Annual Report 2015

FOCUS ON EFFICIENCY

SHW

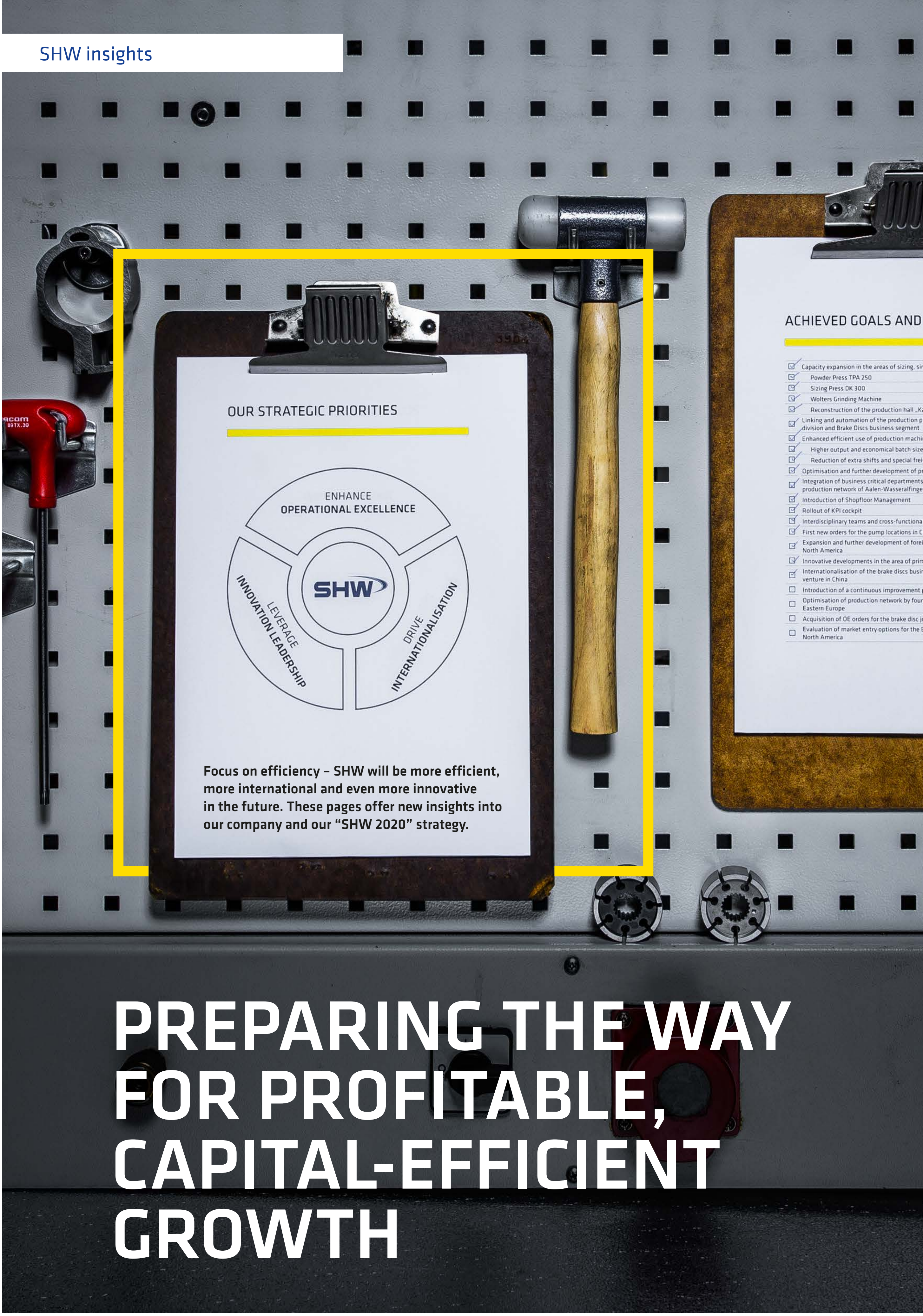
KEY FIGURES 2015

K EUR	2015	2014	Change in %
Sales	463,478	430,041	7.8%
EBITDA	42,675	34,827	22.5%
as % of sales	9.2%	8.1%	-
EBIT	20,132	16,575	21.5%
as % of sales	4.3%	3.9%	-
Net income for the year	14,351	10,679	34.4%
Earnings per share [1]	2.26	1.83	23.6%
Adjusted EBITDA	43,458	40,597	7.0%
as % of sales	9.4%	9.4%	-
Adjusted EBIT	21,028	22,495	-6.5%
as % of sales	4.5%	5.2%	-
Equity	116,240	84,507	37.6%
Equity ratio	50.4%	40.3%	-
Net cash / Net debt	12,328	-14,356	-
Investments [2]	23,923	34,788	-31.2%
as % of sales	5.2%	8.1%	-
Working Capital	32,534	30,877	5.4%
as % of sales	7.0%	7.2%	-
Number of employees (average) [3]	1,287	1,173	9.7%

1) 2015: based on an average of 6,359,263 shares/2014: based on an average of 5,851,100 shares.
2) Additions to tangible and intangible assets.
