corresponds to the amount of performance-related remuneration in case of full (100 per cent) target achievement.

The first element of the variable Management Board remuneration is the annual bonus relating to the respective fiscal year, accounting for 40 per cent of the target bonus. This is determined on the basis of the achievement of targets which refer to specific performance indicators of the Company and its subsidiaries and affiliated companies (jointly the SHW Group). 70 per cent of this is dependent on the development of SHW Group's EBITDA and 30 per cent on the development of the SHW Group's average monthly working capital ratio. Key benchmarks for measurement of the level of target achievement are the EBITDA and the average monthly working capital ratio targets for the SHW Group defined in the annual budget approved by the Supervisory Board for the relevant fiscal year. The annual bonus payable for a fiscal year will be determined and subsequently paid out in the following year on the basis of the audited and approved consolidated financial statements of SHW AG. In determining the level of target achievement, the Supervisory Board may appropriately consider any extraordinary developments. Moreover, the calculated amount will be reduced if the financial ratios (covenants) specified in the relevant credit and debt-financing agreements of the SHW Group are not complied with in the relevant fiscal year. If the target level is exceeded, the annual bonus may exceed the applicable pro rata target bonus. However, the annual bonus may not exceed twice the pro rata target bonus.

The second variable remuneration element is the so-called sustainability bonus, which accounts for 60 per cent of the target bonus. For its part, half of the sustainability bonus is calculated on a two-year assessment basis and the other half on a three-year assessment basis. Its amount reflects the Company's share price development in relation to the benchmark index DAXsector Automobile Performance in the current fiscal year and a following year (two-year assessment basis) or in the current fiscal year and two following years (three-year assessment basis). The relevant share price is determined as a 90-day average price at the end of the respective year. Full target achievement occurs if the stock exchange price development matches the performance of the benchmark index in the relevant period. The sustainability bonus will be increased or reduced in relation to the pro rata target bonus to the same extent as the share price of the SHW share outperforms or underperforms the benchmark index in the relevant period. However, it may not exceed 150 per cent (for the Chief Executive Officer, 200 per cent) of the pro rata target bonus. The calculated sustainability bonus will be paid out two months after expiry of the relevant assessment period.

Pension obligations

At present, the Company only has a contractual pension scheme with the former Chief Executive Officer, Dr Krause, which is based on vested pension rights in accordance with a service contract from the year 2000. It essentially comprises the following provisions:

This old-age pension will begin upon termination of service on the Management Board and upon reaching the age of 65 except in case of occupational disability or disability within the meaning of the statutory pension insurance scheme or provision for dependants in the event of death. In case of occupational disability or disability before reaching retirement age, the former Chief Executive Officer will receive an invalidity pension in the amount of his pension entitlement. In case of death, his widow is entitled to a survivor's pension in the amount of 60 per cent and a dependent child is entitled to an orphan's pension in the amount of 20 per cent of his pension expectancy. In case of two or more orphans, the orphan's pension jointly amounts to 40 per cent of the pension expectancy and must be equally apportioned to the orphans. If no widow's allowance is paid, in principle the orphan's pension for each orphan will increase to 30 per cent and in case of three or more orphans jointly to 80 per cent, in equal portions.

The employment relationship with the former Chief Executive Officer Dr Krause was terminated upon expiry of 30 April 2013 and thus before he reached the age of 65; his pension expectancy has been reduced accordingly. This expectancy is non-forfeitable in accordance with statutory provisions. As of the reporting date, the above-mentioned pension obligation to Dr Krause has resulted in liabilities with a value of approx. € 89 thousand according to IAS 19.

There are currently no pension obligations in relation to the present members of the Management Board. However, their employment contracts require a mutual agreement on a separate regulation ensuring appropriate old-age pension benefits.

Total remuneration of the Management Board for fiscal year 2016 in accordance with German Accounting Standard (DRS) 17

The following table presents the remuneration of the members of the Management Board in accordance with Section 314 HGB in conjunction with DRS 17. The table shows the remuneration provided as at the balance sheet date.

TOTAL REMUNERATION OF THE MANAGEMENT BOARD FOR FISCAL YEAR 2016

K EUR	Non-performance-related remuneration components		Performance-related remuneration components		**Annual remuneration**
Name	Fixed annual remuneration	Additional benefits	Annual bonus	Sustainability bonus	**Total**
Dr Frank Boshoff	330	20	71	162 [1)]	583
Martin Simon	77 [2)]	8	20 [2), 3)]	20 [2), 3)]	125
Andreas Rydzewski	250	16	39 [4)]	90 [1), 5), 6)]	395
Sascha Rosengart	38 [7)]	2	0 [7)]	0 [7), 8)]	40
Total	**695**	**46**	**130**	**272**	**1,143**

1) Total value for the sustainability bonus (two and three-year assessment period) for fiscal year 2016 in case of 100 per cent target achievement (for further details of the procedure for calculation of the sustainability bonus, see the section "Remuneration report – Management Board – Variable remuneration components").
2) Pro rata temporis; member of the Management Board since 1 September 2016.
3) For fiscal year 2016, Mr Martin Simon was promised a non-performance-related bonus totalling € 40 thousand; half of this amount (€ 20 thousand, shown under "Annual bonus") was paid out upon expiry of 2016. The other half (€ 20 thousand, shown under "Sustainability bonus") will be paid out upon expiry of 2017.
4) The target annual bonus amounted to € 55 thousand for the period up to 31 December 2015 and to € 60 thousand from 1 January 2016.
5) The target sustainability bonus amounted to € 82.5 thousand for the period up to 31 December 2015 and to € 90 thousand from 1 January 2016.
6) The sustainability bonus for the fiscal year 2014 with a three-year assessment period will fall due two months after the expiry of 2016. For Mr Andreas Rydzewski it amounts to € 22 thousand. The sustainability bonus for the fiscal year 2015 with a two-year assessment period will fall due two months after the expiry of 2016. For Mr Andreas Rydzewski it amounts to € 38 thousand.
7) Pro rata temporis up to date of resignation on 29 February 2016.
8) The sustainability bonus for fiscal year 2014 with a three-year assessment period will fall due two months after the expiry of 2016. For Mr Sascha Rosengart it amounts to € 22 thousand. The sustainability bonus for the fiscal year 2015 with a two-year assessment period will fall due two months after the expiry of 2016. For Mr Sascha Rosengart it amounts to € 30 thousand.

TOTAL REMUNERATION OF THE MANAGEMENT BOARD FOR FISCAL YEAR 2015

K EUR	Non-performance-related remuneration components		Performance-related remuneration components		Annual remuneration
Name	Fixed annual remuneration	Additional benefits	Annual bonus	Sustainability bonus	Total
Dr Frank Boshoff	165 [1]	10	67.5 [1), 2)]	67.5 [1), 2)]	310
Dr Thomas Buchholz	150 [3]	8	0	0 [4]	158
Andreas Rydzewski	262 [5), 6)]	16	36 [7]	83 [8), 9), 10)]	397
Sascha Rosengart	235 [5), 11)]	13	29 [12]	66 [8), 13), 14)]	343
Total	**812**	**47**	**132.5**	**216.5**	**1,208**

1) Pro rata temporis; member of the Management Board since 1 July 2015.
2) For fiscal year 2015, Mr Frank Boshoff was promised a non-performance-related bonus totalling € 135 thousand; half of this amount (€ 67.5 thousand, shown under “Annual bonus”) was paid out upon expiry of 2015. The other half (€ 67.5 thousand, shown under “Sustainability bonus”) will be paid out upon expiry of 2016.
3) Pro rata temporis up to date of resignation on 30 June 2015.
4) The sustainability bonus for fiscal year 2014 with a two-year assessment period will fall due two months after the expiry of 2015. For Dr Thomas Buchholz it amounts to € 36 thousand.
5) This includes a one-off special payment of € 20 thousand.
6) Fixed annual remuneration amounted to € 220 thousand for the period up to 31 March 2015 and to € 250 thousand from 1 April 2015.
7) The target annual bonus amounted to € 40 thousand for the period up to 31 December 2014 and to € 55 thousand for 2015.
8) Total value for the sustainability bonus (two and three-year assessment period) for fiscal year 2015 in case of 100 per cent target achievement (for further details of the procedure for calculation of the sustainability bonus, see the section “Remuneration report – Management Board – Variable remuneration components”).
9) The target sustainability bonus amounted to € 60 thousand for the period up to 31 December 2014 and to € 82.5 thousand from 1 January 2015.
10) The sustainability bonus for fiscal year 2013 with a three-year assessment period will fall due two months after the expiry of 2015. For Mr Andreas Rydzewski it amounts to € 14 thousand. The sustainability bonus for fiscal year 2014 with a two-year assessment period will fall due two months after the expiry of 2015. For Mr Andreas Rydzewski it amounts to € 15 thousand.
11) Fixed annual remuneration amounted to € 200 thousand for the period up to 30 June 2015 and to € 230 thousand from 1 July 2015.
12) The target annual bonus amounted to € 40 thousand for the period up to 31 December 2014 and to € 44 thousand from 1 January 2015.
13) The target sustainability bonus amounted to € 60 thousand for the period up to 31 December 2014 and to € 66 thousand from 1 January 2015.
14) The sustainability bonus for fiscal year 2014 with a two-year assessment period will fall due two months after the expiry of 2015. For Mr Sascha Rosengart it amounts to € 15 thousand.

Management Board remuneration in 2016 in accordance with the German Corporate Governance Code

In accordance with the recommendations of the German Corporate Governance Code (GCGC) as amended 5 May 2015, the benefits provided and payments (received) are presented in the tabular format proposed and recommended by the GCGC for the reporting year 2016.

BENEFITS PROVIDED TO THE MANAGEMENT BOARD FOR FISCAL YEAR 2016

K EUR	Dr Frank Boshoff Chief Executive Officer (CEO) Joined: 1 July 2015				Andreas Rydzewski Member of the Management Board Joined: 1 October 2008				Martin Simon Chief Financial Officer (CFO) Joined: 1 September 2016				Sascha Rosengart Chief Financial Officer (CFO) Joined: 6 May 2013 Left: 29 February 2016			
Benefits provided	2015	2016	2016 (Min.)	2016 (Max.)	2015	2016	2016 (Min.)	2016 (Max.)	2015	2016	2016 (Min.)	2016 (Max.)	2015	2016	2016 (Min.)	2016 (Max.)
Fixed remuneration	165[1)]	330	330	330	262[2), 3)]	250	250	250		77[4)]	77	77	235[2), 5)]	618[6)]	618	618
Additional benefits	10	20	20	20	16	16	16	16		8	8	8	13	2	2	2
Total	**175**	**350**	**350**	**350**	**278**	**266**	**266**	**266**		**85**	**85**	**85**	**248**	**620**	**620**	**620**
One-year variable remuneration																
Annual bonus 2015	67.5[1), 7)]	–	–	–	55[8)], *	–	–	–		–	–	–	44[10)], *	–	–	–
Annual bonus 2016	–	108 *	0	216	–	60[8)], *	0	120		20[4), 9)]	20	20	–	0[6)]	0	0
Multiple-year variable remuneration																
Sustainability bonus 2015 (2-year period)	67.5[1), 7)]	–	–	–	41[11)], **	–	–	–		–	–	–	33[12)], **	–	–	–
Sustainability bonus 2015 (3-year period)		–	–	–	41[11)], **	–	–	–		–	–	–	33[12)], **	–	–	–
Sustainability bonus 2016 (2-year period)	–	81 **	0	162	–	45[11)], **	0	68		20[4), 9)]	20	20	–	0[6)]	0	0
Sustainability bonus 2016 (3-year period)	-	81 **	0	162	–	45[11)], **	0	68					–	0[6)]	0	0
Total remuneration	**310**	**620**	**350**	**890**	**415**	**416**	**266**	**522**		**125**	**125**	**125**	**358**	**620**	**620**	**620**

* These figures correspond to the target value (i.e. 100 per cent target achievement) for the annual bonus.
** These figures correspond to the target value (i.e. 100 per cent target achievement) for the sustainability bonus as of the payment date.
1) Pro rata temporis; member of the Management Board since 1 July 2015.
2) This includes a one-off special payment of € 20 thousand.
3) Fixed annual remuneration amounted to € 220 thousand for the period up to 31 March 2015 and to € 250 thousand from 1 April 2015.
4) Pro rata temporis; member of the Management Board since 1 September 2016.
5) Fixed annual remuneration amounted to € 200 thousand for the period up to 30 June 2015 and to € 230 thousand from 1 July 2015.
6) Pro rata temporis up to date of A17:AH30 on 29 February 2016. Mr Sascha Rosengart was also granted a compensation payment in the amount of € 580 thousand (recognised in "Fixed remuneration"). The compensation payment covers the sustainability bonus for fiscal year 2016, calculated over a two or three-year assessment period, as well as an annual bonus and any entitlements for vacation not taken. Half of the compensation payment (€ 290 thousand) became due for payment in February 2016, the other half (€ 290 thousand) was paid out in February 2017.
7) For fiscal year 2015, Dr Frank Boshoff was promised a non-performance-related bonus totalling € 135 thousand; half of this amount (€ 67.5 thousand, shown under "Annual bonus 2015") was paid out upon expiry of 2015. The other half (€ 67.5 thousand, shown in "Sustainability bonus 2015 (2 or 3-year period)") will be paid out upon expiry of 2016.
8) The target annual bonus amounted to € 40 thousand for the period up to 31 December 2014, and to € 55 thousand for 2015, and to € 60 thousand from 1 January 2016.
9) For fiscal year 2016, Mr Martin Simon was promised a non-performance-related bonus totalling € 40 thousand; half of this amount (€ 20 thousand, shown under "Annual bonus 2016") was paid out upon expiry of 2016. The other half (€ 20 thousand, shown under "Sustainability bonus 2016 (2 or 3-year period)") will be paid out upon expiry of 2017.
10) The target annual bonus amounted to € 40 thousand for the period up to 31 December 2014 and to € 44 thousand for 2015.
11) The target sustainability bonus amounted to € 60 thousand for the period up to 31 December 2014, and to € 82.5 thousand for 2015, and to € 90 thousand from 1 January 2016.
12) The target sustainability bonus amounted to € 60 thousand for the period up to 31 December 2014 and to € 66 thousand for 2015.

The following table shows the payments made to the individual members of the Management Board for fiscal year 2016 and in the previous calendar year:

PAYMENTS TO THE MANAGEMENT BOARD FOR FISCAL YEAR 2016

K EUR	Dr Frank Boshoff Chief Executive Officer (CEO) Joined: 1 July 2015		Andreas Rydzewski Member of the Management Board Joined: 1 October 2008		Martin Simon Chief Financial Officer (CFO) Joined: 1 September 2016		Sascha Rosengart Chief Financial Officer (CFO) Joined: 6 May 2013 Left: 29 February 2016	
Payments (received)	2016	2015	2016	2015	2016	2015	2016	2015
Fixed remuneration	330	165 [1]	250	262 [2,3]	77 [4]	–	618 [5]	235 [2,6]
Additional benefits	20	10	16	16	8	–	2	13
Total	**350**	**175**	**266**	**278**	**85**	**–**	**620**	**248**
One-year variable remuneration*								
Annual bonus 2015		67.5 [1,7]	–	36 [8]	–	–	–	29 [10]
Annual bonus 2016	71	–	39 [8]	–	20 [4,9]	–	0 [5]	-
Multiple-year variable remuneration**								
Sustainability bonus 2013 (3-year period)		–	–	14	–	–	–	–
Sustainability bonus 2014 (2-year period)		–	–	15	–	–	–	15
Sustainability bonus 2014 (3-year period)		–	22	–	–	–	22	–
Sustainability bonus 2015 (2-year period)	67.5 [1,7]	–	38 [11]	–	–	–	30 [12]	–
Total remuneration	**488.5**	**242.5**	**365**	**343**	**105**	**–**	**672**	**292**

* These figures include the annual bonus paid out in the respective reporting year. The payments for the respective reporting year are made in the following year; i.e. the annual bonus for 2015 is paid out in 2016, while the annual bonus for 2016 is paid out in 2017.

** These figures include the amount paid out for the sustainability bonus, whose assessment period ended in the respective reporting year. The relevant amounts are paid out in the following year, i.e. the payments for the sustainability bonus 2013 on the basis of a 3-year assessment period or for the sustainability bonus 2014 on the basis of a 2-year assessment period were made in 2016. The payments for the sustainability bonus 2014 with a 3-year assessment period and for the sustainability bonus 2015 with a 2-year assessment period were made in 2017. For the arrangements for Mr Sascha Rosengart, Dr Frank Boshoff and Mr Martin Simon, please see footnotes 5, 7 and 9.

1) Pro rata temporis; member of the Management Board since 1 July 2015.
2) This includes a one-off special payment of € 20 thousand.
3) Fixed annual remuneration amounted to € 220 thousand for the period up to 31 March 2015 and to € 250 thousand from 1 April 2015.
4) Pro rata temporis; member of the Management Board since 1 September 2016.
5) Pro rata temporis up to date of resignation on 29 February 2016. Mr Sascha Rosengart was also granted a compensation payment in the amount of € 580 thousand (recognised in "fixed remuneration"). The compensation payment covers the sustainability bonus for fiscal year 2016, calculated over a two or three-year assessment period, as well as an annual bonus and any entitlements for vacation not taken. Half of the compensation payment (€ 290 thousand) became due for payment in February 2016, the other half (€ 290 thousand) was paid out in February 2017.
6) Fixed annual remuneration amounted to € 200 thousand for the period up to 30 June 2015 and to € 230 thousand from 1 July 2015.
7) For fiscal year 2015, Dr Frank Boshoff was promised a non-performance-related bonus totalling € 135 thousand; half of this amount (€ 67.5 thousand, shown under "Annual bonus 2015") was paid out upon expiry of 2015. The other half (€ 67.5 thousand, shown in "Sustainability bonus 2015 (2 or 3-year period)") will be paid out upon expiry of 2016.
8) The target annual bonus amounted to € 40 thousand for the period up to 31 December 2014, and to € 55 thousand for 2015, and to € 60 thousand from 1 January 2016.
9) For fiscal year 2016, Mr Martin Simon was promised a non-performance-related bonus totalling € 40 thousand; half of this amount (€ 20 thousand, shown under "Annual bonus") was paid out upon expiry of 2016. The other half (€ 20 thousand) will be paid out upon expiry of 2017.
10) The target annual bonus amounted to € 40 thousand for the period up to 31 December 2014 and to € 44 thousand for 2015.
11) The target sustainability bonus amounted to € 60 thousand for the period up to 31 December 2014 and to € 82.5 thousand for 2015.
12) The target sustainability bonus amounted to € 60 thousand for the period up to 31 December 2014 and to € 66 thousand for 2015.

Other benefits in the event of death

In the event of the death of a member of the Management Board during the duration of the appointment, their widowed spouse or dependent relatives are entitled to receive their fixed remuneration for the month of their death and for the next two months.

Benefits upon termination of employment contracts

In the event of premature termination of the appointment of a member of the Management Board for cause, their employment contract provide that the Company may at the Supervisory Board's discretion either release the relevant Management Board member from their work duties – subject to continued payment of their fixed remuneration (and offsetting this against any annual leave entitlement not yet utilised) – or prematurely terminate their employment contract subject to payment of a settlement in the amount of two years' remuneration (including additional benefits), but not exceeding the level of remuneration for the remaining term of their contract.

Moreover, the employment contract of Andreas Rydzewski, member of the Management Board, entitles him to resign from office and terminate his employment contract in the event of a third-party purchaser executing a squeeze-out at SHW AG. Upon exercising this right of termination, the member of the Management Board will receive a settlement in the amount of two years' remuneration (including additional benefits), but not exceeding the level of remuneration for the remaining term of the contract. A third-party purchaser within the meaning of this provision is a purchaser which is neither SHW Holding L.P. – which was the majority shareholder of SHW AG in the period up to 7 November 2013 – nor an associated company.

The employment contract of Mr Sascha Rosengart was terminated by mutual agreement upon expiry of 29 February 2016 ("termination date"). Mr Rosengart resigned from his position as a member of the Management Board with effect of the termination date. His employment contract continued to apply, as before, in the period up to the termination date and he was paid his basic monthly remuneration accordingly. A compensation payment in the amount of € 580 thousand was also agreed with Mr Sascha Rosengart. This sum was paid out in two instalments of € 290 thousand in February 2016 and February 2017. A corresponding provision has been created for this compensation payment. The compensation payment covers the pro rata annual bonus for fiscal year 2016 as well as the sustainability bonus calculated on a two or three-year assessment basis for 2016 as well as any annual leave entitlements not taken. The sustainability bonus I for fiscal year 2014 with a two-year assessment basis and the annual bonus for fiscal year 2015 were both calculated based on the actual levels of target achievement and paid out in February 2016. The sustainability bonus II with a three-year assessment basis for fiscal year 2014 and the sustainability bonus with a two-year assessment basis for fiscal year 2015 were likewise calculated based on the actual levels of target achievement and paid out in February 2017. The sustainability bonus II with a three-year assessment basis for fiscal year 2015 will be paid out in February 2018.