3) Excluding trainees and temporary workers.

TARGET ACHIEVEMENT

EUR million	Target March 2015	Target July 2015	Target September 2015	Actual 2015
Sales – Group	approx. 460	approx. 470	approx. 470	463,5
Sales – Pumps and Engine Components	approx. 360	approx. 370	approx. 370	365,2
Sales – Brake Discs	approx. 100	approx. 100	approx. 100	98,3
Adj. EBITDA – Group	46–50	46–50	42–46	43,5
Working Capital Ratio	11.0%	11.0%	11.0%	7.0%



PREPARING THE WAY FOR PROFITABLE, CAPITAL-EFFICIENT GROWTH

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.

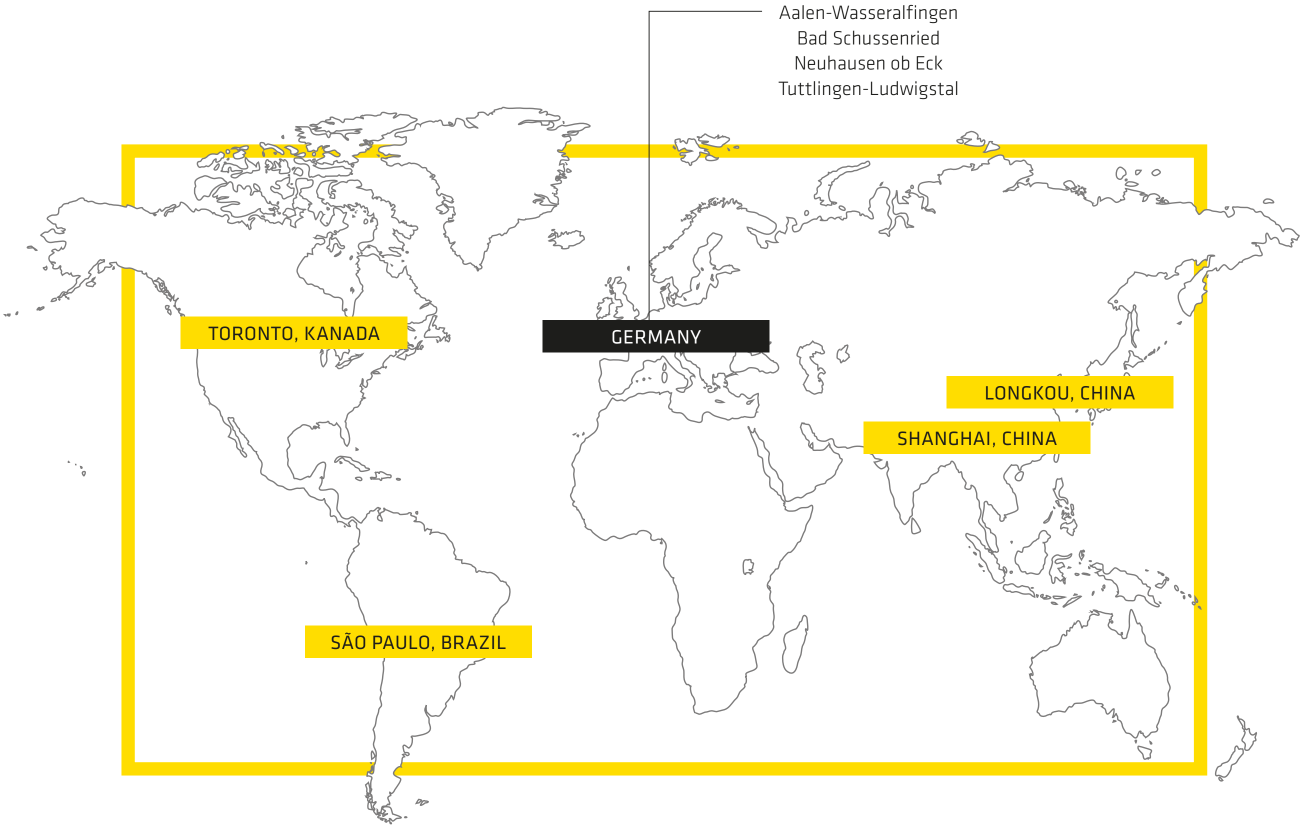
We began early on to develop forward-looking components for engine and transmission applications that boost the efficiency of combustion engines and their auxiliaries while minimising fuel consumption. SHW brake discs also help to reduce the unsprung masses and the vehicle weight.

As a reliable partner, we create long-term added value for our automotive customers and our shareholders. We aim to be one of the world's leading manufacturers of pumps and engine components for the full range of drive technologies, 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 has its own production sites or will, in the near future, launch production operations in the strategically relevant automobile markets of Europe, North and South America, and China. 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. Further market entry strategies are currently being analysed and reviewed for the development of additional markets.

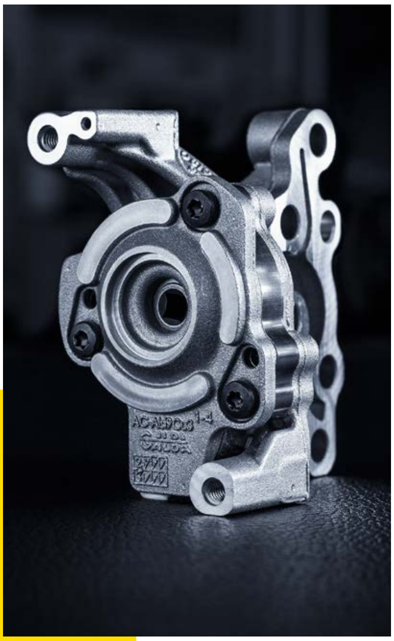
LOCATIONS

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 include variable engine oil pumps, electrical auxiliary pumps for the start-stop function 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
365.2
€ million
+9.5% compared to previous year

ADJUSTED EBITDA
35.2
€ million
+6.5% compared to previous year

EMPLOYEES
875
as of 31 December 2015
+5.7% 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
98.3
€ million
+1.9% compared to previous year

ADJUSTED EBITDA
9.8
€ million
+8.0% compared to previous year

EMPLOYEES
397
as of 31 December 2015
+5.6% compared to previous year

INSIGHTS SHW

Focus on efficiency – SHW will be more efficient, more international and even more innovative in future. These pages offer new insights into our company and our "SHW 2020" strategy.

CONTENTS

INNOVATION LEADERSHIP

Pumps and Engine Components, Bad Schussenried plant: A focus on variety

Gerd Jäggle has been Development Manager at SHW's Bad Schussenried plant since 2015. In this interview, he talks about the highlights of the past fiscal year and the Company's development activities in the area of pumps. He also reveals the contribution that its diverse product range makes to SHW's success.

Further information on **page 6**

Brake Discs, Neuhausen plant: Reduced weight, improved efficiency

What are the basic characteristics of an SHW brake disc? How are the product requirements set to change? Which factors will shape the brake disc of tomorrow? Torben Keller, Development Manager in Tuttlingen, answers all of these questions and talks about the progress made in the past year, as well as the Company's goals and future trends.

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INTERNATIONALISATION

Further information on **page 10**

Kunshan, China: in the Middle Kingdom

Every project and every customer is different – and this is particularly true for Gerhard Mondrowski. In 2015, he moved his workplace to Kunshan, China. Cultural differences, new ways of working and a different environment: SHW's new plant entails a large number of challenges, but also offers many opportunities. The Managing Director of SHW Automotive Pumps (Kunshan) Co., Ltd. reports on his experience.