Other remuneration components

In the reporting year, none of the members of the Management Board was promised and/or granted third-party benefits with regard to their service as a member of the Management Board. Moreover, none of the members of the Management Board was granted additional remuneration for the acceptance of mandates within SHW Group companies. In the reporting year the members of the Management Board were not granted any loans or advance payments and nor did the Company enter into contingent liabilities for their benefit.

TOTAL REMUNERATION OF FORMER MEMBERS OF THE MANAGEMENT BOARD IN FISCAL YEAR 2016

K EUR	Non-performance-related remuneration components		Performance-related remuneration components		Annual remuneration
Name	Fixed annual remuneration	Additional benefits	Annual bonus	Sustainability bonus	Total
Oliver Albrecht [1]	0	0	0	0 [2]	0
Dr Thomas Buchholz [3]	0	0	0	0 [4]	0
Sascha Rosengart	580 [5]	0	0 [5]	0 [5), 6)]	580
Total	**580**	**0**	**0**	**0**	**580**

1) Mr Oliver Albrecht resigned from his position on the Management Board with effect as of 31 May 2013. However, payment of his remuneration continues up to the original end of his service contract, i.e. until 28 February 2014 inclusive; this also applies for variable remuneration components which relate to this period but may not fall due until after 28 February 2014.
2) The sustainability bonus for the fiscal year 2014 with a three-year assessment period will fall due two months after the expiry of 2016. For Mr Oliver Albrecht it amounts to € 4 thousand.
3) Dr Thomas Buchholz resigned from his position on the Management Board with effect as of 30 June 2015. The variable remuneration for fiscal year 2015 has already been paid.
4) The sustainability bonus for fiscal year 2014 with a three-year assessment period will fall due two months after the expiry of 2016. For Dr Thomas Buchholz it amounts to € 54 thousand.
5) Mr Sascha Rosengart was granted a compensation payment in the amount of € 580 thousand (recognised in "fixed annual remuneration"). The compensation payment covers the sustainability bonus for fiscal year 2016, calculated over a two or three-year assessment period, as well as an annual bonus and any entitlements for vacation not taken. Half of the compensation payment (€ 290 thousand) became due for payment in February 2016, the other half (€ 290 thousand) was paid out in February 2017.
6) The sustainability bonus for fiscal year 2014 with a three-year assessment period will fall due two months after the expiry of 2016. For Mr Sascha Rosengart it amounts to € 22 thousand. The sustainability bonus for the fiscal year 2015 with a two-year assessment period will fall due two months after the expiry of 2016. For Mr Sascha Rosengart it amounts to € 30 thousand.

TOTAL REMUNERATION OF FORMER MEMBERS OF THE MANAGEMENT BOARD IN FISCAL YEAR 2015

K EUR	Non-performance-related remuneration components		Performance-related remuneration components		Annual remuneration
Name	Fixed annual remuneration	Additional benefits	Annual bonus	Sustainability bonus	Total
Oliver Albrecht [1]	0	0	0	0 [2), 3)]	0
Dr Thomas Buchholz	168 [4]	0	0	0 [5]	168
Total	**168**	**0**	**0**	**0**	**168**

1) Mr Oliver Albrecht resigned from his position on the Management Board with effect as of 31 May 2013. However, payment of his remuneration ontinues up to the original end of his service contract, i.e. until 28 February 2014 inclusive; this also applies for variable remuneration components which relate to this period but may not fall due until after 28 February 2014.
2) The sustainability bonus for fiscal year 2013 with a three-year assessment period will fall due two months after the expiry of 2015. For Mr Oliver Albrecht it amounts to € 14 thousand.
3) The sustainability bonus for fiscal year 2014 with a two-year assessment period will fall due two months after the expiry of 2015. For Mr Oliver Albrecht it amounts to € 2 thousand.
4) Of which compensation payment in the amount of € 125 thousand as well as non-competition compensation totalling € 43 thousand for July and (pro rata temporis) August 2015 after offsetting other income in this period. In particular, the compensation payment in the amount of € 125 thousand covers the sustainability bonus for fiscal year 2015, calculated over a two or three-year assessment period, as well as an annual bonus and any entitlements for vacation not taken. This compensation payment will be due for payment one month after the resignation of Dr Thomas Buchholz.
5) The sustainability bonus for fiscal year 2014 with a two-year assessment period will fall due two months after the expiry of 2015. For Dr Thomas Buchholz it amounts to € 36 thousand.

Supervisory Board

The remuneration of the Supervisory Board is determined by the Annual General Meeting and is regulated in Section 14 of the Company's Articles of Association as follows:

members of the Supervisory Board receive a fixed annual remuneration in the amount of € 30 thousand for each full fiscal year of their membership, which shall fall due upon expiry of the fiscal year. The chairman of the Supervisory Board receives € 100 thousand and his deputy € 40 thousand.

In addition, members of the Supervisory Board belonging to a committee of the Supervisory Board receive an attendance fee of € 0.5 thousand for their attendance of a physical meeting of the committee in question. The chairman of the respective committee receives twice this amount (€ 1 thousand). If a member of the Supervisory Board attends multiple committee meetings on a single day (also for different committees), he will only be paid one attendance fee for this day. In derogation from this provision, the chairman of the Supervisory Board and the chairman of the Audit Committee do not receive any attendance fee for their service on committees of the Supervisory Board. The fixed annual remuneration of the chairman of the Audit Committee will instead be increased to € 50 thousand. In the case of the chairman of the Supervisory Board, the fixed annual remuneration already covers his service on committees of the Supervisory Board.

The Company will also reimburse the members of the Supervisory Board for their expenses incurred in the exercise of their Supervisory Board mandate and any value-added tax applicable on their remuneration and expenses.

TOTAL REMUNERATION OF THE SUPERVISORY BOARD FOR FISCAL YEAR 2016

K EUR	Fixed annual remuneration	Attendance fee for Executive Committee or Audit Committee	**Total [1)]**
Georg Wolf Chairman of the Supervisory Board Chairman of the Executive Committee	100	0	100
Christian Brand Deputy Chairman of the Supervisory Board Chairman of the Audit Committee	50	0	50
Kirstin Hegner-Cordes	30	1	31
Prof. Dr Jörg Ernst Franke	30	0	30
Edgar Kühn	30	0	30
Frank-Michael Meißner (until 10 May 2016)	11	0	11
Eugen Maucher (from 10 May 2016)	19	0	19
Total	**270**	**1**	**271**

1) Excluding amounts which were reimbursed as expenses or as value-added tax applicable on remuneration or expenses.

TOTAL REMUNERATION OF THE SUPERVISORY BOARD FOR FISCAL YEAR 2015

K EUR	Fixed annual remuneration	Attendance fee for Executive Committee or Audit Committee	**Total [1)]**
Georg Wolf Chairman of the Supervisory Board Chairman of the Executive Committee	100	–	100
Christian Brand Deputy Chairman of the Supervisory Board Chairman of the Audit Committee	50	–	50
Kirstin Hegner-Cordes	30	2	32
Prof. Dr Jörg Ernst Franke	30	–	30
Edgar Kühn	30	1	31
Frank-Michael Meißner	30	–	30
Total	**270**	**3**	**273**

1) Excluding amounts which were reimbursed as expenses or as value-added tax applicable on remuneration or expenses.

In the reporting year, none of the members of the Supervisory Board received remuneration or benefits for services personally rendered – in particular, consulting or mediation services – from SHW AG or one of its subsidiaries. SHW AG did not provide the members of the Supervisory Board with any loans or advance payments in the reporting year.

In the reporting year, all of the members of the Supervisory Board of SHW AG in office as at 31 December 2016, with the exception of Mr Eugen Maucher, also belonged to the Supervisory Board of Schwäbische Hüttenwerke Automotive GmbH, a subsidiary of SHW AG.

For periods in which members of the Supervisory Board of SHW AG are also members of the Supervisory Board of Schwäbische Hüttenwerke Automotive GmbH, the latter company only pays them an attendance fee for their attendance of Supervisory Board meetings of Schwäbische Hüttenwerke Automotive GmbH instead of the Supervisory Board remuneration otherwise payable. This attendance fee amounts to € 0.5 thousand for ordinary members of the Supervisory Board; the chairman of the Supervisory Board receives twice this amount and his deputy one-and-a-half times this amount. As at 31 December 2016, the chairman and the deputy chairman of the Supervisory Board of Schwäbische Hüttenwerke Automotive GmbH were also the chairman and deputy chairman of the Supervisory Board of SHW AG.

Declaration on Corporate Governance in accordance with Section 289a of the German Commercial Code (HGB) and Corporate Governance Report in accordance with item 3.10 of the German Corporate Governance Code

The Declaration on Corporate Governance in accordance with Section 289a of the German Commercial Code (HGB) – which comprises, in particular, the Declaration of Conformity under Section 161 of the German Stock Corporation Act (AktG), details the key management practices and a description of the procedures followed by the Management Board and the Supervisory Board and the composition and functioning of their committees – and the corporate governance report under Item 3.10 of the German Corporate Governance Code – which provides information on further corporate governance issues at SHW – can be found in a single document on SHW's website at http://www.shw.de/cms/en/investor_relations/corporate_governance/cg_report_declaration_cg.

Due to the German Act on the Equal Participation of Men and Women in Executive Positions in the Public and Private Sectors of 24 April 2015, the following details were added to the Declaration on Corporate Governance in the year under review 2015:

Equal participation of men and women

In accordance with the statutory requirements concerning equal participation of men and women which apply for SHW AG as a listed company which is not subject to co-determination requirements, binding targets have been specified for the Supervisory Board, the Management Board and the two highest management levels below the Management Board of SHW AG. In future, achievement of these targets will be reported in the Declaration on Corporate Governance. Specifically, the following has been resolved for the individual levels:

- Supervisory Board: For the Supervisory Board of SHW AG, a target level of one woman for every six members has been agreed. This corresponds to a target of 16.6 per cent.

- Management Board: For the Management Board of SHW AG, a target level of one woman for every three members has been agreed. This corresponds to a target of 33.3 per cent

The Supervisory Board will review fulfilment of and compliance with the target levels for the Management Board and the Supervisory Board by 30 June 2017 and report this in accordance with applicable statutory regulations.

As at 31 December 2016, no women are represented at the two highest management levels below the Management Board of SHW AG. Since no changes are currently envisaged for the two highest management levels, the Management Board has specified a target of zero per cent. However, the Management Board is agreed that SHW AG will promote women in management positions to the best of its ability.

SHW AG believes in the positive effect of mixed management teams and promotes women and men in their career paths likewise.

DISCLOSURES REQUIRED UNDER TAKEOVER LAW AND RELATED COMMENTS

This chapter includes the disclosures required pursuant to Section 289 (4) and Section 315 (4) HGB as well as the Management Board's explanatory report in accordance with Section 176 (1) (1) AktG.

Composition of subscribed capital

The Company's subscribed capital amounted to € 6,436,209.00 as at 31 December 2016, divided up into 6,436,209 no-par-value shares with a pro-rata amount of the share capital of € 1.00 per share. The shares are fully paid in. The Company has not issued different classes of shares. All of the shares entail the same rights and obligations. Each share confers one voting right at the Annual General Meeting.

Limitations relating to voting rights or the transfer of shares

The Management Board is not aware of any limitations relating to the voting rights or the transfer of shares.

Equity interests exceeding 10 per cent of the voting rights

As at 31 December 2016, to the best of the Company's knowledge, no shareholder held an equity interest which exceeded 10 per cent of the voting rights.

Through its voting right notification of 31 January 2017, Sterling Strategic Value Fund S.A., SICAV-RAIF, Luxembourg, has provided notice pursuant to Section 21 (1) WpHG that on 24 January 2017 it exceeded the reporting threshold of 10 per cent and, as of this date, held a voting rights share, either directly or indirectly, amounting to 10.38 per cent of the voting rights (668,000 shares).

Shares with special rights conferring powers of control

No shares with special rights conferring powers of control have been issued.

Form of exercise of voting rights where employees hold equity interests and do not directly exercise their rights of control

No procedure for control of voting rights applies in the event of employees holding equity interests and not directly exercising their rights of control.

Statutory regulations and provisions of the articles of association concerning the appointment and dismissal of members of the Management Board and the amendment of the Articles of Association

According to the Company's Articles of Association, the Management Board of SHW AG consists of one or more members (Section 6 (1) of the Company's Articles of Association). The Supervisory Board determines the number of Management Board members and appoints and dismisses them. They are appointed for a maximum period of five years. They may be reappointed or their term of office may be extended for a maximum period of five years (cf. Section 84 (1) (1) to (4) AktG).

The appointment of Management Board members requires in each case a simple majority of the votes passed on the Supervisory Board. In case of a tied vote, the chairman of the Supervisory Board shall have the casting vote (Section 11 (7) of the Company's Articles of Association). If more than one person is appointed as a member of the Management Board, the Supervisory Board may appoint one of these members as Chief Executive Officer (Section 84 (2) AktG, Section 6 (2) of the Company's Articles of Association) and a further member of the Management Board as deputy chairman (Section 6 (2) of the Company's Articles of Association). In the absence of a required Management Board member, the court shall appoint a member in urgent cases upon request of a party involved(Section 85 (1) (1) AktG). The Supervisory Board may revoke the appointment of a member of the Management Board and the appointment as Chief Executive Officer for cause (cf. Section 84 (3) (1) and (2) AktG).

As a rule, amendments to the Articles of Association must be resolved by the Annual General Meeting (Section 179 (1) (1) AktG). At SHW AG, a resolution of the Annual General Meeting amending the Articles of Association requires a simple majority of the votes cast and the share capital represented at this resolution (Section 179 (2) AktG in conjunction with Section 20 (2) of the Articles of Association), unless a larger majority is required in accordance with mandatory statutory provisions. For instance, this applies in case of a change to the Company's object of business (Section 179 (2) (2) AktG) or the creation of authorised capital (Section 202 (2) (2) AktG) or contingent capital (Section 193 (1) (1) AktG), for which a majority of at least three-quarters of the capital represented at this resolution is required. The Supervisory Board is authorised to resolve amendments to the Articles of Association which merely affect its wording (Section 179 (1) (2) AktG in conjunction with Section 13 of the Company's Articles of Association).

Powers of the Management Board to issue or repurchase shares

To date, pursuant to Section 4 (4) of the Articles of Association the Management Board was authorised to increase the Company's share capital by issuing new shares (Authorised Capital 2011). The term of the Authorised Capital 2011 expired on 28 February 2016.

In February 2015, with the consent of the Supervisory Board the Management Board partially utilised the Authorised Capital 2011 and resolved a cash capital increase of approx. 10 per cent of the share capital, while excluding the shareholders' subscription right. The Company's share capital thus increased by € 585,109.00 to the current € 6,436,209.00 (in words: six million four hundred and thirty-six thousand two hundred and nine euros). Following this partial utilisation, the Authorised Capital 2011 still had a volume of € 2,340,441.00 (in words: two million three hundred and forty thousand four hundred and forty-one euros). The authorisation included in the Authorised Capital 2011 for a so-called simplified exclusion of the subscription right in case of cash capital increases of up to 10 per cent of the share capital was thus almost completely exhausted.

In this context, on 12 May 2015 the Annual General Meeting resolved to replace the Authorised Capital 2011 with new authorised capital with a right to exclude the subscription right. The Management Board is thus authorised with the consent of the Supervisory Board in the period up to 11 May 2020 to increase the Company's share capital one or more times by an overall amount of up to € 3,218,104.00 (in words: three million two hundred and eighteen thousand one hundred and four euros) against contributions in cash and/or in kind by issuing up to 3,218,104 (in words: three million two hundred and eighteen thousand one hundred and four) new no-par value shares (Authorised Capital 2015).

With the consent of the Supervisory Board, the Management Board is authorised to determine further details of capital increases on the basis of the Authorised Capital 2015 as well as their execution. The profit entitlement of the new shares may also be determined in derogation from Section 60 (2) AktG, e.g. such that in case of the intra-year issue of shares as a rule a dividend entitlement will only apply pro rata temporis for the fiscal year of issuance. Accordingly, in derogation from these shares issued intra-year may, for instance, carry a full right to participate in profits or may only carry profit participation rights from the following year onwards. In principle, with the issue of new shares shareholders have a statutory subscription right in proportion to their interest in the share capital. However, with the consent of the Supervisory Board, the Management Board is authorised to exclude the subscription right in whole or in part in specific cases which are explained in more detail in the Authorised Capital 2015. The rights to exclude the subscription right which are proposed as a component of the Authorised Capital 2015 are limited to a total of 20 per cent of the share capital.

A resolution passed by the Annual General Meeting on 10 May 2016 authorised the Management Board to issue convertible and/or warrant bonds in order to expand the Company's financing options. These can be securely serviced using contingent capital.

The Management Board is authorised, with the approval of the Supervisory Board, to issue bearer and/or registered convertible and/or warrant bonds (hereinafter jointly referred to as "bonds") on one or more occasions until 9 May 2021 (inclusive) for a total nominal amount of up to € 65,000,000.00 with a limited or unlimited term. It is also authorised to grant conversion or warrant rights to the bearers/creditors of bonds entitling them to subscribe for up to 1,250,000 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 with a pro-rata amount of the share capital of up to € 1,250,000.00 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. The bonds can be issued in exchange for cash payment and/or non-cash payment. In addition to euros, they can be issued in the legal currency of an OECD country, limited to the corresponding euro value. They can also be issued by a domestic or foreign company in which SHW AG directly or indirectly holds a majority of the voting rights and capital (hereinafter referred to as a "controlling interest company").

In principle, with the issue of new bonds shareholders have a statutory subscription right. However, with the consent of the Supervisory Board, the Management Board is authorised to exclude the shareholders' subscription rights in whole or in part in specific cases, which are explained in more detail in the associated authorisation. The issuing of bonds involving the exclusion of the subscription right may only be conducted after this authorisation if the new shares which are to be issued on the basis of these bonds account for a pro-rata amount of the share capital of no more than 20 per cent of the share capital and this is the case neither at the time that this authorisation takes effect nor at the time that it is exercised. New shares which are issued by the Company during the term of this authorisation on the basis of a different authorisation while excluding the subscription right or which are to be issued based on a convertible or warrant bond issued during the term of this authorisation on the basis of a different authorisation while excluding the subscription right should be offset against this limit.

The Company's share capital is contingently increased by up to € 1,250,000.00 by issuing up to 1,250,000 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 (Contingent Capital 2016). The purpose of the contingent capital increase is to grant shares to bearers/creditors of convertible bonds and to bearers of warrant rights arising from warrant bonds which are issued on the basis of an authorisation pursuant to a resolution of the Annual General Meeting on 10 May 2016, valid until 9 May 2021 (inclusive), of SHW AG or a domestic or foreign company in which SHW AG directly or indirectly holds a majority of the voting rights and capital. The contingent capital increase will only be conducted insofar as the conversion or warrant rights arising from the aforementioned bonds are actually utilised or conversion obligations arising from these bonds are fulfilled and insofar as they are not fulfilled by alternative means. The new shares will be issued at the warrant/conversion price to be fixed on the basis of the aforementioned authorisation resolution of the Annual General Meeting on 10 May 2016. The new shares will participate in the Company's earnings from the start of the fiscal year in which the new shares are created as a result of the conversion/warrant rights being exercised or as a result of the conversion obligations being fulfilled. Insofar as it is legally permitted, however, the Management Board, with the approval of the Supervisory Board, can alternatively decide that the new shares are entitled to participate in earnings from the start of the fiscal year before they are issued if, at the time that the new shares are issued, a resolution on the appropriation of earnings has not yet been passed by the Annual General Meeting for earnings in this fiscal year.