Toronto, Canada: amazed by SHW

Peter Krug also knows that increasingly international business requires new expertise. As Managing Director of SHW Pumps & Engine Components Inc. in Toronto, Canada, he knows what counts in the North American market – and what it's like for a traditional German company to have succeeded in the "New World".

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OPERATIONAL EXCELLENCE

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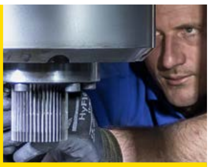
Further information on **page 16**

Facilities ready for the future

How better to understand the changing nature of SHW's activities than at its own plants? Together with Dr Frank Boshoff, we take more than just a brief look at the assembly and production facilities that went into operation in 2015. The new Chief Executive Officer, the Chief Operating Officer and the plant manager at Aalen-Wasseralfingen and Bad Schussenried talk on site about the capacity expansions implemented in the area of powder metallurgy as well as the productivity gains realised. In an interview, Dr Boshoff then reveals the current status of the Company's excellence programme, the strategic areas of his work and the goals of the "SHW 2020" strategy – and what has linked him with SHW even before he took up his position as its Chief Executive Officer.



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WELL PREPARED

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Dr. Frank Boshoff
Chief Executive Officer

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Foreword by the Management Board

Dear shareholders, business partners, customers, employees and friends of SHW AG.

For SHW, 2015 was a fiscal year marked both by a historic event and by major challenges.

On 14 April 2015, it was the 650th anniversary of the founding of SHW. We celebrated this anniversary at an official ceremony in late June 2015, together with the other – legally independent – SHW companies and around 250 invited guests drawn from the fields of politics, business and society as well as customers and business partners. The secret to the success of all of these SHW companies is their regional roots combined with a focus on the global market and their technological leadership. These companies are also characterised by their economic strength and by the practical experience gained through their remarkably long tradition – which also serves as a source of insights for the present and the future.

The past year was also characterised by the increasing internationalisation of the SHW Group. The establishment of a joint venture with the Chinese brake disc producer Shandong Longji Machinery Co., Ltd. represents the Brake Discs business segment's first key step outside of Europe. We are confident that we have found the right partner for this move and that we will be able to participate in the strong volume growth of the Asian automobile markets. In our Pumps and Engine Components business segment, we won our first contracts in North America and China, including a North American automobile manufacturer's global engine platform. We have thus successfully re-entered the North American market. In China, we have been nominated as a series supplier of transmission oil pumps for the first time, a field which offers strong growth potential for SHW. All of these positive progresses confirm our adopted strategy of internationalisation, which we will continue to pursue over the next few years. Consist and vigorous.

At € 43.5 million, SHW's operating result once again improved on the previous year; Due to the non-timely implementation of our efficiency programmes our original goals for 2015 could not be accomplished and resulted in an adjustment of our earnings forecast in September. This and further exogenous factors caused the SHW share to plunge in the second half of the year. However, in view of the positive trend of our net income for the year by comparison with the previous year, we are pleased to be able to once again propose a dividend of € 1.00 per share at the Company's Annual General Meeting which will be held in Heidenheim on 10 May 2016.

Andreas Rydzewski
Member of the Management Board

Please be assured that we will do everything possible in order to return to a profitable, capital-efficient and international growth path. At the end of 2015, we further decreased tailbacks in the Powder Metallurgy at our Aalen-Wasseralfingen plant and in pump assembly at our Bad Schussenried plant. We are confident that we will have implemented our capacity-increasing actions at our Aalen-Wasseralfingen plant by the end of the first quarter of 2016 on schedule. We are also currently preparing a new production plant in Eastern Europe with the goal of boosting our competitiveness. We will naturally also continue to establish the preconditions to ensure SHW's successful development as an innovative trendsetter for CO_2-relevant automobile components.

Dear shareholders, we are confident that the SHW Group is well positioned thanks to its product range, its innovative capacity and its solid customer base in the world's three key automobile markets. With our very solid financial resources, it is now the time to vigorously implement our "SHW 2020" strategy and thus strengthen SHW's positioning as an independent company and as one of the world's leading manufacturers of pumps and engine components and composite brake discs.

This year, we would like to once again thank our workforce, whose commitment is key to the success of the SHW Group.

Aalen, Germany, 23 March 2016.

The Management Board of SHW AG

Dr. Frank Boshoff
Chief Executive Officer

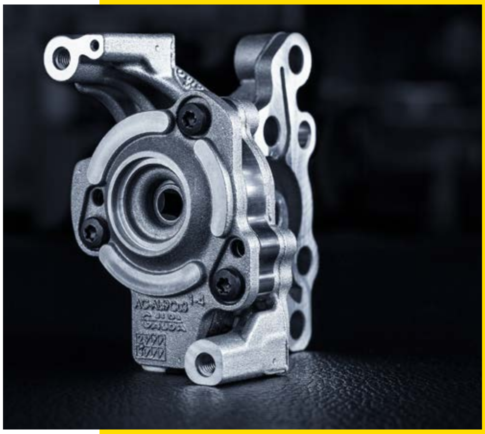
Andreas Rydzewski
Member of the Management Board

INNOVATION LEADERSHIP

SHW HAS THE RIGHT ANSWERS

Gerd Jäggle and Torben Keller have one thing in common. They are both development managers at SHW – but they work at different plants, and with very different vehicle components. While Torben Keller is responsible for the ongoing development of brake discs, Gerd Jäggle pursues the development of new engine and transmission oil pumps. In this interview, they both look back at the past fiscal year and examine key development trends in their respective areas of responsibility.

Gerd Jäggle
Head of Development – Pumps



Inside a start-stop pump
Control unit of a variable external gear pump (above) and an auxiliary transmission oil pump (below)

PUMPS AND ENGINE COMPONENTS, BAD SCHUSSENRIED PLANT: A FOCUS ON VARIETY

Mr Jäggle, as a development manager what did you make of 2015 in relation to pumps and engine components?
Last year in our segment, we launched series production of a four-cylinder tandem pump and a pump for a large twelve-cylinder engine which is extremely interesting from a technical point of view. On the development side, we also worked on the ramp-up of an electrically driven transmission oil auxiliary pump for a premium German manufacturer and advanced new pump concepts. Our twostroke vane pump is particularly notable here. So, fairly a lot happened. A personal highlight for me was the start of my role as development manager here in Bad Schussenried – this was a new challenge which I greatly looked forward to.

What are the characteristics of pumps and engine components at SHW?
First of all, we have a very broad product range for various fields of application. In the area of engine lubrication for passenger cars, this encompasses the standard pump types (internal gear pump, external gear pump and vane pump) and control

Development highlights of 2015
SHW develops pumps and engine components for numerous fields of application. Last year, for example, it developed the four-cylinder tandem pump (see picture of a tandem pump above) and the double-stroke vane pump with potential emissions savings of

–2 g
CO_2 PER KM

concepts (single-stage, multiple-stage and continuous variable pressure control) and tandem pumps. We develop primary and secondary oil pumps for passenger car transmissions, and for industrial applications fuel, engine oil and transmission oil pumps. We are the technological leader for numerous innovative detailed solutions, such as the tandem pump and the variable external transmission pump. In our daily development work we also focus on boosting the level of efficiency and effectiveness of our components.

What are the particularly significant challenges in the market for engine components?
It wasn't only last year that efficiency gains and lower emissions became key catchwords, but they are particularly prominent at the moment. With our solutions, we can positively influence fuel consumption and thus CO2 emissions. Hybridisation is another current challenge. The range of drivetrain concepts is now broad – but it is getting broader with the electric car, and thus increasing the demands on our pumps. I would even say that the drivetrain area is currently among the most dynamic sub-areas of automotive engineering. I have also come away from congresses and trade fairs with the impression that it won't just be one drivetrain concept that establishes itself on the market in the foreseeable future. This trend of increasing variety must therefore be reflected in our future product range.

SHW is preparing for the future by concentrating on operational excellence, one of its three strategic areas of focus. How is your segment adjusting to this?
Just like the Company's other segments, within the scope of our efficiency programme we are working on improving and automating our development processes. For instance, we have now installed one of numerous function test benches, which is programmable and which performs map measurements entirely automatically. On the other hand, two eyes and expertise are still called for in other areas. That is what makes this job so exciting – combining our manpower with these automated processes.