A resolution of the Annual General Meeting on 10 May 2016 replaced the previous authorisation for the purchase of treasury shares with a new authorisation for the purchase and use of treasury shares with the option of excluding subscription rights. The Company is thus authorised, with the approval of the Supervisory Board, to purchase treasury shares in the Company until 9 May 2021 (inclusive) with a volume of up to 10 per cent of the Company's existing share capital at the time that the authorisation is granted or – if this value is lower – at the time that the authorisation is exercised. Together with other treasury shares which the Company owns or which are attributable to the Company in accordance with Sections 71a et seq. AktG, the shares purchased on the basis of this authorisation may not at any time account for more than 10 per cent of the existing share capital. At the discretion of the Company, these shares may be purchased through the stock market or through a public purchase offer which is submitted to all shareholders and/or by means of a public request to submit offers to sell. Purchased treasury shares may be resold or called in, with the approval of the Supervisory Board, without any further resolution of the Annual General Meeting. The Management Board is authorised with the consent of the Supervisory Board to exclude the subscription right of the shareholders in whole or in part as of the resale of treasury shares in cases specified in further detail in a resolution of the Annual General Meeting.

Pursuant to a resolution of the Annual General Meeting held on 10 May 2016, in addition to the above-mentioned authorisation to purchase treasury shares in accordance with Section 71 (1) No. 8 AktG, except by the procedures indicated therein, the Company's shares may also be purchased via an authorisation for the use of derivatives as part of the purchase of treasury shares, excluding the shareholders' subscription/tendering rights. For this purpose, the Company is authorised to sell options which oblige the Company to purchase shares of the Company upon exercise of the option ("put options"); to purchase options which entitle the Company to purchase shares of the Company upon exercise of the option ("call options"); to conclude forward contracts for shares of the Company whereby there are more than two trading days between the time that the forward contract is concluded and the time that the purchased shares are delivered ("forwards") and to purchase treasury shares while also using put options, call options, forwards (in each case a "derivative") and/or a combination of these derivatives. The use of derivatives to purchase treasury shares is only permitted with the approval of the Supervisory Board of the Company. Purchases of shares while using derivatives are limited to shares which in total account for no more than 5 per cent of the Company's existing share capital at the time that this authorisation is granted. The term of the respective derivatives may not be longer than 18 months. Furthermore, the term of the derivatives must be selected such that the purchase of shares in the Company while using derivatives does not occur after 9 May 2021.

Significant agreements to which the Company is party and which are subject to a change of control due to a takeover offer

On 25 October 2012, a syndicated loan agreement led by UniCredit Bank AG was concluded with a total credit line of € 60.0 million. Commerzbank AG, Kreissparkasse Ostalb, SEB AG and BW Bank are the other members of the syndicate. This agreement has a term of five years and expires on 30 September 2017. Within the scope of the above-mentioned syndicated loan agreement, an amount of up to € 30.0 million may also be used for the purpose of acquisitions. As at 31 December 2016, the working capital line of credit was used in the amount of € 687 thousand (previous year € 0 thousand) and for guarantee lines – which will be offset against the credit line – in the amount of € 1,000 thousand (previous year € 1,061 thousand). The banks may prematurely terminate the credit agreement if a third party either directly or indirectly purchases or holds more than 50 per cent of the shares or the voting rights in SHW AG. A third party within the meaning of this provision is any purchaser which is neither SHW Holding L.P. nor an associated company.

Compensation agreements which the Company has concluded with Management Board members or employees in the event of a takeover offer

The Company has not concluded any compensation agreements with Management Board members or employees in the event of a takeover offer. However, in the event of a third-party purchaser executing a squeeze-out at SHW AG the employment contract of one current member of the Management Board stipulates that this member of the Management Board is entitled to resign from office and terminate their employment contract. Upon exercising this right of termination, the Management Board member will receive a settlement in the amount of two years' remuneration, but not exceeding the level of remuneration for the remaining term of the contract. A third-party purchaser within the meaning of this provision is a purchaser which is neither SHW Holding L.P. – which was the majority shareholder of SHW AG in the period up to 7 November 2013 – nor an associated company.

RISK REPORT

Risk management principles

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

We understand risk to mean possible future developments or events which may result in negative divergence from a forecast or target for the Company. In this risk report, we have summarised key risks in terms of three main categories: strategic and operational risks, risks relating to compliance with standards and financial risks.

Risk management system

The Management Board of SHW AG is responsible for risk management and for determining risk management principles. It decides on how to handle risks and on the scope of the risks borne by SHW.

The Management Board regularly notifies the Supervisory Board in writing of the ongoing business development and the Company's key risks as well as risk management issues.

A Group risk manager is responsible for the centrally controlled risk management process. This person monitors all risk management activities, aggregates these risks at Group level and reviews the plausibility and completeness of the notified risks. The Group risk manager is also responsible for the continuous ongoing development of the risk management system and reports directly to the Management Board.

At the business segment or works level, risk officers – who are generally managers below the Management Board level – are responsible for the management and monitoring of individual risks.

To ensure that our risk management system is as effective as possible, we utilise an integrated risk management system which identifies, assesses, manages, monitors and systematically reports risks. The core objective of our risk management system is to safeguard and increase the Company's enterprise value.

General risk management process

SHW's risk management process comprises four process steps:

- Risk identification and registration,
- Risk assessment,
- Risk management,
- Risk monitoring and reporting.

Risk identification and registration

In order for risks to be registered as completely as possible, Group-wide risk categories and areas have been defined as well as the persons responsible for registering these risks (risk officers).

The risk officers are required to identify risks of relevance for SHW four times a year and to document these risks by means of a risk registration form. Significant changes in risks identified over the course of the year are communicated to the Management Board by means of established reporting channels.

Risk assessment

The risk officers also assess risks by means of a risk registration form. A gross and net predicted value is determined for each individual risk. The first value indicates the expected financial impact before any risk-mitigating measures on earnings before interest, tax and depreciation and amortisation (EBITDA) – multiplied by the expected probability of realisation. The second value indicates the expected financial impact after implementation of risk-mitigating measures – multiplied by the expected probability of realisation.

Risk management

Within their respective areas of responsibility, the risk officers are responsible for developing and implementing risk-mitigating measures. Decisions on implementation are made either by risk officers in consultation with the Management Board or by the Management Board alone. Four different strategies are applied in this respect:

- Risk avoidance,
- Risk reduction, with the goal of minimising the financial impact or the probability of realisation,
- Risk transfer to third parties,
- Risk acceptance.

Risk monitoring and reporting

Within their area of responsibility, each risk officer is required to monitor current and potential risks so as to be able to react promptly if necessary. Risk reporting comprises:

- Regular information regarding the risk situation,
- Ad hoc risk information.

Regular risk reporting comprises a two-step process. As a first step, risk officers report risks to the central risk management unit on a quarterly basis. As a second step, the SHW Group's risk management aggregates the reported risks and likewise provides the Management Board of SHW AG with a consolidated quarterly Group-wide report based on the data provided by the risk officers. In case of any significant changes to previously notified risks or newly identified risks, this reporting will also be implemented on an ad hoc basis, outside the scope of this regular quarterly routine reporting. This also applies if matters are identified which must be immediately brought to the notice of the Management Board on account of their seriousness. For its part, the Management Board reports to the Supervisory Board of SHW AG on a quarterly basis.

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

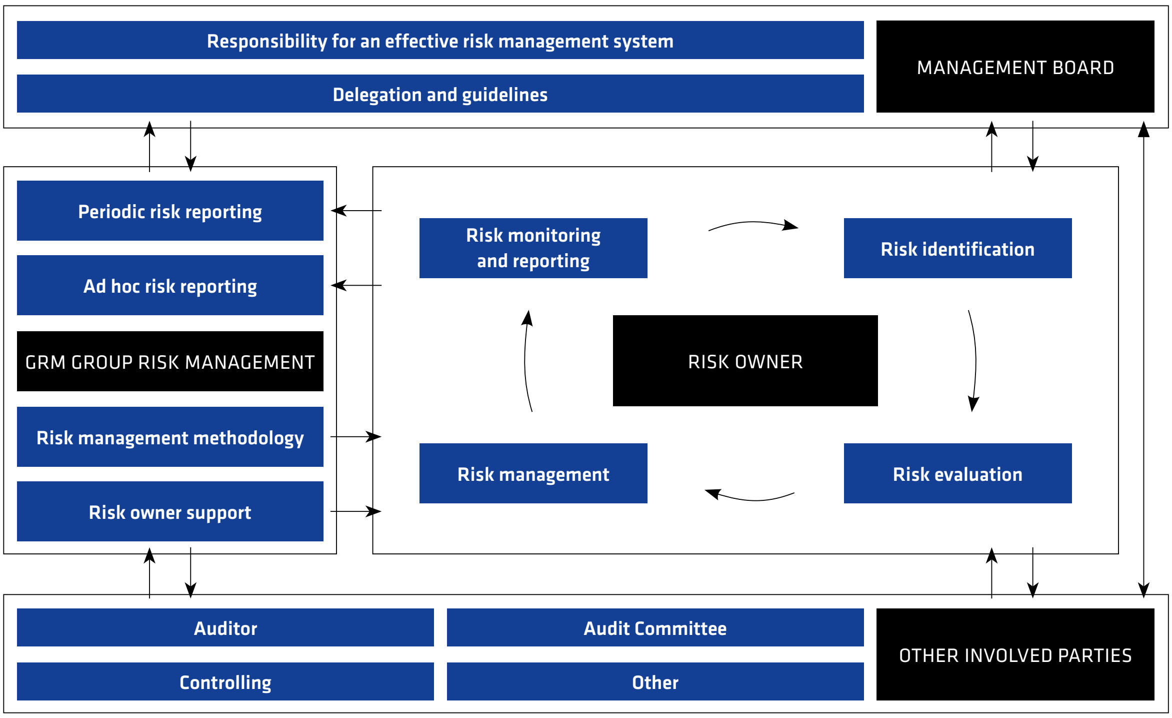
Internal monitoring and risk management system in relation to the SHW Group's reporting process – disclosures in accordance with Sections 289 (5), 315 (2) No. 5 HGB and related explanations

Pursuant to Sections 289 (5), 315 (2) No. 5 HGB, SHW AG is obliged to describe the key characteristics of its internal monitoring and risk management system in its Management Report and Group Management Report, particularly in relation to the (Group) reporting process. As well as these disclosures required by law, the following section also includes the related comments required pursuant to Section 175 (2) (1) AktG.

The reporting-related internal monitoring and risk management system is intended to ensure that all events and transactions are fully included and correctly estimated and calculated within the scope of the Company's financial accounting and are presented in the financial reporting of SHW AG and its subsidiaries in accordance with statutory and contractual requirements as well as internal guidelines. Group-wide compliance with statutory and internal rules and regulations is a prerequisite for this.

The Management Board determines the scope and orientation of the systems implemented for this purpose based on SHW AG's specific requirements. These requirements are regularly reviewed and updated if necessary. However, it should be noted that

RISK MANAGEMENT SYSTEM



Source: SHW AG

despite adequate and functioning systems it is not possible to guarantee complete certainty in identifying and managing risks.

Almost all of the SHW Group's accounting processes are centralised at the Company's Aalen headquarters. This facilitates the application of standardised and uniform processes and the use of standardised systems for financial accounting.

The accounting department produces the consolidated financial statements for the SHW Group as well as the Annual Financial Statements for all German Group companies and notifies the Management Board every month of any consolidated financial information. The foreign Group companies produce their Annual Financial Statements locally. Where necessary, more complex issues affecting the balance sheet are assessed with the assistance of external consultants. In addition, the two-man rule is applied for all accounting processes.

The management accounting department regularly reviews the completeness and accuracy of the information detailed in the Company's financial statements as well as any deviations from the business plan and provides the Management Board with standardised monthly reporting on any events.

SHW AG already has an appropriate system comprising various internal guidelines which covers compliance issues, authorisation concepts for orders and any contracts concluded, authorisations to sign and internal accounting guidelines.

The internal accounting guidelines comprise standard systems such as a Group-wide uniform reporting system for consolidation purposes, so as to ensure uniform reporting throughout the SHW Group. These guidelines are regularly updated. Within the scope of its monitoring activities, the Supervisory Board also regularly considers key reporting issues and its related internal monitoring and risk management system.

Strategic and operational risks

Economic and industry risks

The business development of the SHW Group as a supplier for the automobile industry is directly and substantially dependent upon the production of new vehicles, engines and transmissions. For the year 2017, the IHS research institute currently predicts slight volume growth of light vehicles, engines and transmissions produced worldwide (see "Outlook for the Overall Economy and for the Industry"). The highest levels of vehicle production growth are expected in the Europe and Japan/Korea regions. Volume growth in the engine division will be driven by gasoline and diesel engines in equal measure, while in the transmission segment the overall volume share accounted for by automatic transmissions will continue to increase.

The SHW Group's Pumps and Engine Components business segment is highly dependent on the engine and transmission production in Europe as well as its customers' export activities towards North America and China. In particular, another intensification of the sovereign debt crisis might negatively affect consumers' purchasing behaviour and accordingly impair this business segment's growth outlook. Moreover, various automobile manufacturers intend to significantly expand their own engine and transmission production activities, particularly in countries such as China, Brazil and the USA/Mexico. In addition it remains to be seen to what extent the protectionist aspirations declared through the latest political decision-making processes – BREXIT and the American presidential election – will actually be implemented and may dampen exports. In all three cases, the risk applies that optimal utilisation of the production capacities for the Pumps and Engine Components business segment installed at both of the Company's German plants might not be possible.

To reduce this risk, the Company is stepping up the establishment and expansion of its pumps and engine components business in Brazil, North America and China. See Company Strategy comments, strategic field of internationalisation on page 34 et seq.

With its current structure, the Brake Discs business segment is currently highly dependent upon its customers' vehicle production in Europe. In particular, another intensification of the sovereign debt crisis might negatively affect consumers' purchasing behaviour and thereby impair this business segment's growth outlook. In this case, the risk applies that optimal utilisation of the production capacities for the Brake Discs business segment installed at both of the Company's German plants might not be possible.

To reduce this risk while also avoiding high investments for new foundry capacities, the Company is striving to develop its brake discs business in China and North America by pursuing joint ventures and other partnership models. The joint venture SHW Longji Brake Discs (LongKou) Co., Ltd. marks an important step towards the internationalisation of the brake discs business.

Despite this, the SHW Group is well prepared for a slump in vehicle production similar to that seen in 2009. As successfully implemented in 2008 and 2009, the Company would react by means of appropriate capacity and cost-adjustment measures throughout the entire value chain in order to safeguard the SHW Group's financial and earnings position.

In summary, as things currently stand, a clear decline in production figures for new vehicles, engines and transmissions in the three key automobile markets – China, North America and Europe – is somewhat improbable in 2017.

Risks resulting from alternative drive technologies

SHW's customers are exposed to increasingly demanding CO_2 limits for their vehicle fleets. The trend is towards increasingly powerful and simultaneously more fuel-efficient and less-polluting engines and hybrid and electrical vehicles. SHW's future success thus depends above all on the Company's ability to develop new and improved CO_2-relevant vehicle components for all drive technologies and to bring these onto the market in good time.

The SHW Group supplied the electric transmission oil pump for the first European hybrid vehicle in 2008. This technology is now being broadly used in the start-stop function for vehicles with automatic transmissions.

SHW is confident to sustainably participate in the development of the market for electromobility.

SHW is confident of its ability to sustainably participate in the development of the electromobility market.

Risks resulting from structural changes to the European combustion engines market

According to calculations by the market research institute IHS, a total of 23.2 million engines (+2.8 per cent on the previous year) were manufactured in Europe (incl. Russia) in 2016. Production of diesel engines increased by 4.0 per cent to 11.2 million units; the share of overall production amounts to 48.4 per cent. Structural changes may arise in the European combustion engines market in the short and medium term in connection with the current debate on limit value violations with regard to nitrogen oxide emissions from diesel vehicles.

Based on the resolutions of the European Parliament on 3 February 2016, from September 2017, the output of nitrogen oxides from new passenger car types under real driving conditions may not exceed 2.1 times the statutory laboratory value of 80 mg/km (conformity factor). From 2020, new vehicle types must keep within the test bench value limits one-to-one while on the road. Then the only extra margin allowed will be 0.5 for measuring inaccuracies. These requirements are very ambitious. Compared with the current level, this means reducing pollutants by 78 per cent. Further reductions of 29 per cent must then be achieved by 2020. These requirements mean that diesel engine production is likely to become more expensive in future, creating an even larger price gap with gasoline engines and causing the share of diesel vehicles to decline. In the period up to 2020, the IHS research institute assumes an increase in engine production in overall terms, with slightly reduced diesel engine production figures. This reflects a decline in the diesel engine market share in Europe from 48.4 per cent in 2016 to 44.6 per cent

To limit the risks arising from a possible structural change, SHW will focus heavily on the development and production of primary and secondary transmission oil pumps. SHW has developed primary transmission oil pumps as two-stroke vane pumps which offer significant advantages in terms of weight, efficiency and size. Moreover, standardisation of secondary transmission oil pumps for the start-stop function will be stepped up. The success of this strategy can be seen in the order to produce primary and secondary transmission oil pumps for a leading Chinese automobile manufacturer. Production is set to begin in 2017. Additionally, by establishing and expanding plants in North America and China – both markets are set to still have a very high share of gasoline engines in 2020 (94 per cent in North America and 91 per cent in China) – the product portfolio will be more balanced.

Risks associated with consolidation in the industry and competition

The SHW Group is exposed to risks associated with the continuing consolidation in the industry in the field of engine and transmission components. In December 2014, Germany's Geräte- und Pumpenbau GmbH Dr. Eugen Schmidt (GPM) was acquired by Japan's NIDEC Corporation. In August 2015, the Johnson Electric Group, Hong Kong, announced its acquisition of the Canadian pumps and engine components manufacturer Stackpole International. These two acquisitions have resulted in competitors which both combine expertise in the fields of mechanical components and electrical drives / electronics. A persistently competitive environment in Europe – which is currently SHW's key vehicle market – might jeopardise capital-efficient growth.

To reduce this risk, SHW is seeking to broaden its footing through internationalisation as well as through partnerships (extension of the value chain). This includes the possibility of acquisitions.

Risks associated with the development of new markets through the Company's subsidiaries

SHW intends to pursue the internationalisation of its business activities in the field of pumps and engine components through 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 subsequent projects which are newly put out to tender, 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 the timing and volume.

To limit these risks, investments in property, plant and equipment are only made and skilled personnel are only hired in case of a specific customer contract.

Risks associated with the development of new markets through joint ventures

The joint venture SHW Longji Brake Discs (LongKou) Co., Ltd. launched its operating activities on 1 April 2015. This entails various risks for SHW. In particular, these include winning OEM contracts, provisions of competition law, the high coordination efforts involved, the loss of expertise, higher investments and potential intercultural problems. Moreover, joint ventures are prone to instability which is reflected in their frequently short-lived durations.

With the support of specialised law firms, SHW has negotiated comprehensive contracts. As well as voting rights, competences and control mechanisms these contracts also provide for the (possible) winding up of the joint venture. To protect the Company's expertise advantage in the field of composite brake discs, the joint venture will initially exclusively focus on monobloc ventilated quality brake discs for the OE business. In addition, SHW is responsible for managing sales, development, quality assurance and finance.

Risks associated with new product launches

SHW is exposed to risks associated with new product launches. There is a danger of delays, quality problems or increased start-up costs or of a failure to comply with budgeted production costs.

To keep these risks under control, during the start-up phase 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.

Customer risks

Customer risks arise due to SHW's dependence on key customers (key accounts) which are able to exploit their bargaining power. This might put considerable pressure on margins. These risks apply not only due to the relative size of our largest customers but also due to the relatively limited possibilities of influencing their business.

In the past fiscal year, the SHW Group generated sales with two customers which exceeded 10 per cent of Group's sales. The share of sales realised with SHW's largest customer decreased from 42.8 per cent to 41.4 per cent. To reduce these risks, SHW aims to ensure that its sales are evenly distributed among its customers. In this respect, as well as acquiring new customers and developing new markets (North and South America, China) and fields of application, acquisitions and partnerships are also on the agenda. See Company Strategy comments, strategic field of internationalisation (page 34 et seq.).

An important aspect in strengthening the SHW Group's relative cost position is the optimisation of its production network with the planned establishment of a new plant in Romania. This will be accompanied by the transfer of selected pump projects and stages of the value chain. The start of production is scheduled for the second half of 2017.

In summary, as things currently stand, based on current 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 improbable, especially since SHW supplies each individual customer with a large number of wide-ranging products for many different engine, transmission and vehicle types.