BRAKE DISCS, NEUHAUSEN PLANT: REDUCED WEIGHT, IMPROVED EFFICIENCY

Mr Keller, what new trends emerged in 2015 in the Brake Discs segment?
The start-up of a large-scale order for composite brake discs for an international vehicle manufacturer's vehicle platform was one highlight. At the same time, we invested in new production lines, expanded our aluminium foundry, further automated our production processes and thus laid the foundations for future profitable and capital-efficient growth. Thanks to innovative new approaches in the product field in 2015 we were able to lessen the weight of an existing brake disc by an additional 500 g or 4 per cent, cutting CO_2 emissions by approx. 0.06 g per kilometre – another contribution towards the achievement of the required emission limits.

What are the key characteristics of SHW brake discs?
Our brake discs satisfy the highest performance standards and also our customers' increasing comfort requirements. SHW brake discs – particularly the composite brake disc developed by us – also offer very considerable weight savings, thus improving the fuel efficiency and the agility of our customers' vehicles. We benefit from our development expertise, from our know-how and our many years of experience regarding the manufacturing of brake discs.

The look of your products has changed over the past few years. How important is their appearance?
Our brake discs' external appearance is indeed increasingly important. With unusual pot and friction ring designs or prominent customer logos, here too we have the right answers for demanding customers.

Torben Keller
Head of Development – Brake Discs

"We assort ourselves on the market – thanks to innovations and efficient cost engineering."

What are the current trends and challenges on the brake disc market?
As a key components supplier, in the Brake Discs business segment we are likewise intensively concerned with the trends in the automobile industry. These currently relate to electrification, autonomous driving and connectivity, i.e. linking up vehicles and connecting them with their environment. Our core areas of development focus – lightweight construction, corrosion resistance and protection of the environment – continue to play a key role in solving such challenges. We continuously determine the changing nature of requirements and the characteristics which will be required of the SHW brake disc in tomorrow's world. On this basis, we develop conceptual and technical solutions playing an important role in safeguarding SHW's future viability and competitiveness. Moreover, we are able to maintain our position in a market characterised by price pressure thanks to cost engineering, i.e. seeking optimal customer benefit while also optimising costs.

How important would you say that SHW's foreign locations will be for future manufacturing of your products?
It is naturally very important for us to be present on the world's largest automobile market. For that reason, the joint venture which we established in China at the start of 2015 is the right response to our European and North American customers' growing level of demand for sources of supply which are geographically close to their Chinese assembly plants. In the current phase, we are also utilizing our local presence in order to convince potential customers of our first-class products and to win orders for processed brake discs for passenger cars and light commercial vehicles.