Risks resulting from rising production costs

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. In many cases, the SHW Group has concluded agreements with the automobile manufacturers which it supplies to the effect that the sales prices of its products will be adjusted monthly, quarterly or semi-annually 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 the automobile manufacturers which it supplies material surcharges. In relation to price fluctuations for coke, SHW has agreed an energy surcharge with a series of customers which is regularly renegotiated and adjusted in line with the revised price level.

After material expenses, personnel costs are the second-largest cost item for the SHW Group. In the event that income gains within the scope of future wage agreement negotiations significantly exceed productivity gains, this might weaken the relative competitiveness of SHW AG and negatively affect its achievement of its earnings goals. In the supplementary collective bargaining agreement concluded for the Bad Schussenried plant with effect from 1 January 2017, the plant's employees have made concessions in order to safeguard the competitiveness of the plant and to finance future investments.

Risks associated with unexpected adjustments of call-offs

An unexpected significant short-term reduction in key customers' scheduled call-off volumes – due to economic factors, reputation-related changes in end users' demand or the premature, unscheduled end of a customer project – which results in deviations from the Company's sales planning might entail a utilisation-related increase in the personnel expense ratio and thus negatively affect the Company's profitability, depending on the duration and scope of these reduced call-off volumes.

In order to be able to react flexibly to such changes in levels of demand where necessary, within the scope of its capacity management the SHW Group takes on temporary workers.

On the other hand, the SHW Group is exposed to risks associated with unforeseeable increases in call-offs beyond the contractually agreed volumes. This may result in significant problems throughout the supply chain and impose a considerable additional burden. The SHW Group seeks to secure compensation for any resulting cost burdens.

Supplier risks

The SHW Group is dependent upon its suppliers' timely delivery of raw materials and of the components necessary for production. 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 late deliveries or the loss of key suppliers 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.

Through its use of a modern enterprise resource planning system, the SHW Group has acted in order to ensure the timely availability of adequate quantities of the necessary materials.

IT risks

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

The SHW Group has implemented a large number of measures in order to reduce these IT risks as far as possible. Key corporate data are mirrored at the Company's data centre. We have also implemented backup systems to protect our Company against the risk of a loss of data. In addition, the SHW Group has contingency plans which temporarily safeguard the functionality of its production and logistics operations even without a connection to its IT system.

We continuously invest in security software in order to protect our IT systems against unauthorised external access. Internally, employees' access to confidential corporate data is safeguarded through scalable access rights.

Risks in connection with compliance with standards

Risks resulting from product liability

Despite extensive quality checks, the components produced by the SHW Group may be faulty. Moreover, faulty products may result in damage for automobile manufacturers' end customers, which may cause these end customers to assert compensation and product-liability claims.

Faulty or possibly faulty products may mean that the SHW Group is obliged to carry out recall actions, or the customers of the SHW Group may be obliged to implement these measures.

The Company has in place appropriate quality assurance systems in order to avoid and reduce these risks. The SHW Group has the normal level of insurance coverage – with appropriate deductibles – against compensation claims due to faulty products. In several cases, customers of the SHW Group in Germany have notified SHW Automotive GmbH of warranty or liability claims due to allegedly faulty deliveries. These have been reported to the SHW Group's insurer. In some cases, the SHW Group and its insurer are currently reviewing the merits of claims and whether these claims are covered by the Group's insurance policy. The SHW Group has created accruals for several of these cases. No lawsuits are currently pending with customers.

Environmental risks

The sites of the SHW Group are subject to a large number of environmental regulations, e.g. in relation to emission limits and standards for the treatment, storage and disposal of waste and hazardous materials. In particular, the SHW Group's foundry at its Tuttlingen-Ludwigstal site is subject to a number of such environmental obligations. Compliance with these environmental regulations and with the necessary 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 compensation claims due to criminal damage or bodily harm or else a temporary or permanent shutdown.

Financial risks

Default risks

Continuing growth in our key vehicle markets meant that the earnings situation of the globally positioned customers of the SHW Group remained good in the calendar year 2016. There has been no further increase in the risk of bad debt losses for these customers. Where necessary, the periods allowed for payment and the upper limits for accounts receivable are adjusted and regularly monitored. On the supplier side, overall there has been no significant change in the economic situation. Due to our multiple-supplier strategy, in our view the current risk of loss of key suppliers remains low.

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 factor and goods markets. Even with the start of deliveries to customers in Brazil and China (Pumps and Engine Components business segment), no additional translation risks have arisen for the SHW Group since sales and costs are generated in the local currency. Translation risks will primarily result in terms of the euro's exchange rate against the Brazilian real and the Chinese renminbi.

In relation to the joint venture agreement concluded in January 2015 (Brake Discs business segment), as the shareholder of SHW Longji Brake Discs (LongKou) Co., Ltd. in euros, SHW Automotive GmbH is obliged to provide a capital contribution which must be equivalent to 109.9 million renminbi and is consequently subject to currency fluctuations. There is also a currency risk which arises from the translation of the pro rata equity of the joint venture.

Due to the planned establishment of a new location in Romania, in the medium term further currency risks may arise for the SHW Group. We do not envisage any significant currency effects in this respect for fiscal year 2017.

Financing risks

With an equity ratio of 53.2 per cent, net liquidity as at 31 December 2016 of € 1.6 million and sufficient free credit lines, in overall terms the financial profile of the SHW Group is highly robust.

For a refinancing loan, two companies of the SHW Group and various banks have concluded a € 60 million loan agreement whose term expires on 30 September 2017. Of this amount, up to € 30 million may be used for company acquisitions. In this loan agreement the companies of the SHW Group have undertaken to comply with certain financial covenants. In fiscal year 2016 the Company complied with the values required for both of these covenants, the economic equity ratio and the leverage ratio. The necessary measures for follow-up financing of the current credit line have been initiated. These measures are promising in view of the current capital market situation, the long-term financial strategy of SHW AG and credit institutions' indicative rates. This follow-on financing is expected to be agreed timely.

Furthermore, the SHW Group also has access to other debt and equity instruments. This includes taking out additional loans of up to € 15 million as well as additional capital market liabilities of up to € 20 million. A precautionary resolution has also been passed authorising capital increases in the amount of 50 per cent of the SHW Group's subscribed capital – which corresponds to 3,218,104 shares – in the period to 11 May 2020 in case of non-organic growth, and convertible and/or warrant bonds may be issued for a total nominal amount of up to € 65 million with a limited or unlimited term to maturity.

Overall, financing of the SHW Group's planned organic and acquisition-driven growth has thereby been safeguarded.

Interest rate risks and tax risks

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

To reduce its interest rate risks and to safeguard its financial flexibility, SHW still seeks to finance almost all of its investments based on its cash flow from operating activities. In 2016, interest rates in the eurozone remained at a very low level. The European Central Bank has announced that it will leave its low interest rate policy intact. We therefore do not envisage any significant interest rate rises in the near future.

The audit of the German Group companies for the assessment periods 2008 to 2011 – which did not result in any significant findings – was completed in the previous year and reflected in the consolidated financial statements for the previous year.

Impairment risks

Some of the assets of the SHW Group comprise intangible assets, including goodwill. As at 31 December 2016, goodwill reported in the statement of financial position of the SHW Group amounted to approx. € 7.1 million. Of this amount, € 4.2 million related to the Pumps and Engine Components business segment and € 2.8 million to the Brake Discs business segment. The goodwill impairment test as at 31 December 2016 was conducted based on the planning for the period from 2017 to 2021, and assumptions were made regarding future developments.

While the SHW Group's goodwill was classified as non-impaired as at 31 December 2016, in principle the need for impairment at a future date cannot be ruled out.

Major risks in fiscal year 2017

In the current fiscal year, we see major risks in relation to new product launches and product liability.

Risk category	Probability of realisation	Damage (net)
Product launches	< 30 per cent	< € 0.5 million
Product liability	< 30 per cent	< € 6.0 million

The product liability risks have resulted from a claim for damages which a customer previously enforced against SHW. SHW has conclusively rejected this customer's claim and referred this case to its insurer.

The key risks outlined entirely relate to the Pumps and Engine Components business segment.

Assessment of the overall risk position

At the present time, in our view the SHW Group's overall risk situation is well under control. No risks are currently discernible which are capable of weakening the SHW Group's long-term results of operations, net assets and financial position, either individually or in conjunction with other risks. Nor are any risks apparent which might jeopardise the SHW Group's continued existence. As at 31 December 2016, no significant lawsuits were pending against the SHW Group. Adequate risk provisions have been made for current proceedings.

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

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

The report on significant events after the balance sheet date must be included in the notes to the consolidated financial statements in accordance with Section 314 (1) No. 25 HGB. Accordingly, please refer to Note (29) in the notes to the consolidated financial statements.

OPPORTUNITIES

Principles of opportunities management

World economy registers further moderate growth

We understand opportunities to mean possible future developments or events which may result in positive divergence from a forecast or target for the Company. Our opportunities management system is mainly based upon the goals and strategies of the Company's two business segments, Pumps and Engine Components and Brake Discs. The operational management personnel in these business segments have direct responsibility for early and regular identification and analysis of opportunities. Opportunities management is an integral part of SHW's Group-wide planning and management systems. The market and competition, relevant cost elements and significant success factors are intensively examined in this regard. Concrete business segment-specific goals are thus derived and determined.

The Company's development and sales departments play a key role within the scope of opportunities management. They continuously seek out possibilities for optimisation of 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 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 outlined below.

Group-wide opportunities

Significant efforts still required in order to achieve the 2021 emission target

According to the information provided by passenger car manufacturers, in 2015 that year's CO_2 limit of 130 g/km was complied with. However, a study by the ICCT shows that emission levels in everyday use significantly exceed the official values. With the WLTP measurement method, the EU is seeking to achieve more realistic consumption values which are comparable worldwide.

The vehicle manufacturers must therefore make considerable further efforts in order to achieve the emission target of 95 g/km set by the European Commission for the year 2021.

The automobile industry has various means of achieving this target. It is focusing its efforts on optimising the conventional combustion engine (direct injection, cooled exhaust gas recirculation, downsizing and turbocharging, variable valve train, cylinder deactivation, variable compression, combustion processes, friction reduction, thermal loss reduction), transmission optimisation (automated manual transmissions, dual clutch transmissions, automatic powershift transmissions or stepped automatic transmissions) and reducing vehicle weight. It is also investing considerable resources in the development of hybrid and fully electric vehicles.

Within the scope of its existing technological methods, the Pumps and Engine Components business segment has developed a large number of success-critical solutions which are providing a significant contribution towards reduced fuel consumption and thus lower CO_2 emissions. SHW's product range strongly reflects the increasing variety of powertrain concepts.

With its composite brake discs, the Brake Discs business segment also helps to reduce CO_2. The resulting weight saving is approximately 2 kg per brake disc or around 8 kg per vehicle.

Based on its innovative product portfolio and its current orders, following its two consolidation years 2016 and 2017 SHW is well placed to achieve stronger growth than the underlying engine, transmission and light vehicle market.

Besides organic growth, the continuing process of consolidation in the engine and transmission components division represents an additional growth opportunity. SHW is financially well placed to expand its market position in selected divisions and regions.

Opportunities in SHW's business segments

Besides the growth potential in the field of transmission oil pumps, SHW sees additional opportunities in the area of variable coolant pumps and has delivered prototypes to a major European automobile manufacturer.

SHW sees the increasing electrification of auxiliaries in combination with the hybridisation of the powertrain and the introduction of the 48V wiring system as an area of development which offers additional market potential. In this respect, SHW will expand its electronic drive and control unit expertise to supplement its core hydraulic competence. It is evaluating potential acquisition targets and opportunities for partnerships.

This medium-term planning also does not consider the possible insourcing of selected value added steps in the Pumps and Engine Components business segment.

The Brake Discs business segment is benefiting from the trend towards lighter vehicle parts. With its composite brake disc, SHW has an extremely innovative product in its product 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 company intends to considerably reduce its production costs and will thus in future also be able to supply competitive products for upper mid-range and mid-range vehicles. The Company is also considering adding weight-reducing components for the braking system to its product range.

Due to its innovative product portfolio, its market position and its financial strength, the Company is confident of its ability to successfully handle the resulting opportunities as well as the challenges associated with the above-mentioned risks.

OUTLOOK

Outlook for the overall economy and for the industry

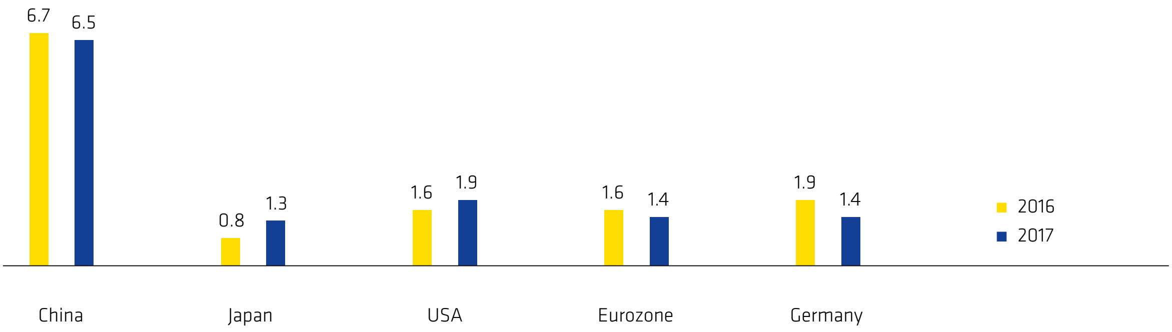
World economy registers further moderate growth

The economists at Bankhaus Lampe estimate that global gross domestic product (GDP) will increase by 3.1 per cent in 2017. In the emerging markets, the economies of the crisis states Russia and Brazil have stabilised. Economic output in these countries is likely to pick up in the current year, while in China growth will probably decline slightly. In the industrialised countries, economic momentum is expected to remain almost unchanged. While the tailwind provided by energy prices has declined with the rising oil prices, leading economic indicators such as the order situation in the industry point to a slightly stronger growth in investments.

The economic recovery in the eurozone is likely to continue in 2017, and economic activity is expected to rise by 1.4 per cent (previous year 1.7 per cent). The situation on the labour market is expected to continue to improve slightly, and private consumption will probably remain the mainstay of economic activity. The expected strengthening of the euro and the higher crude oil price will have a marginally negative impact. Moreover, the structural problems which continue to apply (labour market regulation, problem loans in banks' balance sheets, etc.) will prevent a stronger upturn.

In Germany, economic output in 2017 is likely to grow less strongly than in the past year. Bankhaus Lampe predicts growth of 1.4 per cent (previous year 1.9 per cent). Due to the lack of additional impetus for consumption as well as subdued global economic growth, noticeably stronger growth momentum should not be expected for 2017. Government spending is likely to provide a lower growth contribution than in the previous year, and wage growth will be slightly weaker.

GDP GROWTH BY REGION IN %



Source: forecast for 2016/17: Bankhaus Lampe Economic Research

For the USA, the economists at Bankhaus Lampe forecast GDP growth of 1.9 per cent (previous year 1.6 per cent). This is based on the assumption that US president Donald Trump will only be able to get some of his extensive tax cuts and spending plans passed in the US Congress. Private and public investments are both expected to provide a stronger growth contribution than in 2016. In the longer term, the growth-curbing effects of more restrictive immigration and trade policies and growing government debt are likely to outweigh the positive fiscal impetus.

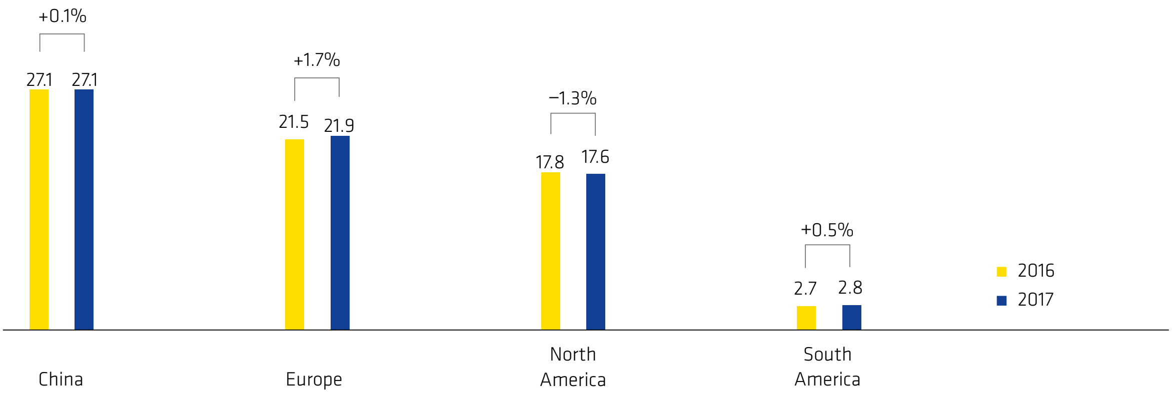
China's government is expected to continue to pursue its policy of a controlled cooling of economic activity. The economists at Bankhaus Lampe predict growth of 6.5 per cent in 2017, compared to 6.7 per cent in 2016. Companies' high debt burden is putting the brakes on growth. In addition, a further decline in construction activity is likely. If economic activity threatens to dip too much below the government's long-term growth target of 6.5 per cent, new government support measures – particularly in the area of infrastructure – are probable.

Very moderate rise in vehicle production

The IHS market research institute expects global light vehicle production (vehicles < 6 tonnes) to increase slightly by 0.9 per cent in 2017, from 92.7 million vehicles to 93.5 million vehicles. This growth will mainly be underpinned by slight increases in production in Europe, Japan/Korea and South Asia. IHS expects vehicle production to stagnate in China, while for North America it even envisages a slight decline to 17.6 million vehicles. For the South America region, following the strong decreases of the past few years production figures are expected to stabilise at the previous year's level of approx. 2.8 million vehicles.

The further increase in domestic demand in the European Union and stable overseas exports represent the basis for another relatively good year for European vehicle manufacturers in 2017, with growth of around 1.7 per cent. This growth will mainly be supported by increases in production in France (+7.2 per cent to 2.2 million vehicles) and Russia (+11.2 per cent to 1.3 million vehicles).

LIGHT VEHICLE PRODUCTION BY REGION (IN M UNITS)



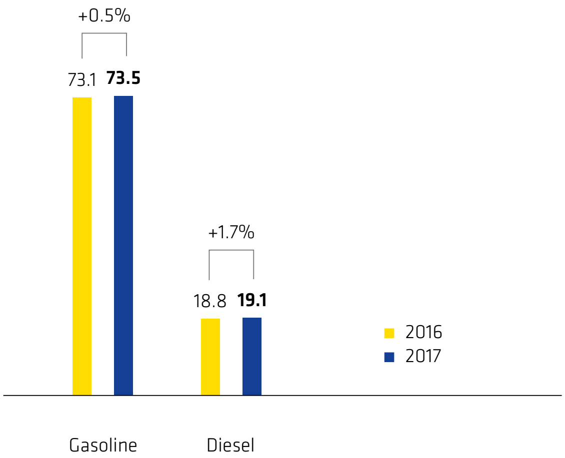
Source: IHS – January 2017

For Germany, the IHS research institute forecasts a slight, 0.7 per cent decrease in the production volume to just over 5.9 million units in 2017.

Gasoline engines still a key source of growth

Based on the expected production figures for light vehicles, IHS anticipates a global growth rate of 0.9 per cent to 93.5 million units for engine production. Gasoline engines will mainly account for this increase. Its production is expected to rise by 0.5 per cent to 73.5 million units. Despite "Dieselgate", the industry experts predict slight global growth of 1.7 per cent for diesel engines in 2017, to 19.1 million units. This would represent a market share of 20.4 per cent. Electrical engines will account for 0.7 per cent of the total global engine production.

ENGINE PRODUCTION WORLDWIDE (IN M UNITS)



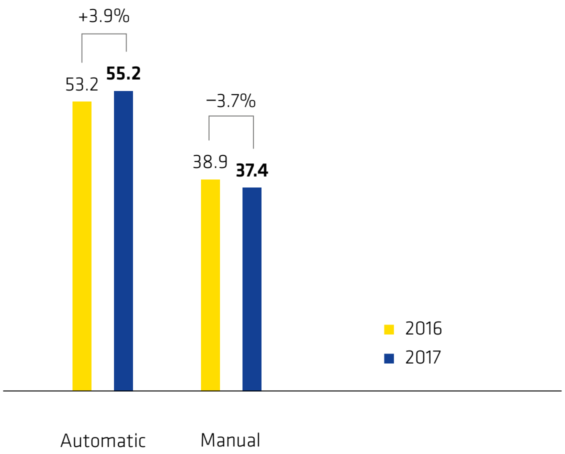
Source: IHS – January 2017

For diesel engines in Europe stable production figures are expected, with 11.4 million units. Gasoline engines will serve as the main source of growth and are expected to account for 12.3 million units (+3.8 per cent). In North America, engine production is expected to decrease by 4.4 per cent to 15.4 million units. In particular, this reflects declining production figures for gasoline engines. On the other hand, the number of electrical engines will grow by more than 30 per cent to 140,000 units. In China, engine production will increase by approx. 0.9 per cent to 27.1 million units. Electrical engines are likely to account for slightly more than half of the expected volume growth of 173,000 units.With product solutions for combustion engines – both diesel and gasoline – and for electrical engines, SHW remains well placed to exploit the relevant growth opportunities.