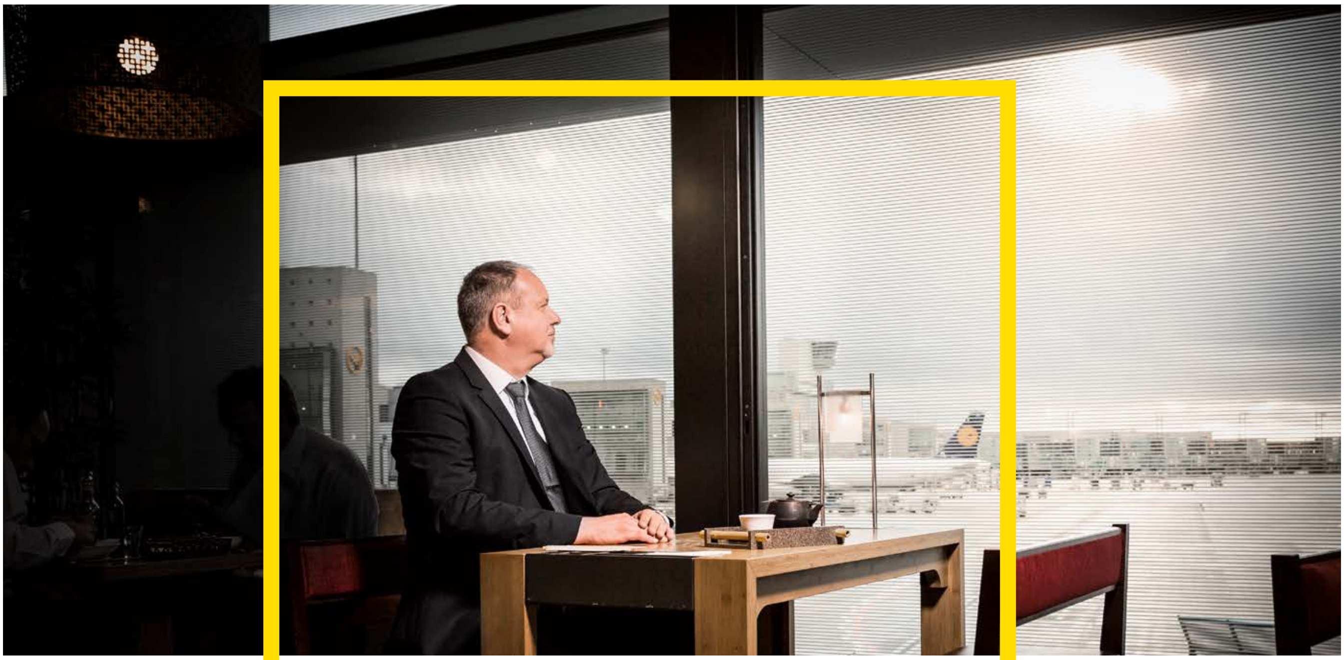
Development highlight of 2015
With the composite brake disc, SHW's product portfolio includes an extremely innovative product that combines reduced weight with improved brake performance.

–0.06 g
CO_2 PER KM

INTERNATIONALISATION

MADE OVERSEAS

In 2015, SHW continued to expand its presence in North America and China as a series supplier and manufacturer of pumps and engine components. Peter Krug and Gerhard Mondrowski, managing directors and sales managers in North America and China, offered us a few personal insights into their lives, their work and the milestones achieved on these two continents.



Waiting, planning and drinking tea
In just a few hours, Gerhard Mondrowski will board the plane from Frankfurt to China. A good time to take stock of the previous year and look ahead.

Overcoming intercultural challenges
As well as working, Gerhard Mondrowski is perfecting his chopstick skills.

KUNSHAN, CHINA: IN THE MIDDLE KINGDOM

Moving his workplace to the city of Kunshan – or in Chinese, 昆山市 – would mean more than just a change of scene. Gerhard Mondrowski realised that from the outset. “Obviously, the differences begin with cultural aspects. But the work methods of our local customers, our employees and not least the market’s requirements and the legal framework are also fundamentally different from those on our home market.”

It is precisely these challenges which stimulate him in his position as a managing director and sales manager at SHW Automotive Pumps (Kunshan) Co., Ltd. – every project and every customer is different. “Several major international vehicle manufacturers who SHW has already worked with a lot in Europe are now busy changing over

“China’s market offers great potential for SHW.”

Gerhard Mondrowski
Managing Director, SHW Automotive Pumps (Kunshan) Co., Ltd.

their production to new engine and transmission generations, as are Chinese automobile manufacturers. Our products and our development expertise are attracting a very high level of interest in this respect.” He adds: “With our innovative products, we would like to firmly establish ourselves in the Middle Kingdom and we are currently working on fulfilling the requirements and establishing the necessary resources for successful production operations and new projects. We spent last summer transferring an assembly line from Bad Schussenried to Kunshan which will soon begin series production. We will start up further lines in 2016 and the year after.” These lines’ output will include two transmission oil pumps for a leading Chinese automobile manufacturer.

What does he look forward to most? “Finally launching series production with our specific expertise in the field of oil pumps and tackling new projects. And while I haven’t changed my eating habits all that much, I’d like to continue to perfect eating with chopsticks. That is a discipline which requires persistence and meticulousness, just like our work.”

A new location
In 2015, SHW Automotive Pumps (Kunshan) Co., Ltd. commenced operations in Kunshan. The county-level city is only an hour by car from Shanghai.