Automatic transmissions continuing to gain ground worldwide

For 2017, the IHS research institute predicts global transmission production growth of 0.9 per cent to 93.5 million units. This volume growth is almost exclusively attributable to automatic transmissions, whose share of global production will continue to increase, from 57.4 per cent to 59.1 per cent. This strong growth is mainly attributable to the production sites in China. In China, the IHS predicts transmission production growth of 3.4 per cent to 23.7 million units. Here too, automatic transmissions are the key source of growth. Their production is expected to rise by 17.1 per cent to 10.7 million units.

TRANSMISSION PRODUCTION WORLDWIDE (IN M UNITS)



Source: IHS – January 2017

Thanks to its new products in the primary and secondary transmission oil pumps segment, SHW is optimistic that it will be able to benefit from this positive growth trend for automatic transmissions.

Outlook for the group

Expected sales of € 400 million to € 420 million

Based on the above-mentioned economic and industry environment and while considering the potential risks and opportunities for fiscal year 2017, the Management Board of SHW AG expects Group sales of € 400 million and € 420 million.

It is therefore forecasting sales of € 310 million and € 330 million in its Pumps and Engine Components business segment and sales similar to the previous year's level of € 90 million in its Brake Discs business segment, with a further increase anticipated in the percentage of high-value composite brake discs in 2017.

The SHW Group continues to assume that the joint venture SHW Longji Brake Discs (LongKou) Co., Ltd., will pursue its operating activities according to plan. Due to the manufacturing of unprocessed brake discs for the aftermarket business of the Chinese joint venture partner, we assume that the foundry will once again maintain a constant level of utilisation in 2017.

EBITDA trend: Expected margin of 10.0 per cent to 11.0 per cent

Based on aforementioned assumptions, SHW expects an EBITDA margin of 10.0 per cent to 11.0 per cent (previous year 10.7 per cent) for 2017 as a whole. The EBITDA figure will fall within a corresponding range, around the level reached in the fiscal year 2016. In particular, this reflects the continuing effects of the successful implementation of the Group's operational excellence programmes (see Company Strategy chapter – page 34 et seq.).

Intended working capital ratio of 11 per cent to 12 per cent

The optimisation of the Company's working capital is a further area of focus for the Management Board in fiscal year 2017. It aims – against the backdrop of the expansion of the global production network – to achieve a sustainable working capital ratio – i.e. the ratio of working capital to sales – on a monthly basis of 11 to 12 per cent.

Significant investment programme launched for internationalisation

In order to support its strategic goals, for fiscal year 2017 the Company is planning on temporarily increased investments with an estimated range of € 29 million to € 33 million in connection with its development of new markets in China and North America as well as the establishment of the new production site in Romania.

The investments mainly relates to the development of the Group's production capacities at its international sites as well as its assembly lines and foundry and processing centres in Germany.

Depreciation will amount to approx. € 24 million to € 26 million.

Dividend policy: sustainable payout ratio of 30 to 40 per cent

The SHW Group is pursuing a sustainable, result-oriented dividend policy. While complying with statutory restrictions and considering the financing requirements of the SHW Group, the Company plans to continue to distribute between 30 per cent and 40 per cent of its reported Group net income for the year to the Company's shareholders as a dividend. Due to the significant efficiency gains and solid balance-sheet structure, the Management Board has decided to propose to the Supervisory Board that it propose a stable dividend of € 1.00 per share at the Annual General Meeting which will be held in Heidenheim on 9 May 2017.

Significant improvement in sales and margins from 2018

SHW is benefiting from three key trends in the automobile industry:

- Global vehicle production is continuing to increase. In the period to 2025, worldwide production figures of light vehicles (vehicles < 6 tonnes) are expected to increase by an average of 1.9 per cent per year to approx. 110 million units. China and South East Asia are expected to deliver the strongest levels of growth.

- In absolute figures, combustion engines will continue to power the vast majority of light vehicles over the next few years. The growing significance of hybrid drives – a combination of a combustion engine and an electric engine – will mean an increased number of pumps per vehicle.

- The reduction of CO_2 emissions will continue in all of the Company's strategic markets, with ambitious goals. This will continue to require consistent optimisation of engines and transmissions, for which SHW has the necessary product portfolio. The Company also has market-oriented product solutions for fully electric vehicles in its portfolio.

From 2018 onwards, the Company once again expects a significant increase in sales and earnings. Within the scope of its "SHW 2020" strategy, sales are to be increased to € 620 million to € 650 million in the period up until 2020. Business outside Europe will account for almost one quarter of this. In the same period, the EBITDA margin should increase to at least 12 per cent. The expansion of the global production network, innovation leadership and CIP (continuous improvement processes) (see Company Strategy chapter – page 34 et seq.) are key areas of focus. Following temporarily increased investments in new markets and further production sites in 2017, from 2018 the Company plans to reduce investments to a level of approx. 5 to 6 per cent of Group sales.

Overall statement on future development

In the absence of a significant change in the outline conditions for the current fiscal year, the Management Board of SHW AG envisages sales of € 400 million to € 420 million together with an EBITDA margin of 10.0 per cent to 11.0 per cent. In fiscal year 2017, the Management Board will focus in particular on expanding the global production network.

Aalen, 28 February 2017

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

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

for the fiscal year from 1 January to 31 December 2016

K EUR	Note	2016	2015
Sales	(20)	405,770	463,478
Cost of sales	(9)	-359,862	-416,296
Gross profit		45,908	47,182
Selling expenses	(1), (9)	-8,438	-6,961
General administrative expenses	(2), (9)	-13,181	-11,870
Research and development costs	(3), (9)	-7,900	-7,505
Other operating income	(4)	4,815	2,617
Other operating expenses	(5)	-2,266	-3,331
Operating result		18,938	20,132
Financial income	(6)	26	16
Financial expenses	(6)	-1,263	-1,268
Profit of joint ventures accounted for using the equity method	(7)	252	1,383
Earnings before tax		17,953	20,263
Deferred taxes	(8)	773	327
Current income tax	(8)	-5,921	-6,239
Earnings after tax		12,805	14,351
Net Profit		**12,805**	**14,351**
Earnings per share (€) *		1.99	2.26

* Calculated in relation to an average of 6,436,209 shares (previous year: 6,359,263 shares), see Note (16) "Equity".

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the fiscal year from 1 January to 31 December 2016

K EUR	**2016**	2015
Net profit	12,805	14,351
Items that will not be reclassified to profit or loss in future periods		
Actuarial gains / losses from pension accruals and similar obligations before tax	-2,194	1,199
Tax effect	619	-338
Items that may be reclassified to profit or loss in future periods		
Currency translation differences	824	-44
Tax effect	0	0
Unrealised gains / losses from currency translation for joint ventures accounted for using the equity method	-509	-1,033
Tax effect	0	0
Other earnings after tax	-1,260	-216
Total comprehensive income after tax	**11,545**	**14,135**
Net profit for the year attributable to		
shareholders of SHW AG	12,805	14,351
holders of non-controlling interests	0	0
Total comprehensive income after tax attributable to		
shareholders of SHW AG	11,545	14,135
holders of non-controlling interests	0	0

CONSOLIDATED BALANCE SHEET

as at 31 December 2016

ASSETS

K EUR	Note	31.12.2016	31.12.2015
Goodwill	(10)	7,055	7,055
Other intangible assets	(10)	9,259	11,346
Property, plant and equipment	(10)	96,854	94,810
Deferred tax assets	(8)	5,271	4,668
Joint ventures accounted for using the equity method	(7)	16,412	16,669
Other financial assets	(11)	298	341
Other assets	(11)	1,476	577
Non-current assets		136,625	135,466
Inventories	(12)	46,378	41,630
Trade receivables	(13)	37,967	34,388
Other financial assets	(14)	135	401
Other assets	(14)	3,210	3,764
Cash and cash equivalents	(15)	3,616	14,814
Current assets		91,306	94,997
Total assets		**227,931**	**230,463**

EQUITY AND LIABILITIES

K EUR	Note	31.12.2016	31.12.2015
Subscribed capital	(16)	6,436	6,436
Capital reserves	(16)	38,510	38,510
Revenue reserves	(16)	82,427	76,058
Other reserves	(16)	-6,024	-4,764
Equity		121,349	116,240
Pension accruals and similar obligations	(17)	28,036	26,274
Deferred tax liabilities	(8)	2,448	3,237
Other accruals	(18)	4,747	3,972
Other financial liabilities	(19)	1,208	7,855
Liabilities to banks	(19)	107	1,297
Non-current liabilities and accruals		36,546	42,635
Liabilities to banks	(19)	1,876	1,189
Trade payables	(19)	34,802	43,484
Other financial liabilities	(19)	14,161	7,088
Income tax liabilities	(19)	1,619	2,013
Other accruals	(18)	10,524	9,984
Other liabilities	(19)	7,054	7,830
Current liabilities and accruals		70,036	71,588
Total equity and liabilities		**227,931**	**230,463**

CONSOLIDATED CASH FLOW STATEMENT

for the fiscal year from 1 January to 31 December 2016

K EUR	Note	2016	2015
1. Cash flow from operating activities			
Net profit		12,805	14,351
Depreciation / amortisation (+) of fixed assets	(10)	24,615	22,543
Income tax expenses through profit or loss (+)	(8)	5,921	6,239
Income taxes paid (-)		-6,393	-4,916
Financing costs through profit or loss (+)	(6)	1,263	1,268
Interest paid (-)		-374	-458
Financial investment income through profit or loss (-)	(6)	-26	-16
Interest received (+)		26	16
Increase (+) / decrease (-) in accruals	(18)	-1,943	4,756
Change in deferred taxes		-773	-327
Other non-cash effective expenses (+) / income (-)		512	0
Gain (-) / loss (+) from the disposal of assets		48	42
Profit of joint ventures accounted for using the equity method	(7)	-252	-1,383
Increase (-) / decrease (+) in inventories, trade receivables and other assets	(12), (13), (14)	-6,668	10,282
Increase (+) / decrease (-) in trade payables and other liabilities	(19)	-8,002	-11,503
Cash flow from operating activities		20,759	40,894

K EUR	Note	2016	2015
2. Cash flow from investing activities			
Cash received (+) from the disposal of property, plant and equipment		229	324
Cash paid (-) for investments in property, plant and equipment		-23,640	-20,747
Cash paid (-) for investments in intangible assets		-1,378	-2,374
Cash paid (-) for investments in financial assets		0	-9,041
Cash flow from investing activities		-24,789	-31,838
3. Cash flow from financing activities			
Cash received (+) from the assumption of financial liabilities	(19)	687	0
Cash paid (-) for the redemption of financial liabilities	(19)	-1,190	-12,162
Cash received (+) from the issue of shares	(16)	0	24,213
Dividends paid (-) to shareholders	(16)	-6,436	-6,436
Cash paid (-) for finance leases		-135	-120
Cash flow from financing activities		-7,074	5,495
4. Cash and cash equivalents at the end of the period			
Cash-effective changes in cash and cash equivalents (sum of positions 1–3)		-11,104	14,551
Exchange rate-related changes in cash and cash equivalents		-119	-58
Cash and cash equivalents at the beginning of the period	(15)	14,814	292
Changes in cash position from scope of consolidation-related changes		25	29
Cash and cash equivalents at the end of the period	**(15)**	**3,616**	**14,814**

STATEMENT OF CHANGES IN GROUP EQUITY

as at 31 December 2016

K EUR	Subscribed capital (Note 16)	Capital reserves (Note 16)	Revenue reserves (Note 16)	Other reserves (Note 16)	**Total equity**
Position as at 1 January 2015	**5,851**	**14,780**	**68,424**	**-4,548**	**84,507**
Changes from actuarial gains and losses	0	0	0	861	861
Unrealised gains / losses from currency translation for joint ventures accounted for using the equity method	0	0	0	-1,033	-1,033
Foreign currency translation differences	0	0	0	-44	-44
Income recognised directly in equity	0	0	0	-216	-216
Net profit for 2015	0	0	14,351	0	14,351
Total comprehensive income for the period	0	0	14,351	-216	14,135
First-time consolidation of previously non-consolidated subsidiaries for reasons of materiality	0	0	-281	0	-281
Issue of shares	585	23,730	0	0	24,315
Dividends paid	0	0	-6,436 *	0	-6,436
Position as at 31 December 2015	**6,436**	**38,510**	**76,058**	**-4,764**	**116,240**

* € 1 per share

K EUR	Subscribed capital (Note 16)	Capital reserves (Note 16)	Revenue reserves (Note 16)	Other reserves (Note 16)	**Total equity**
Position as at 1 January 2016	**6,436**	**38,510**	**76,058**	**-4,764**	**116,240**
Changes from actuarial gains and losses	0	0	0	-1,575	-1,575
Unrealised gains / losses from currency translation for joint ventures accounted for using the equity method	0	0	0	-509	-509
Foreign currency translation differences	0	0	0	824	824
Income recognised directly in equity	0	0	0	-1,260	-1,260
Net profit for 2016	0	0	12,805	0	12,805
Total comprehensive income for the period	0	0	12,805	-1,260	11,545
Dividends paid	0	0	-6,436 *	0	-6,436
Position as at 31 December 2016	**6,436**	**38,510**	**82,427**	**-6,024**	**121,349**

* € 1 per share

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the fiscal year from 1 January to 31 December 2016

Basis for the preparation of the consolidated financial statements

SHW AG's Consolidated Financial Statements as at 31 December 2016 were approved by the Management Board on 28 February 2017 for submission to the Supervisory Board. SHW Aktiengesellschaft with registered offices at Wilhelmstrasse 67, 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. 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 2016 as to be applied in the EU. All interpretations of the International Financial Reporting Interpretations Committee (IFRIC) relevant for fiscal year 2016, 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 acquisition cost principle. This excludes derivative financial instruments and available-for-sale financial instruments accounted for at fair value. 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). The Consolidated Financial Statements exempt the SHW Group from preparing financial statements in accordance with the German Commercial Code (HGB), pursuant to Section 315a (3) HGB.

In accordance with the resolution of 25 January 2017, the shareholders of SHW Automotive GmbH unanimously resolved to make use of the exemption rule pursuant to Section 264 (3) HGB and to dispense with preparing a management report and notes as well as the disclosure of the annual financial statements. The resolution was passed on to the Federal Gazette (Bundesanzeiger) on 10 February 2017 for publication.

Consolidation methods

Scope of consolidation and consolidation principles

The Consolidated Financial Statements comprise the financial statements of SHW AG, as the pre-eminent consolidation Group, and all of its subsidiaries controlled, 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. SHW Automotive Industries GmbH, Aalen, was included in the scope of consolidation for the first time in fiscal year 2016. As a shelf company it was previously not included in the Consolidated Financial Statements due to materiality reasons. The first-time consolidation had no significant effects on the results of operations, net assets and financial position of the SHW Group.

A full list of the shareholdings of the SHW Group is an integral part of these notes to the Consolidated Financial Statements.

Capital consolidation is carried out in accordance with the purchase method. Subsidiaries are fully consolidated from their date of acquisition, i.e. from the date the SHW Group directly or indirectly controls the entity as defined by IFRS 10. An entity is controlled if SHW AG is able to decide on the relevant activities of the subsidiary due to voting rights or other rights, if it receives the positive or negative variable returns generated by this subsidiary and if it may influence these returns by virtue of its decision-making authority. Subsidiaries are no longer included in the Consolidated Financial Statements as soon as the parent company ceases to control the subsidiary. Joint ventures are accounted for using the equity method and initially recognised at acquisition cost. The equity method is applied from the time that the SHW Group has gained joint control or a significant influence over the joint venture and is no longer applied when this significant influence or joint control over the investee ends. 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 and subsequently recognised at fair value. To the extent that 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, then impairment is carried out.

All intra-Group balances, transactions, income, expenditures, profits and losses from intra-Group transactions that are included in the Annual Financial Statements of consolidated companies are eliminated.

Joint ventures

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

On 23 January 2015, SHW Automotive GmbH, a subsidiary of SHW AG, and Shandong Longji Machinery Co., Ltd. signed an agreement to form a joint venture for brake discs for the Asian market. This Sino-foreign equity joint venture operates under the name SHW Longji Brake Discs (LongKou) Co., Ltd. and the company is seated in LongKou in eastern China (Shandong province). In the future, the company's business activities will concentrate on the development and production of monobloc processed brake discs for passenger cars and light commercial vehicles, mainly for multinational automobile manufacturers on the Asian market. This company commenced its operating activities on 1 April 2015.

It has a share capital of RMB 215.5 million (renminbi) with SHW Automotive GmbH as the majority shareholder with an interest of 51 per cent, and Shandong Longji Machinery Co., Ltd. holding 49 per cent. In the first quarter of fiscal year 2015, SHW Automotive GmbH provided a share capital contribution in the amount of € 8.9 million. The still outstanding second purchase price instalment, which translates to € 6.7 million, is due at the end of February 2017 and is included in the other current financial liabilities.

Due to company law regulations, the joint venture is jointly controlled by its two partners SHW Automotive GmbH and Shandong Longji Machinery Co., Ltd. The joint venture's sales and earnings development is currently mainly influenced by Shandong Longji Machinery Co., Ltd. A joint arrangement is thus applicable within the meaning of IFRS 11.

Due to company law circumstances and the contractual agreements between the two joint venture partners and in view of other facts and circumstances, the joint arrangement has been classified as a joint venture. Accordingly, this joint venture is included in the Consolidated Financial Statements of SHW AG in accordance with the equity method.

Changes in accounting and valuation principles

1. New and amended standards and interpretations applicable in the year 2016

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 2016:

Standard / Interpretation		Status	To be applied from
AIP 2010–2012	Annual improvements project by the IASB (2010–2012)	revised	01.02.2015
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions	revised	01.02.2015
Amendments to IAS 16 / IAS 41	Agriculture: Bearer Plants	revised	01.01.2016
Amendments to IFRS 11	Acquisition of an Interest in a Joint Operation	revised	01.01.2016
AIP 2012–2014	Annual improvements project by the IASB (2012–2014)	revised	01.01.2016
Amendments to IAS 1	Disclosure Initiative	revised	01.01.2016
Amendments to IAS 27	Equity Method in Separate Financial Statements	revised	01.01.2016
Amendments to IAS 16 / IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	revised	01.01.2016
Amendments IFRS 10, IFRS 12, IAS 28	Investment Entities Applying the Consolidation Exception	revised	01.01.2016

The application of these amendments did not have any significant effect on the Consolidated Financial Statements of SHW AG.

2. Standards, interpretations and amendments to published standards not yet mandatory in 2016 and not adopted early by the SHW Group

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

Standard / Interpretation		Status	To be applied from
Amendments to IAS 12	Income taxes	revised	01.01.2017
Amendments to IAS 7	Cash flow statement	revised	01.01.2017
Amendments to IFRS 2	Classification and measurement of share-based payment transactions	revised	01.01.2018
Amendments to IFRS 4	Adoption of IFRS 9	revised	01.01.2018
IFRS 9	Financial Instruments	new	01.01.2018
IFRS 15	Revenue from Contracts with Customers	new	01.01.2018
IFRS 16	Leases	new	01.01.2019

- IFRS 9 "Financial Instruments" introduces a uniform approach for the recognition and measurement of financial assets. The subsequent measurement of financial assets will in future be classified according to three categories with different measures of value and different recognition for changes in value. Furthermore, IFRS 9 incorporates a new impairment model which is based on the premise of providing for expected losses. This standard will require additional disclosures in the notes to the financial statements.

  At the present time, SHW AG intends to apply IFRS 9 on 1 January 2018 for the first time. The effects of first-time application will depend on the financial instruments which the Group holds at the changeover date, the economic conditions and the choice of reporting methods, as well as discretionary decisions to be made in future. A provisional assessment of the possible effects of application of IFRS 9 on the Consolidated Financial Statements of SHW AG – on the basis of its items as at 31 December 2016 – has not resulted in any significant effects on account of the new classification requirements or the impairment model.

- IFRS 15 "Revenue from Contracts with Customers": The new standard replaces IAS 18 "Revenue" and IAS 11 "Construction Contracts" and the related interpretations. The new standard establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise. IFRS 15 prescribes a single, five-step revenue realisation model. In principle, this must be applied to all contracts with customers. In the balance sheet, IFRS 15 has introduced new items for contract assets and liabilities. These may arise through existing performance surpluses or performance obligations at the contract level. In addition, expanded disclosure requirements apply.

  SHW AG has undertaken an initial assessment of the possible effects of application of IFRS 15 on its Consolidated Financial Statements. SHW AG has not yet completed its full analysis of customer contracts in terms of the effects of the application of the new standard. In particular, these effects are expected to relate to the timing of recognition of revenue in case of business transactions comprising multiple part services. The balance sheet will mainly be affected by the separate disclosure of contract assets and liabilities. The notes disclosure requirements have also been expanded. SHW AG will apply IFRS 15 for the first time for the fiscal year beginning on 1 January 2018. It is expected to be applied retrospectively with a cumulative effect upon first-time application. We currently do not expect this to have any significant effect on the results of operations, net assets and financial position of the SHW Group.

- IFRS 16 "Leases": In January 2016, the IASB published the new standard IFRS 16 "Leases". The changes resulting from this affect the lessee in particular and as a consequence all leases are in principle to be recognised in the balance sheet of the lessee in future. The lessee recognises a right-of-use asset, which represents its right to use the underlying asset, as well as a liability under the lease, which represents its obligation to make lease payments.

  SHW AG plans to retrospectively apply IFRS 16 in a modified form as at the date of first-time application on 1 January 2019. IFRS 16 will increase the balance sheet total and the debt burden. Since depreciation and amortisation and interest expenses will also increase, this will have a positive effect on the EBITDA figure. Since the balance-sheet treatment of leases matches the Company's own investments from the date of first-time application of the new IFRS 16, the scope of the resulting changes will also depend on the extent to which leasing represents an attractive alternative financing option in future, particularly in view of the current period of low interest rates.

We expect that future application of the other new standards and amendments will not have any effect, or will not have any significant effect, on the Consolidated Financial Statements of SHW AG.

Accounting and valuation principles

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 and joint ventures using a functional currency other than the euro are translated at the closing rate of the fiscal year, while the income statement items are translated at the average exchange 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 recorded in 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	
Country	€ 1	**2016**	2015	**2016**	2015
Brazil	BRL	3.4248	4.3198	3.8374	3.6430
Canada	CAD	1.4141	1.5128	1.4656	1.4168
China	RMB	7.3059	7.0804	7.3489	6.9061

Intangible assets

Intangible assets which were not acquired in the course of a company acquisition are capitalised at their acquisition cost. The acquisition costs of intangible assets acquired through a business combination are recognised at fair value as at the acquisition date. In subsequent periods, intangible assets are recognised at cost, less accumulated depreciation 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 nine 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.

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.

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.

Scheduled 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 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 for allocating the assets can be determined, the joint assets are allocated to the respective cash-generating units; otherwise the assets are allocated to the smallest group of cash-generating units for which a reasonable and consistent basis of allocation can be determined.

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

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

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

Borrowing costs

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

Financial assets and liabilities

Financial assets within the meaning of IAS 39 are categorised either as financial assets measured at fair value through profit or loss, as loans and receivables, as held-to-maturity financial investments or as available-for-sale financial assets. Financial liabilities are categorised as either liabilities amortised at acquisition cost pursuant to the effective interest rate method or as financial liabilities at their fair value through profit or loss.

Upon initial recognition of financial assets and liabilities, they are measured at fair value. Financial assets for which fair value has not been measured through profit or loss will also include transaction costs directly attributable to the acquisition of the financial asset. The SHW Group determines the classification of its financial assets upon initial recognition and, if permitted and appropriate, re-evaluates this allocation at the end of each fiscal year.

Financial instruments are recognised once the SHW Group becomes the counterparty to the financial instrument. In 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 measured at fair value through profit or loss

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

Loans and receivables

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

Available-for-sale financial assets

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

Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and a fixed term where the SHW Group has the intention and ability to hold them to maturity. After initial recognition, held-to-maturity investments are carried at amortised cost using the effective interest rate method, less any impairment.

Interest-bearing 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.

Financial liabilities and assets measured at fair value through profit or loss

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

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

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

On each reporting date, the SHW Group determines whether to recognise impairment on a financial asset or a group of financial assets.

In case of an objective indication that impairment has resulted on the financial assets carried at amortised cost, the amount of the loss is the difference between the carrying amount of the asset and the present value of the expected future cash flows for a comparable financial asset, discounted by the original effective interest rate for the financial asset. The carrying amount of the asset is reduced by way of an allowance account. The loss is recognised through profit or loss.

Trade receivables which normally have a term of 30 to 90 days are carried at the original invoice amount less an impairment for doubtful accounts receivable. An impairment using an allowance account is recognised when there is objective, material evidence that the SHW Group will not be in a position to collect the receivable in full. Receivables are derecognised as soon as they become uncollectible.

If the amount of the impairment of a financial asset carried at amortised cost decreases in one of the subsequent fiscal years and this decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment is reversed through profit or loss. Any increase in the carrying amount may not exceed the amount that would have resulted if the measurement of the asset had continued at acquisition cost without impairment.

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

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

Disclosure of financial assets and financial liabilities

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

Cash and cash equivalents

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

Inventories

Inventories are carried at acquisition production cost or the lower net realisable value. Net realisable value is the estimated selling price of the inventories, less all estimated expenses considered necessary for completion and sale. Production costs include direct costs as well as the 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 were not capitalised. Raw materials and merchandise are generally measured at their average acquisition cost.

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

Pension accruals and similar obligations

The SHW Group has two defined benefit plans in Germany with essentially uniform conditions. They are measured using the projected unit credit method and take into account the future development of salaries and pensions as well as the 2005 G reference tables ("RICHTTAFELN") published by Klaus Heubeck on 19 July 2005, which are applicable in Germany for the measurement of occupational pension obligations for fiscal years ending after the date of their publication. The actuarial interest rate is based on first-class, fixed-interest corporate bonds with an AA rating.

Actuarial gains and losses, which arise from changes in actuarial assumptions and deviations between earlier actuarial assumptions and the actual development, 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 the accrual of pension provisions are recorded under financial expenses. The remaining components of net pension expenses are included in the income statement under the respective functions.

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

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

Other accruals

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

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 in 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.

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 accruals.

Deferred tax assets and liabilities are measured in accordance with the liability method using the tax rates expected in the year the asset is realised, or the liability is settled. This is based on tax rates and tax laws that 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.

Leases

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

If the fundamental opportunities and risks related to the ownership of the asset lie with the SHW Group, the lease is treated as a finance lease. Upon conclusion of the lease, the leased asset is recognised at the lower of fair value of the leased item or at the present value of the minimum lease payments. The corresponding liability to the lessor is recorded in the balance sheet as a financial lease obligation. The lease payments are divided into an interest component and a repayment component, with the interest expenses being directly reported through profit or loss unless they can be unambiguously allocated to a qualified asset.

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

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.

Derivative financial instruments are carried at fair value on the date the contract is concluded and measured at fair value in the subsequent periods. Fair value is determined using standardised valuation techniques. Derivative financial instruments will be recognised as a financial asset if the fair value is positive and as a financial liability in case of negative fair values. Gains or losses arising from changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised directly in profit or loss.

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

For derivative financial instruments used in a hedge relationship, the changes in fair value in the course of the fiscal year are recognised according to the type of hedge relationship. In the case of a cash flow hedge, changes in fair value of the effective portion of the hedge instrument are recorded directly in equity under other reserves ("changes in the fair value of hedging instruments") and take into account deferred taxes. The non-effective portion will be directly recognised in the income statement under other operating income or other operating expenses. To the extent that the requirements for a cash flow hedge no longer exist, the amounts recognised under "other reserves" are released in profit or loss over the remaining term of the hedging instrument.

The changes in the fair value of derivatives that qualify for fair value hedges and are designated as such are recognised directly in the Consolidated Income Statement together with the changes in the fair value of the underlying transaction attributable to the hedged risk. The change in the fair value of the hedging instrument and the changes in the underlying transaction attributable to the hedged risk are recognised in the Consolidated Income Statement under the item associated with the underlying transaction. The accounting of the hedge relationship ends when either the SHW Group dissolves the hedge relationship, the term of the hedging instrument expires, the instrument is sold, terminated or exercised, or when it no longer qualifies for hedge accounting. At that time, the adjustment in the carrying amount of the underlying transaction resulting from the hedged risk commences through profit or loss.

Neither cash flow hedges nor fair value hedges currently exist within the SHW Group.

Income and expenses

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

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

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

Government grants

Government grants are recognised at fair value if it can be assumed with great certainty that the 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 for investments are deducted from the relevant assets.

Key estimates

The preparation of the Annual 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 (10) "Statement of changes in intangible assets and property, plant and equipment".

Development costs

Development costs are capitalised according to the accounting and valuation methods presented. The initial capitalisation of costs is based on the management's assessment that technical and economic feasibility has been demonstrated. Generally, this is the case when a product development project has achieved a certain degree of maturity within an existing project management model. In order to determine the capitalisable amounts, assumptions and estimates were included for expected cash flows from assets, the applicable discount rates and the period of expected future cash flows which the assets generate. As at 31 December 2016, the capitalised development costs amount to € 5,877 thousand (previous year € 7,388 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 2016, the accrual for pensions and similar obligations amounted to € 28,036 thousand (previous year € 26,274 thousand). For further details, please refer to Note (17) "Pension accruals and similar obligations".

Deferred tax assets

Deferred tax assets are recognised for all unutilised tax-loss carryforwards to the extent that it is probable that taxable income will be available in the future so that the tax-loss carryforwards can actually be used. 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 (8) "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.
- In recognising accruals for warranties, the main parameters (quota for the expected utilisation and the average amount) are to be defined by management.
- Financial assets are to be allocated to the categories of "held-to-maturity financial investments", "loans and receivables", "available-for-sale financial assets" and "financial assets measured at fair value through profit or loss".

Segment reporting

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

Notes to the income statement

(1) Selling expenses

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

(2) General administrative expenses

Administrative costs include all administrative expenses which cannot be directly allocated to other functional areas. This includes expenses for general administration, management and other higher-level departments (see also the explanations on the results of operations in the combined Group management report and the management report).

(3) 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 2016, the additionally capitalised development costs amounted to € 0.9 million (previous year € 1.4 million). Further development services were billed within the scope of customer orders.

(4) Other operating income

Other operating income includes, in particular, income from reversals of accruals and other liabilities in the amount of € 3,403 thousand (previous year € 1,525 thousand), income from compensation payments and insurance compensation in the amount of € 933 thousand (previous year € 500 thousand), income from derecognised receivables from customers in the amount of € 52 thousand (previous year € 94 thousand) and income from the disposal of fixed assets in the amount of € 15 thousand (previous year € 233 thousand).

(5) Other operating expenses

In particular, other operating expenses include expenses for cases of damage in the amount of € 1,358 thousand which largely correspond with other operating income from insurance compensation. Apart from this, this item includes legal and consulting fees in particular, in the amount of € 232 thousand (previous year € 344 thousand). In the previous year, this item also included employee severance payments in the amount of € 1,027 thousand.

(6) Financial result

The financial result is comprised as follows:

K EUR	**2016**	2015
Financial income	26	16
Financial expenses		
Interest and similar expenses	-662	-739
Interest portion in the addition to pension accruals	-562	-490
Interest expense from finance leases	-39	-39
	-1,263	-1,268
Financial result	**-1,237**	**-1,252**

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 € 380 thousand (previous year € 508 thousand) determined using the effective interest rate method (see Note 19 "Liabilities").

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

K EUR	Net results		of which expense / income from impairments	
	2016	2015	**2016**	2015
Loans and receivables (LaR)	40	-1,209	14	-1,225
Available-for-sale assets (AfS)	-19	-20	-19	-20
Financial liabilities measured at amortised cost (FLAC)	-701	-781	0	0
Total	**-680**	**-2,010**	**-5**	**-1,245**

(7) Joint ventures accounted for using the equity method

Joint ventures accounted for using the equity method in the amount of € 16.4 million (previous year € 16.7 million) exclusively comprise the Chinese joint venture SHW Longji Brake Discs (LongKou) Co., Ltd. Since 1 April 2015, this joint venture has been included in the Consolidated Financial Statements of SHW AG using the equity method. The still outstanding second purchase price instalment in the amount of € 6.7 million is included in the other current financial liabilities.

Summarised financial information for the joint venture SHW Longji Brake Discs (LongKou) Co., Ltd. on a 100 per cent basis:

K EUR	1-12 / 2016	4-12 / 2015
Share (in %)	51.0	51.0
Balance Sheet as at 31.12.		
Non-current assets	16,288	16,164
Current assets	13,417	17,606
of which cash and cash equivalents	3,360	4,916
Deferred tax liabilities	535	643
Current liabilities	3,508	7,213
of which financial liabilities	2,741	554
Net assets	25,662	25,914
Income Statement		
Sales	19,474	15,457
EBITDA	2,109	2,034
Amortisation and depreciation	1,564	1,246
EBIT	544	788
Earnings before tax	659	788
Income tax expense	166	197
Earnings after tax	494	591
Other earnings after tax (from currency translation)	-998	-2,025
Total comprehensive income after tax	-504	-1,434

As in the previous year net assets (equity) and the current assets of the joint venture have been shown net as at 31 December 2016, without including the second purchase price instalment.

Within the scope of the initial measurement, pro rata hidden reserves were identified for an order book of € 1.6 million and pro rata hidden losses were identified for a land use right, a building and property, plant and equipment in a total amount of € 0.2 million. A pro rata negative difference of € 1.1 million amounted to the difference between the acquisition costs for the investment and the pro rata net assets purchased. This was recognised in profit or loss under income from investments in fiscal year 2015.

Reconciliation statement for the summarised financial information and the carrying amount in the Consolidated Financial Statements:

K EUR	
Carrying amount accounted for using the equity method as at 01.01.2016	16,669
Share of earnings after tax	252
Share of other earnings after tax (from currency translation)	-509
Carrying amount accounted for using the equity method as at 31.12.2016	**16,412**

(8) Income taxes

a) Tax recognised in profit or loss

K EUR	**2016**	2015
Current taxes	-5,921	-6,239
Current year	-5,600	-5,852
Adjustments for previous years	-321	-387
Deferred taxes	773	327
Appearance / reversal of temporary differences	773	277
Recognition of previously unrecognised tax losses	0	50
Total	**-5,148**	**-5,912**

The revaluation of defined benefit obligations resulted in deferred tax benefits of € 619 thousand (previous year deferred tax expenses of € 338 thousand) which were recognised directly in equity.

b) Reconciliation of effective tax rate

K EUR	2016	2015
Earnings before tax	17,953	20,263
Expected income tax (28.2%)	5,063	5,714
Tax-free income, non-deductible expenses	-43	-16
Tax effect of joint ventures accounted for using the equity method	-71	-390
Taxes from previous years	321	387
Reduction in assessed value	-12	-12
Additions (pursuant to Section 8 of the German Trade Tax Act – GewStG)	24	28
Unrecognised deferred tax assets from loss carryforwards	0	27
Tax effects of loss carryforwards	0	-50
Deviating foreign tax rate	-14	14
Permanent differences	0	63
Other	-120	147
Income taxes	**5,148**	**5,912**
Effective tax rate	28.7%	29.2%

In Germany, corporate income tax totalled 15.8 per cent in 2016. Trade tax amounts to 12.4 per cent, with an average assessment rate of 353.9 per cent.

This resulted in a total statutory tax burden of 28.2 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 inland tax rate of 28.2 per cent is used.

On outside basis differences amounting to € 643 thousand (previous year € 2,056 thousand) no deferred taxes were calculated 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 2016 or 2015 and will not have an income tax impact in 2017.

c) Composition of deferred taxes

	Consolidated balance sheet	
K EUR	2016	2015
Deferred income tax assets		
Inventories	0	171
Pension accruals and similar obligations	3,661	3,053
Other non-current liabilities and accruals	785	846
Current liabilities and accruals	147	183
Unused tax losses	678	415
Total	**5,271**	**4,668**
Deferred income tax liabilities		
Intangible assets	2,031	2,431
Property, plant and equipment	112	294
Other non-current assets	0	248
Inventories	54	0
Other current assets	133	135
Current liabilities and accruals	118	129
Total	**2,448**	**3,237**

d) Deferred taxes directly recognised in equity

K EUR	Before tax	Tax income / expense	After tax
2016			
Actuarial gains / losses from pension accruals and similar obligations	-2,194	619	-1,575
Unrealised gains / losses from currency translation for joint ventures accounted for using the equity method	-509	0	-509
Currency translation differences	824	0	824
Total	**-1,879**	**619**	**-1,260**
2015			
Actuarial gains / losses from pension accruals and similar obligations	1,199	-338	861
Unrealised gains / losses from currency translation for joint ventures accounted for using the equity method	-1,033	0	-1,033
Currency translation differences	-44	0	-44
Total	**122**	**-338**	**-216**

e) Unrecognised deferred tax assets

For tax losses amounting to € 111 thousand (previous year € 97 thousand) no deferred tax assets were recognised since it is unlikely that a taxable income will be available in the future against which the deferred tax asset can be used.

Of the deferred tax assets for tax losses, € 400 thousand (previous year € 262 thousand) are attributable to the Chinese subsidiary SHW Automotive Pumps (Kunshan) Co., Ltd., which generated a loss for the period in fiscal year 2016 and in the previous year. The Group's Chinese subsidiary has started series production of variable engine oil pumps for a Chinese-European automobile manufacturer in September 2016. In fiscal year 2015, deferred tax assets were recognised on tax losses for the first time because the Management Board believes it is probable that a taxable income will be available in the future to offset these tax losses.

In fiscal year 2014, deferred tax assets were recognised on tax losses of the Brazilian subsidiary SHW do Brasil Ltda. for the first time (as at the balance sheet date € 278 thousand), since this subsidiary is about to start series production for a major order and the Management Board therefore considers it likely that it will be possible to offset losses in future.

(9) Other income statement disclosures

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

COST OF MATERIALS

K EUR	2016	2015
Cost of raw materials and supplies and of goods purchased	239,908	275,395
Cost of purchased services	12,284	16,943
Total cost of materials	**252,192**	**292,338**

Depreciation and amortisation

Depreciation and amortisation of intangible assets and property, plant and equipment totalled € 24,615 thousand (previous year € 22,543 thousand).

PERSONNEL EXPENSES

K EUR	2016	2015
Wages and salaries	74,926	76,280
Social security contributions and pension expenses	13,983	13,601
Total personnel expenses	**88,909**	**89,881**

Pension expenses comprise the addition to pension accruals (excluding the interest component) of € 459 thousand (previous year € 403 thousand). Statutory pension insurance expenses totalled € 6,250 thousand (previous year € 6,248 thousand).

Annual average number of employees:

EMPLOYEES

	2016	2015
Wage earners	998	1,012
Salaried employees	289	275
	1,287	**1,287**

Notes to the balance sheet

(10) Statement of changes in intangible assets and property, plant and equipment

	Acquisition and production costs						
K EUR	As at 01.01.2016	Additions from first-time consolidation	Additions	Reclassi-fications	Disposals	Exchange rate differences	As at 31.12.2016
Intangible assets							
Customer base	47,569	0	0	0	-47,569	0	0
Goodwill	7,055	0	0	0	0	0	7,055
Internally generated assets	15,844	0	859	0	-645	0	16,058
Other intangible assets	8,758	0	1,449	0	-665	0	9,542
	79,226	0	2,308	0	-48,879	0	32,655
Property, plant and equipment							
Land, land rights and buildings	37,350	0	2,931	414	-29	8	40,674
Technical equipment and machinery	135,420	0	6,926	3,377	-2,235	237	143,725
Other equipment, operating and office equipment	22,476	0	3,308	718	-205	18	26,315
Advance payments and assets under construction	4,576	0	9,211	-4,509	-151	0	9,127
	199,822	0	22,376	0	-2,620	263	219,841
Total	**279,048**	**0**	**24,684**	**0**	**-51,499**	**263**	**252,496**

	Acquisition and production costs						
K EUR	As at 01.01.2015	Additions from first-time consolidation	Additions	Reclassi-fications	Disposals	Exchange rate differences	As at 31.12.2015
Intangible assets							
Customer base	47,569	0	0	0	0	0	47,569
Goodwill	7,055	0	0	0	0	0	7,055
Internally generated assets	14,466	0	1,410	0	-32	0	15,844
Other intangible assets	7,860	0	964	-26	-40	0	8,758
	76,950	0	2,374	-26	-72	0	79,226
Property, plant and equipment							
Land, land rights and buildings	34,502	0	1,288	1,667	-107	0	37,350
Technical equipment and machinery	115,069	7	13,369	11,542	-4,316	-251	135,420
Other equipment, operating and office equipment	20,202	7	2,537	455	-688	-37	22,476
Advance payments and assets under construction	13,859	0	4,355	-13,638	0	0	4,576
	183,632	14	21,549	26	-5,111	-288	199,822
Total	**260,582**	**14**	**23,923**	**0**	**-5,183**	**-288**	**279,048**

Depreciation and amortisation								Net carrying amounts	
As at 01.01.2016	Additions from first-time consolidation	Additions	Reclassi-fications	Disposals	Write-ups	Exchange rate differences	As at 31.12.2016	31.12.2016	01.01.2016
47,569	0	0	0	-47,569	0	0	0	0	0
0	0	0	0	0	0	0	0	7,055	7,055
7,603	0	2,709	0	-641	0	0	9,671	6,387	8,241
5,653	0	1,682	0	-665	0	0	6,670	2,872	3,105
60,825	0	4,391	0	-48,875	0	0	16,341	16,314	18,401
10,180	0	1,322	0	0	0	3	11,505	29,169	27,170
81,884	0	16,201	0	-2,159	0	82	96,008	47,717	53,536
12,948	0	2,701	0	-188	0	13	15,474	10,841	9,528
0	0	0	0	0	0	0	0	9,127	4,576
105,012	0	20,224	0	-2,347	0	98	122,987	96,854	94,810
165,837	**0**	**24,615**	**0**	**-51,222**	**0**	**98**	**139,328**	**113,168**	**113,211**

Depreciation and amortisation								Net carrying amounts	
As at 01.01.2015	Additions from first-time consolidation	Additions	Reclassi-fications	Disposals	Write-ups	Exchange rate differences	As at 31.12.2015	31.12.2015	01.01.2015
47,569	0	0	0	0	0	0	47,569	0	0
0	0	0	0	0	0	0	0	7,055	7,055
4,902	0	2,706	0	-5	0	0	7,603	8,241	9,564
4,416	0	1,280	0	-43	0	0	5,653	3,105	3,444
56,887	0	3,986	0	-48	0	0	60,825	18,401	20,063
9,019	0	1,186	7	-29	0	-2	10,180	27,170	25,483
71,279	0	14,805	-15	-4,149	0	-52	81,884	53,536	43,790
10,988	0	2,566	8	-595	0	-3	12,948	9,528	9,214
0	0	0	0	0	0	0	0	4,576	13,859
91,286	0	18,557	0	-4,773	0	-57	105,012	94,810	92,346
148,173	**0**	**22,543**	**0**	**-4,821**	**0**	**-57**	**165,837**	**113,211**	**112,409**

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

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

Additions to internally generated assets mainly resulted from capitalised development costs of € 859 thousand (previous year € 1,410 thousand).

Other intangible assets mainly include capitalised costs from the SAP project of € 1,384 thousand (previous year € 2,098 thousand).

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 € 9,180 thousand (previous year € 7,354 thousand).

The residual book value of finance leasing of property, plant and equipment as at 31 December 2016 is € 974 thousand (previous year € 976 thousand). The acquisition costs for this finance lease amount to € 1,182 thousand (previous year € 1,075 thousand). In fiscal year 2016, additions were recognised in the amount of € 107 thousand. Accumulated depreciation amounted to € 99 thousand at the start of the fiscal year and to € 208 thousand at the end of the fiscal year. Accordingly, in fiscal year 2016 depreciation totalled € 109 thousand.

Goodwill

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

- Pumps CGU
- Engine components CGU
- Brake discs CGU

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

The recoverable amount of the three CGUs was calculated on the basis of their fair value less selling costs. This calculation was made using EBIT forecasts that are based on the financial plan for the years from 2017 to 2020 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 0.5 per cent (previous year 0.5 per cent). For the EBIT forecasts a 9.2 per cent discount rate was used (previous year 10.0 per cent). This is 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	**31.12.2016**	31.12.2015
Pumps and Engine Components	4,233	4,233
Brake Discs	2,822	2,822
Total	**7,055**	**7,055**

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

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

Planned gross margins

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

Cost increases

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.

Discount rates

The discount rate was derived from a base interest rate after tax of 1.0 per cent and an after-tax market risk premium of 7.0 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 in the case of a 1.0 percentage point increase in the discount rate or a change in the EBIT forecast of 10.0 per cent, there would still be no need for impairment.

(11) Other non-current financial assets and other assets

The other non-current financial assets are comprised as follows:

K EUR	31.12.2016	31.12.2015
Cash surrender value of reinsurance	298	316
Shares in associated companies	0	25
Total	**298**	**341**

In the previous year, this item still included the carrying amount of the investment in the shelf company SHW Automotive Industries GmbH, which is still not operational. This shelf company has been fully consolidated in the Consolidated Financial Statements of SHW AG since 1 October 2016.

Of the other non-current assets, a total of € 1,404 thousand (previous year € 520 thousand) are prepaid expenses.

(12) Inventories

K EUR	31.12.2016	31.12.2015
Raw materials and supplies	15,582	16,430
Unfinished products	16,291	12,979
Finished products	13,240	12,093
Advance payments	1,265	128
Total	**46,378**	**41,630**

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

Impairments of inventories in fiscal year 2016 amounted to € 3,803 thousand (previous year € 3,304 thousand). The change compared to the previous year is included in the cost of sales through profit or loss.

The acquisition and production costs of inventories, which are recognised as an expense under the cost of sales, amounted to € 252,192 thousand (previous year € 292,338 thousand).

The net realisable value totalled € 46,378 thousand (previous year € 41,630 thousand).

(13) Trade receivables

K EUR	31.12.2016	31.12.2015
Receivables from customers	38,982	37,618
Impairment losses	-52	-83
Impairment losses for uncleared items in process	-963	-3,147
Total	**37,967**	**34,388**

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

With regard to the trade receivables that are not impaired or overdue, there are no indications as at the balance sheet date that any debtor is not able to meet its payment obligations. Trade receivables are impaired when there is objective evidence of impairment, for example, in the case of a customer's insolvency.

In the fiscal year 2016, a portion of the impairment losses for credit notes yet to be issued was reclassified – not affecting net income – to the accrual for credit notes yet to be issued (prior-year amount € 2,170 thousand, cf. Note (18)). In accordance with the actual settlement behaviour of the OEMs, these credit notes are now mainly considered to be accruals, since the Company has no influence over the time of their offsetting.

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

K EUR	2016	2015
Bad debt provisions as at 01.01.	3,230	2,005
Additions (impairment expenses)	0	0
Utilisation (consumption)	-31	0
Reversals (other operating income)	0	-15
Change of provisions for uncleared items in process (sales)	-14	1,240
Reclassifications (other current accruals)	-2,170	0
Bad debt provisions as at 31.12.	**1,015**	**3,230**

(14) Other current assets and other financial assets

Other current assets include, in particular, receivables from the reimbursement of electricity and energy taxes in the amount of € 758 thousand (previous year € 777 thousand) as well as value-added tax claims in the amount of € 1,219 thousand (previous year € 1,914 thousand).

Other current financial assets relate to refund claims.

(15) Cash and cash equivalents

K EUR	31.12.2016	31.12.2015
Cash in banks, cheques, cash in hand	3,616	14,814
Total	**3,616**	**14,814**

Cash in banks attracts variable interest rates for deposits subject to a withdrawal notice period of up to three months.

(16) Equity

The changes in equity are shown in the "Statement of changes in Group 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 with a proportionate share of the share capital of € 1.00 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 income from previous years carried forward.

Other reserves include value changes recognised directly in equity and are comprised of the following:

K EUR	Pension liabilities	Joint ventures accounted for using the equity method	Foreign currency translation	Total other reserves
Position as at 01.01.2015	-4,419	0	-129	-4,548
Total result recognised directly in equity	861	-1,033	-44	-216
Position as at 31.12.2015	-3,558	-1,033	-173	-4,764
Total result recognised directly in equity	-1,575	-509	824	-1,260
Position as at 31.12.2016	**-5,133**	**-1,542**	**651**	**-6,024**

In fiscal year 2016, other reserves decreased by € 1,575 thousand due to a change in the actuarial assumptions used to measure pension obligations. The actuarial gains and losses less the related deferred taxes are to be recorded in other comprehensive income within equity pursuant to IAS 19. Losses of € 509 thousand from the currency translation for the pro rata equity of the joint venture SHW Longji Brake Discs (LongKou) Co., Ltd. were recognised directly in equity.

Authorised capital

Section 4 (4) of the Articles of Association were revised following a resolution passed by the Annual General Meeting on 12 May 2015. 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 11 May 2020, by up to € 3,218,104.00 by issuing new no-par value shares against contributions in cash and/or in kind (Authorised Capital 2015). With the consent of the Supervisory Board, the Management Board is authorised to determine the further details of the shares rights and the terms for issuance of shares. The profit entitlement for the new shares may deviate from the provisions laid down in Section 60 (2) AktG. In principle, the shareholders must be granted the statutory subscription right for the new shares. The subscription right may also entail an indirect subscription right pursuant to Section 186 (5) AktG. However, with the consent of the Supervisory Board the Management Board is authorised to exclude the shareholders' subscription right, in whole or in part, subject to certain preconditions. Overall, based on the Authorised Capital 2015 the shares issued while excluding the shareholders' subscription right may not exceed 20 per cent of the share capital.

Contingent capital

A resolution passed by the Annual General Meeting on 10 May 2016 authorised the Management Board, with the approval of the Supervisory Board, to issue bearer and/or registered convertible and/or warrant bonds on one or more occasions until 9 May 2021 (inclusive) for a total nominal amount of up to € 65,000,000.00 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 for up to 1,250,000 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 with a proportionate amount of the share capital of up to € 1,250,000.00 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 2016).

Appropriation of earnings

The Management Board's recommendation to the Supervisory Board is to propose the distribution of a dividend of € 1.00 per share from fiscal year 2016 unappropriated profit at the Annual General Meeting. This would be equivalent to a total dividend distribution of € 6,436,209.00 for 6,436,209 no-par value shares.

Notification from shareholders

For the notifications according to Section 21 (1) WpHG, please see the notes to the annual financial statements of SHW AG as at 31 December 2016.

(17) Pension accruals and similar obligations

Pension accruals and similar obligations include pension accruals of € 28,036 thousand (previous year € 26,274 thousand), including death benefits of € 153 thousand (previous year € 143 thousand).

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. In the reporting year, employer contributions to the statutory pension scheme in Germany were paid in the amount of approximately € 6.2 million (previous year € 6.2 million).

The pension plans are funded by recognising pension accruals, 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 with the pension accruals, as outlined below. Insofar as this does not concern qualifying insurance policies, the corresponding plan assets were reported under "other non-current financial assets" (cf. Note (11)).

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

The following assumptions have been made:

in %	31.12.2016	31.12.2015
Interest rate	1.6	2.2
Pension increase rate	1.8	1.8

Employees are paid 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, accruals for pension obligations also take actuarial gains and losses into account. They are shown in other comprehensive income within equity. Actuarial losses resulting from a change in actuarial assumptions or from adjustments based on experience amounted to € –2,194 thousand in the past fiscal year (previous year gains of € 1,199 thousand).

The pension accruals recognised in the balance sheet contain the following:

K EUR	31.12.2016	31.12.2015
Defined benefit obligation (funded)	284	267
Defined benefit obligation (unfunded)	27,891	26,141
Total defined benefit obligation (DBO)	**28,175**	**26,408**
Fair value of plan assets	-139	-134
Pension accruals	**28,036**	**26,274**

The development of the pension accruals is as follows:

K EUR	
Accruals as at 01.01.2015	28,051
Current service cost	403
Interest cost	490
Pension payments	-1,471
Actuarial gains and losses from the change in actuarial assumptions	-1,560
Actuarial gains and losses from experience adjustments	361
Accruals as at 31.12.2015	**26,274**
Current service cost	459
Interest cost	562
Pension payments	-1,453
Actuarial gains and losses from the change in actuarial assumptions	2,395
Actuarial gains and losses from experience adjustments	-201
Accruals as at 31.12.2016	**28,036**

The development of the defined benefit obligation (DBO) is as follows:

K EUR	2016	2015
Defined Benefit Obligation (DBO) as at 01.01.	26,408	28,181
Current service cost	459	403
Interest cost	567	494
Pension payments	-1,453	-1,471
Actuarial gains and losses from the change in actuarial assumptions	2,395	-1,560
Actuarial gains and losses from experience adjustments	-201	361
Defined Benefit Obligation (DBO) as at 31.12.	**28,175**	**26,408**

The development of the plan assets is as follows:

K EUR	2016	2015
Fair value of plan assets as at 01.01.	134	130
Interest revenue	5	4
Plan assets as at 31.12.	**139**	**134**

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 2017.

The net pension expenses for defined benefit obligations are comprised as follows:

K EUR	2016	2015
Current service cost	459	403
Net interest cost	562	490
Net pension cost	**1,021**	**893**

Liabilities from defined benefit plans are as follows:

K EUR	31.12.2016	31.12.2015
Active employees	8,960	7,669
Former employees with vested rights	1,634	1,507
Pensions / other	17,442	17,098
Pension accruals	**28,036**	**26,274**

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 € 1,413 thousand in fiscal year 2017. Pension payments in this amount are also expected for the years to come. The pension plan costs in 2017 are expected to amount to € 1,021 thousand.

The risks associated with the defined benefit obligations concern the actuarial risks such as longevity, as well as for 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 2016: interest rate of 1.6 per cent, inflation rate of 1.8 per cent) would have the following impact on the present value of the Defined Benefit Obligation (DBO):

K EUR	DBO	
Change in interest rate 1.1% (-0.5%)	30,499	28,175
Change in interest rate 2.1% (+0.5%)	26,151	28,175
Change in inflation rate 1.3% (-0.5%)	26,847	28,175
Change in inflation rate 2.3% (+0.5%)	29,626	28,175
Change in life expectancy +1 year	29,529	28,175

The weighted duration of pension accruals amounts to 15.2 years (previous year 14.1 years) as at 31 December 2016.

(18) Other accruals

K EUR	As at 31.12.2015	Utilised	Reversals	Reclassification	Additions	As at 31.12.2016
Warranties	3,391	-1,110	-1,100	0	176	1,357
Other business-related obligations	6,585	-179	-1,595	2,170	2,178	9,159
Obligations to employees	3,972	-222	0	74	923	4,747
Other accruals	8	-3	0	0	3	8
Total	**13,956**	**-1,514**	**-2,695**	**2,244**	**3,280**	**15,271**
of which non-current accruals	3,972	-222	0	74	923	4,747

K EUR	As at 31.12.2014	Utilised	Reversals	Reclassification	Additions	As at 31.12.2015
Warranties	2,654	-640	-58	0	1,435	3,391
Other business-related obligations	1,820	-1,820	0	0	6,585	6,585
Obligations to employees	3,652	-251	0	0	571	3,972
Other accruals	8	-2	-1	0	3	8
Total	**8,134**	**-2,713**	**-59**	**0**	**8,594**	**13,956**
of which non-current accruals	3,652	-251	0	0	571	3,972

Other non-current accruals / obligations to employees

Of the other non-current accruals in the amount of € 4,747 thousand (previous year € 3,972 thousand), obligations to employees include the accruals for service anniversary bonuses in the amount of € 2,280 thousand (previous year € 2,143 thousand), semi-retirement obligations in the amount of € 2,121 thousand (previous year € 1,829 thousand) and long-term bonuses in the amount of € 346 thousand (the prior-year amount of € 74 thousand was reclassified).

Warranties

An accrual was established for warranty obligations from the sales of products sold in the last three years. The measurement of the accrual is based on past experience with repairs and claims. 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 accruals in the amount of € 8,990 thousand (previous year € 6,407 thousand). In fiscal year 2016, amounts previously directly deducted from trade receivables in the previous year's figure, in the amount of € 2,170 thousand, were reclassified to current accruals (cf. Note (13)).

(19) Liabilities

K EUR	31.12.2016	31.12.2015
Non-current liabilities to banks	107	1,297
Other non-current financial liabilities	1,208	7,855
Non-current liabilities	1,315	9,152
Current liabilities to banks	1,876	1,189
Trade payables	34,802	43,484
Other current financial liabilities	14,161	7,088
Income tax liabilities	1,619	2,013
Other liabilities	7,054	7,830
Current liabilities	59,512	61,604
Total	**60,827**	**70,756**

A syndicated loan agreement dated 25 October 2012 was concluded under the lead of UniCredit Bank AG. The loan agreement has a volume of € 60.0 million with a term until 30 September 2017 and can be used in full as a working capital loan. The interest rate is variable and is based on EURIBOR plus a margin between 1.2 per cent and 2.0 per cent per annum. The margin varies based on compliance with the agreed covenants. The key covenants are the leverage ratio and the economic equity ratio. Both covenants were complied with as at 31 December 2016.

At the end of the year, the working capital line was used in the amount of € 687 thousand (previous year € 0 thousand) and for guarantee lines in the amount of € 1,000 thousand (previous year € 1,061 thousand). In addition, on 19 December 2012 and 11 July 2013, the SHW Group took out two loans via KSK Ostalb, Aalen, for € 3,900 thousand and € 858 thousand, respectively. The loans have an annual interest rate of 1.85 per cent and 1.0 per cent, respectively. In fiscal year 2016, a scheduled repayment of € 1,190 thousand was made on these loans.

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

Other non-current financial liabilities include liabilities from finance leasing in the amount of € 889 thousand (previous year € 902 thousand).

Other current financial liabilities mainly include liabilities for expenses where the underlying services were received in fiscal year 2016, but the corresponding invoice was only recognised in fiscal year 2017.

Other liabilities mainly comprise liabilities for overtime and working hours carried forward in the amount of € 2,351 thousand (previous year € 2,720 thousand), remaining leave in the amount of € 974 thousand (previous year € 1,259 thousand), management bonuses in the amount of € 1,158 thousand (previous year € 1,234 thousand), income and church tax in the amount of € 970 thousand (previous year € 935 thousand) and severance payments in the amount of € 813 thousand (previous year € 730 thousand).

(20) Segment reporting

Segment reporting is based upon the "management approach". Operating segments are determined on the basis of internal reports, as defined by IFRS 8, which are regularly used by the Chief Operation Decision Maker to decide on the distribution of resources and to assess profitability. The profitability of individual segments is established on the basis of the operating result (EBIT) and EBITDA. The EBIT of the segments is determined in accordance with IFRS, as is the operating result of the Group. The EBITDA of the segments and the Group are derived by taking into account the respective depreciation and amortisation. The assets of each segment are also established on the basis of IFRS. Financial expenses, financial income and income taxes are administered at the Group level. The Pumps and Engine Components segment manufactures engine oil pumps and transmission oil pumps as well as sintered metallurgy products for the automotive industry. The Brake Discs segment produces unprocessed and processed brake discs as well as composite brake discs for the automotive industry. Transactions between the segments are essentially based on market conditions identical to those that apply to transactions with third parties.

The geographic information of the SHW Group is based on sales with customers headquartered in the various countries. The following summary provides an overview of the sales and results of the various business segments. As in the previous year, there were no sales to report on the basis of business transactions with other business segments in fiscal year 2016.

BUSINESS SEGMENTS IN 2016

K EUR	Pumps and Engine Components	Brake Discs	Other elimination / consolidation effects	Group
Segment sales	317,521	88,249	0	405,770
Segment EBIT	17,528	3,511	-2,101	18,938
Segment EBITDA	37,454	7,899	-1,800	43,553
Financial result	0	0	-1,237	-1,237
Profit of joint ventures accounted for using the equity method	0	252	0	252
Earnings before tax	17,528	3,763	-3,338	17,953
Segment depreciation / amortisation	19,926	4,388	301	24,615
Segment investments	17,624	6,508	552	24,684
Segment assets	149,249	70,224	8,458	227,931
of which joint ventures accounted for using the equity method	0	16,412	0	16,412
Material segment expenses	0	0	0	0
Number of customers with sales > 10% of total sales	3	1		
VW Group	118,484	49,640		168,124
Daimler Group	62,495	127		62,622
BMW Group	32,118	4,582		36,700

BUSINESS SEGMENTS IN 2015

K EUR	Pumps and Engine Components	Brake Discs	Other elimination / consolidation effects	Group
Segment sales	365,158	98,320	0	463,478
Segment EBIT	17,312	5,427	-2,607	20,132
Segment EBITDA	35,201	9,797	-2,323	42,675
Financial result	0	0	-1,252	-1,252
Profit of joint ventures accounted for using the equity method	0	1,383	0	1,383
Earnings before tax	17,312	6,810	-3,859	20,263
Segment depreciation / amortisation	17,889	4,370	284	22,543
Segment investments	17,981	5,424	518	23,923
Segment assets	135,924	69,576	24,963	230,463
of which joint ventures accounted for using the equity method	0	16,669	0	16,669
Material segment expenses *	0	0	783	783
Number of customers with sales > 10% of total sales	2	1		
VW Group	145,986	52,163		198,149
Daimler Group	81,132	143		81,275

* Management Board changes

GEOGRAPHIC SEGMENTS 2016

K EUR	Germany	Rest of Europe	America	Other	Total
External sales	229,423	164,452	7,498	4,397	405,770
Other segment information					
Non-current segment assets	110,166	0	1,399	3,007	114,572

GEOGRAPHIC SEGMENTS 2015

K EUR	Germany	Rest of Europe	America	Other	Total
External sales	281,592	171,537	8,133	2,216	463,478
Other segment information					
Non-current segment assets	111,633	0	1,310	268	113,211

Other information

(21) Contingent liabilities

There were no contingent liabilities in fiscal years 2016 or 2015.

(22) Financial instruments

The Group does not hedge its interest risk under the syndicated loan agreement with banks. Management is informed of interest positions on a regular basis.

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

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

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

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

The Company has the following types of financial instruments:

K EUR	Measurement category acc. IAS 39	Carrying amount as at 31.12.2016	Fair value as at 31.12.2016	Valuation		
				Amortised cost	Fair value through equity	Fair value through profit or loss
ASSETS						
Other non-current financial assets						
Asset value of the reinsurance cover	AfS	298	298	298	–	–
Trade receivables	LaR	37,967	*	37,967	–	–
Other financial assets	LaR	135	*	135	–	–
Cash and cash equivalents	LaR	3,616	*	3,616	–	–

* The fair value approximately equals the carrying amount

In the near future, the Company does not plan to sell or derecognise any significant portions of the available-for-sale financial assets recorded as at 31 December 2016.

K EUR	Measurement category acc. IAS 39	Carrying amount as at 31.12.2015	Fair value as at 31.12.2015	Valuation		
				Amortised cost	Fair value through equity	Fair value through profit or loss
ASSETS						
Other non-current financial assets						
Asset value of the reinsurance cover	AfS	316	316	316	–	–
Shares in associated companies	AfS	25	*	25	–	–
Trade receivables	LaR	34,388	*	34,388	–	–
Other financial assets	LaR	401	*	401	–	–
Cash and cash equivalents	LaR	14,814	*	14,814	–	–

* The fair value approximately equals the carrying amount

AfS: Available for Sale
LaR: Loans and Receivables

K EUR	Measurement category acc. IAS 39	**Carrying amount as at 31.12.2016**	**Fair value as at 31.12.2016**	Valuation		
				Amortised cost	Fair value through equity	Fair value through profit or loss
EQUITY AND LIABILITIES						
Liabilities to banks	FLAC	1,983	1,983	1,983	–	–
Trade payables	FLAC	34,802	34,802	34,802	–	–
Other non-current financial liabilities						
Other non-interest-bearing liabilities	FLAC	267	267	267	–	–
Liabilities from finance leases	FLAC	889	889	889	–	–
Other current financial liabilities						
Other non-interest-bearing liabilities	FLAC	14,043	14,043	14,043	–	–
Liabilities from finance leases	FLAC	118	118	118	–	–

K EUR	Measurement category acc. IAS 39	**Carrying amount as at 31.12.2015**	**Fair value as at 31.12.2015**	Valuation		
				Amortised cost	Fair value through equity	Fair value through profit or loss
EQUITY AND LIABILITIES						
Liabilities to banks	FLAC	2,486	2,486	2,486	–	–
Trade payables	FLAC	43,484	43,484	43,484	–	–
Other non-current financial liabilities						
Other non-interest-bearing liabilities	FLAC	6,953	6,953	6,953	–	–
Liabilities from finance leases	FLAC	902	902	902	–	–
Other current financial liabilities						
Other non-interest-bearing liabilities	FLAC	6,996	6,996	6,996	–	–
Liabilities from finance leases	FLAC	92	92	92	–	–

FLAC: Financial Liabilities measured at Amortised Cost

The following overview of maturities illustrates how the cash flows from liabilities (not discounted) affect the Group's liquidity situation as at 31 December 2016:

K EUR	Total	2017	2018	2019	2020	2021 et seq.
Non-current liabilities						
Liabilities to banks	107	0	107	0	0	0
Other financial liabilities	267	0	243	7	7	10
Current liabilities						
Trade payables	34,802	34,802	0	0	0	0
Liabilities to banks	1,876	1,876	0	0	0	0
Other financial liabilities	14,043	14,043	0	0	0	0
Total	**51,095**	**50,721**	**350**	**7**	**7**	**10**

The situation as at 31 December 2015 was as follows:

K EUR	Total	2016	2017	2018	2019	2020 et seq.
Non-current liabilities						
Liabilities to banks	1,308	0	1,200	108	0	0
Other financial liabilities	6,952	0	6,916	9	9	18
Current liabilities						
Trade payables	43,484	43,484	0	0	0	0
Liabilities to banks	1,214	1,214	0	0	0	0
Other financial liabilities	58	58	0	0	0	0
Total	**53,016**	**44,756**	**8,116**	**117**	**9**	**18**

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 not an 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 covenant provisions. A monthly report is prepared in this regard and discussed at the Management Board meetings. The Group's equity is managed and controlled through a targeted retention of earnings, which is defined by 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	31.12.2016	31.12.2015
Liabilities to banks	1,983	2,486
Trade payables	34,802	43,484
Cash and cash equivalents	-3,616	-14,814
Net financial liabilities	**33,169**	**31,156**

Credit risk

Trade receivables showed the following age structure as at the respective balance sheet date:

K EUR	Carrying amount	of which: neither impaired nor overdue	of which: impaired and not overdue	of which: impaired and overdue	of which: not impaired and overdue in the following time bands: Up to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	More than 360 days
Trade receivables										
As at 31.12.2016	**38,982**	**32,395**	**0**	**1,015**	**3,123**	**1,510**	**0**	**452**	**263**	**224**
As at 31.12.2015	37,618	28,790	2,170	1,060	3,663	867	432	274	173	189

Credit risk results from the possibility of the full or partial default of a counterparty and also exists in the context of cash investments. Impairments of trade receivables and other receivables and assets are recognised according to uniform Group-wide rules and cover all recognisable credit risks. Accordingly, impairments are recognised if there are objective indications of impairment, i.e. in the case of customer insolvency or when receivables have been overdue for a certain period of time. The Group mainly delivers to renowned automotive manufacturers and automotive suppliers. Credit insurance has been purchased to cover the receivables of SHW Automotive GmbH. Receivables from automobile manufacturers are not covered by this insurance policy. High levels of bad debt losses have not been recorded in recent years. The maximum risk incurred upon the default of the counterparty for receivables not covered by credit insurance and for other financial assets is limited by the carrying amount of the respective assets of € 26,451 thousand (previous year € 27,594 thousand). There are no significant risks of default in terms of trade receivables at the SHW Group due to the customer structure.

Liquidity risk

Liquidity risk represents the risk of not being able to meet present or future payment commitments or only being able to do so at unfavourable conditions. The SHW Group monitors the liquidity risk with the assistance of monthly financial plans for cash inflows and cash outflows of the forthcoming months. The SHW Group strives to be in a position to meet its financial obligations at all times and seeks the optimum balance of short-term investments and borrowings. This means that the SHW Group seeks a minimum level of liquidity, which is derived from the monthly financial plans, whereby it should be ensured that the SHW Group's liquidity requirements for current business and planned investments are sufficiently secured in the most cost-effective manner possible. Readily available funds not required in the near term are invested, e.g. in overnight-money. A further aim of the Group is to maintain its level of working capital as low as possible. A revolving credit facility of € 60 million is available to the Group for borrowings. As of the reporting date, this facility has been drawn down by € 1.7 million (of which € 1.0 million through guarantees). For further information on the maturities of liabilities, please refer to our comments under Note (19) "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 on 25 October 2012. 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.

Foreign exchange risks exist with regards to the foreign subsidiaries and were not material for the Group in the past fiscal year. In relation to the joint venture agreement concluded in January 2015 (Brake Discs business segment), as the shareholder of SHW Longji Brake Discs (LongKou) Co., Ltd., SHW Automotive GmbH is obliged to provide a capital contribution which must be equivalent to 109.9 million renminbi and is thus subject to currency fluctuations. There is also a currency risk which arises from the translation of the pro rata equity of the joint venture.

Collateral issued

An uncertified land charge of € 2,000 thousand was entered in favour of Kreissparkasse Ostalb by means of a notarised agreement on 19 December 2012. This land charge served as collateral for two loans of € 4,758 thousand, which were valued at € 1,296 thousand as at 31 December 2016.

(23) Other financial obligations

Financial obligations to third parties originating from investment projects already initiated were within the normal scope of business (see Note (10) for details).

K EUR	**31.12.2016**	31.12.2015
Obligations under tenancy, rent and operating lease agreements	5,205	4,730
Other financial obligations	**5,205**	**4,730**
of which due within one year	1,702	1,447
of which due in one to five years	3,503	3,283
of which due in more than five years	0	0

Other financial liabilities mainly result from rent and leasing agreements for motor vehicles, telephone equipment, computer and office hardware, machinery and warehouses.

The obligations from finance leasing relate to three (previous year two) items of property, plant and equipment which are attributable to the SHW Group as the beneficial owner, due to the underlying leases. These leases have a term of 5 and 10 years, respectively. Extension or purchase options have not been contractually stipulated. The future minimum lease payments under these agreements can be reconciled with the liabilities as follows:

31 DECEMBER 2016

K EUR	Minimum lease payments	Interest included in lease payments	**Liabilities from finance leases**
Within one year	153	35	118
Between one and five years	607	99	508
More than five years	405	24	381
Total	**1,165**	**158**	**1,007**

31 DECEMBER 2015

K EUR	Minimum lease payments	Interest included in lease payments	**Liabilities from finance leases**
Within one year	131	39	92
Between one and five years	525	117	408
More than five years	536	42	494
Total	**1,192**	**198**	**994**

(24) Auditor's fee

K EUR	**2016**	2015
Auditing services	156	162
of which for previous years	0	10
of which other audit services	8	8
Other assurance services	2	2
Tax consultancy services	5	0
Other services	8	48

Tax advisory services were not provided by the auditor. Other expenses occurring in fiscal year 2016 amounted to € 20 thousand (previous year € 21 thousand).

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

K EUR	2016	2015
Benefits due in the short term (remuneration)	871	992
Benefits due in the long term (remuneration)	272	216
Post-employment benefits	0	0
Other benefits due in the long term and benefits upon termination of the employment relationship	0	0

Remuneration of former members of the Management Board amounted to € 580 thousand (previous year € 168 thousand). Provisions of € 290 thousand were created for other long-term benefits and termination benefits (previous year € 580 thousand). A total of € 89 thousand has been recognised as provisions for pension obligations to former members of the Management Board (previous year € 72 thousand).

The total remuneration of the Supervisory Board amounted to € 271 thousand during the fiscal year (excluding the reimbursement of expenses, previous year € 273 thousand). We also refer to the remarks in the section titled "Remuneration report" in the combined group management report and management report. These disclosures are an integral part of the Consolidated Financial Statements.

(26) 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 € 1.6 million 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 tangible assets of the previous year occurred in the amount of € 2.0 million. Furthermore, there were no cash outflows from the capitalisation of tangible assets within the scope of the € 0.1 million finance lease.

There was a cash outflow of € 9.0 million in fiscal year 2015 in connection with the establishment of the joint venture SHW Longji Brake Discs (LongKou) Co., Ltd. The second tranche of the contribution obligation will be due at the end of February 2017 and is included in other current financial liabilities.

The amount of cash and cash equivalents shown in the cash flow statement is comprised of the cash and cash equivalents presented in the balance sheet. As at the balance sheet date, overdrafts of € 687 thousand (previous year € 0 thousand) existed.

(27) Relationships with related parties

The Consolidated Financial Statements of SHW AG, Aalen, include all major subsidiaries and joint ventures. Supplier and service provider relationships with joint ventures occurred to a minor extent in fiscal year 2016.

In fiscal year 2016, the Management Board of SHW AG was comprised of the following members:

Dr Frank Boshoff, Wetter
- Chief Executive Officer and Managing Director of SHW Automotive GmbH, responsible for the Pumps and Engine Components business segment

Martin Simon, Heroldsberg (from 1 September 2016)
- Chief Financial Officer and Managing Director of SHW Automotive GmbH, responsible for administration

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

Sascha Rosengart, Aalen (until 29 February 2016)
- Chief Financial Officer and Managing Director of SHW Automotive GmbH, responsible for administration

The Supervisory Board members in fiscal year 2016 were:

Georg Wolf, Dietzenbach, Chairman
- Independent consultant

Further mandates:
- Weber-Hydraulik GmbH, Güglingen, Deputy Chairman of the Advisory Board (until 11 January 2017)

Christian Brand, Karlsruhe, Deputy Chairman
- Independent consultant

Further mandates:
- Landesbank Baden-Württemberg, Stuttgart, Chairman of the Supervisory Board
- Wüstenrot Holding AG, Ludwigsburg, Deputy Chairman of the Supervisory Board
- Wüstenrot & Württembergische AG, Stuttgart, Member of the Supervisory Board (until 9 June 2016)

Kirstin Hegner-Cordes, Munich
- Managing Director of Digital Hub Mobility, Munich

Prof. Dr Jörg Ernst Franke, Marloffstein
- Holder of the Chair for Automated Manufacturing and Production Engineering at the University of Erlangen-Nuremberg

Edgar Kühn, Aalen
- Chairman of the Central Works Committee at SHW Automotive GmbH and Chairman of the Works Committee at SHW Automotive GmbH, Wasseralfingen facility

Eugen Maucher, Ingoldingen-Winterstettendorf (from 10 May 2016)
- Chairman of the Works Committee at SHW Automotive GmbH, Bad Schussenried facility

Frank-Michael Meißner, Tuttlingen (until 10 May 2016)
- Member of the Works Committee at SHW Automotive GmbH, Tuttlingen facility

With the exception of Mr Maucher, in fiscal year 2016 the members of the Supervisory Board of SHW AG also served as members of the Supervisory Board of SHW Automotive GmbH.

(28) German Corporate Governance Code

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

(29) Events after the reporting period (Significant Events after the Balance Sheet Date)

On 24 January 2017, a manufacturer of fully electric vehicles cancelled the order which it had placed with SHW Automotive GmbH, a wholly owned subsidiary of SHW AG, as a system supplier of electric axle drive pumps. This order had a lifetime sales volume of approx. € 100 million. SHW Automotive GmbH was requested to cease its preparations for the start-up of series production. The manufacturer stated its primary reason for this cancellation that the technical specifications for the axle drive pumps were not aligned with the requirements of the model in question. SHW AG does not consider the reasons given by the manufacturer to be valid. SHW is therefore assessing the legal effectiveness of the cancellation of the order as well as its legal consequences and reserves the right to claim damages. Accordingly, SHW AG continues to consider the assets arising from the previous activities up to the balance sheet date to be non-impaired. SHW continues to be confident of its ability to sustainably participate in the development of the electromobility market.

Other than the above-mentioned matter, no particularly significant events occurred after the reporting date which require disclosure here.

Aalen, 28 February 2017

Dr Frank Boshoff
Chief Executive Officer

Martin Simon
Chief Financial Officer

Andreas Rydzewski
Member of the Management Board

Schedule of shareholdings

as of 31 December 2016 according to Section 313 (2) HGB

Company name and location	Interest in capital in %	Local currency (LC)	Exchange rate (EUR / LC)	Equity (LC 1,000)	Result (LC 1,000)
Schwäbische Hüttenwerke Automotive GmbH, Aalen *	100	EUR	1.0000	91,452	0 *
SHW Automotive Industries GmbH, Aalen	100	EUR	1.0000	25	0
SHW do Brasil Ltda., São Paulo, Brazil	100	BRL	3.4248	-831	-277
SHW Pumps & Engine Components Inc., Brampton / Ontario, Canada	100	CAD	1.4141	1,343	598
SHW Automotive Pumps (Kunshan) Co., Ltd., Kunshan / Shanghai, China	100	RMB	7.3059	14,203	-4,033
SHW Longji Brake Discs (LongKou) Co., Ltd., LongKou, China	51	RMB	7.3059	177,939	6,030

* After profit transfer

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by SHW AG, Aalen, comprising the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement, and the notes to the consolidated financial statements, including the Group management report, which is combined with the management report of the Company for the fiscal year from 1 January to 31 December 2016. The preparation of the consolidated financial statements and the combined Group management report and management report in accordance with the IFRS, as adopted by the EU, and the applicable supplementary provisions of the German commercial law pursuant to Section 315a (1) HGB are the responsibility of the legal representatives of the Company. Our task is to express an opinion on the consolidated financial statements and the combined Group management report and management report based on our audit.

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

Our audit has caused us to raise no objections.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with the IFRS as adopted by the EU, and with the applicable supplementary provisions of the German commercial law pursuant to Section 315a (1) HGB, and give a true and fair view of the net assets, financial position, and results of operations of the Group in accordance with these provisions. The combined Group management report and management report is consistent with the consolidated financial statements and overall presents an accurate image of the position of the Group and the opportunities and risks of future development.

Stuttgart, 28 February 2017

Ebner Stolz GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Christoph Brauchle	***Christoph Lehmann***
Auditor	*Auditor*

ASSURANCE OF THE LEGAL REPRESENTATIVES

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

Aalen, 28 February 2017

Management Board of SHW AG

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

KEY FIGURES – FIVE YEARS

K EUR	2016	2015	2014	2013	2012
Sales	405,770	463,478	430,041	365,639	325,373
EBITDA	43,553	42,675	34,827	34,780	32,346
as % of sales	10.7%	9.2%	8.1%	9.5%	9.9%
EBIT	18,938	20,132	16,575	20,607	22,258
as % of sales	4.7%	4.3%	3.9%	5.6%	6.8%
Net profit	12,805	14,351	10,679	13,395	46,096
Earnings per share [1]	1.99	2.26	1.83	2.29	2.43
EBITDA adjusted	43,553	43,458	40,597	35,683	33,871
as % of sales	10.7%	9.4%	9.4%	9.8%	10.4%
EBIT adjusted	18,938	21,028	22,495	21,661	23,943
as % of sales	4.7%	4.5%	5.2%	5.9%	7.4%
Equity	121,349	116,240	84,507	82,529	92,035
Equity ratio	53.2%	50.4%	40.3%	44.4%	50.9%
Operating Free Cash Flow	-4,030	18,097	-5,354	438	-3,142
Total Free Cash Flow	-4,030	9,056	-5,629	438	39,748
Net cash / Net debt	1,633	12,328	-14,356	-2,881	19,629
Investments [2]	24,684	23,923	34,788	32,800	21,159
as % of sales	6.1%	5.2%	8.1%	9.0%	6.5%
Working Capital	49,543	32,534	30,877	31,894	36,338
as % of sales	12.2%	7.0%	7.2%	8.7%	11.2%
ROCE	13.0%	17.2%	17.7%	19.7%	24.4%
Number of employees (average) [3]	1,287	1,287	1,173	1,059	1,022

1) Average number of shares: 2016: 6,436,209 shares/2015: 6,359,263 shares/2014, 2013 and 2012: 5,851,100 shares.
2) Additions to property, plant and equipment and intangible assets.
3) Excluding trainees and temporary workers.

FINANCIAL CALENDAR

24 March 2017	Annual report 2016
3 May 2017	Interim report for the 1st quarter of 2017
9 May 2017	Annual general meeting 2017 (Congress Centrum Heidenheim)
28 July 2017	Interim report for the 2nd quarter of 2017
26 October 2017	Interim report for the 3rd quarter of 2017

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