On the road
Even while in Germany, Gerhard Mondrowski continues to manage SHW’s business in China together with his colleagues

TORONTO, CANADA: AMAZED BY SHW

When asked about the peculiarities of everyday work on the other side of the ocean, straight away Peter Krug mentions the transatlantic and transpacific telephone conferences. Since he began working as a managing director and sales manager for SHW Pumps & Engine Components Inc. in Toronto, Canada, this has represented an entirely new challenge. As he gets up early to prepare for a meeting, it will soon be lunchtime in Bad Schussenried, while his colleagues in Kunshan, China, are looking forward to finishing work for the day.

It is not only the Group's employees in North America who think more internationally than they used to – all of SHW's workforce now does so, since SHW established its presence in the three strategically key regions of Europe, North America and China. Peter Krug mainly sees advantages here: "It's a really great experience to bring together a dedicated team over that sort of geographical and time zone distance and to make possible the seemingly impossible," he says. "If we can achieve a situation where everyone is at the same level on these various topics, then we can certainly say that we are a global company!"

Naturally, coordinating SHW's engineering and purchasing teams is not his only task. For instance, a product presentation for a well-known American automobile manufacturer a few days ago called for intercultural skills as well as technical expertise. But it is particularly at this type of event that the Company's German past catches up with him, in a positive way: "North Americans are amazed when I tell them that in 2015 we celebrated our company's 650th anniversary. You can see how the people you're talking to start to work that out in their heads. Until someone figures it out: our company was established back in 1365, more than a hundred years before Columbus set foot on the American mainland! I'm often asked what SHW manufactured at that time. And I make them laugh when I say that it certainly wasn't oil pumps."

Peter Krug
Managing Director, Pumps & Engine Components Inc.

Back in North America
In Ontario, Canada, SHW has been developing engine and transmission oil pumps for customers in North America since 2014, using its own test stands at its development centre.

Peter Krug is very familiar with the world's second largest automobile market. He knows that his customers are highly demanding. It is not enough "only" to develop high-quality vehicle components which reduce CO_2 emissions. "Our customers basically want to get into their cars, visit us and see with their own eyes their future product on the test bench. It is also very important for them that it is developed in close consultation with us here in North America. That is why we have strongly invested in our local development facilities and have established a strong team here. That wins over many of our customers."

Since its nomination by a leading US automobile manufacturer as a series supplier of variable engine oil pumps for a global engine platform in January 2015, this development team has produced and tested more than one hundred prototypes for this production programme, which will go into series production in 2018. The team is also working on pumps for automatic transmissions and electrical auxiliary pumps for start-stop function.

If you ask Peter Krug about the milestones achieved in 2015, it's not only new contracts. "Our oldest daughter got married and also moved home – to Sicily. Our youngest began her university studies and our third daughter successfully completed her degree, both of them here in Ontario. These moving moments and also SHW's successful re-entry to the American market meant that 2015 was a very special year."

"SHW thinks and operates as a global player."

Staying up to date
Peter Krug uses his time spent travelling to keep up to date with the latest news. Having lived and worked in North America for 30 years, English-language newspapers are standard reading for him.

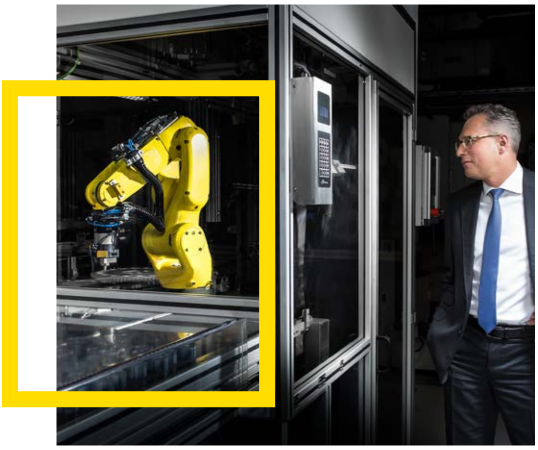
OPERATIONAL EXCELLENCE

FACILITIES READY FOR THE FUTURE

Dr Frank Boshoff, SHW AG's Chief Executive Officer and operational excellence expert, regularly reviews the level of progress achieved in the Company's production processes. We joined him on a visit to the mission-critical production facilities.

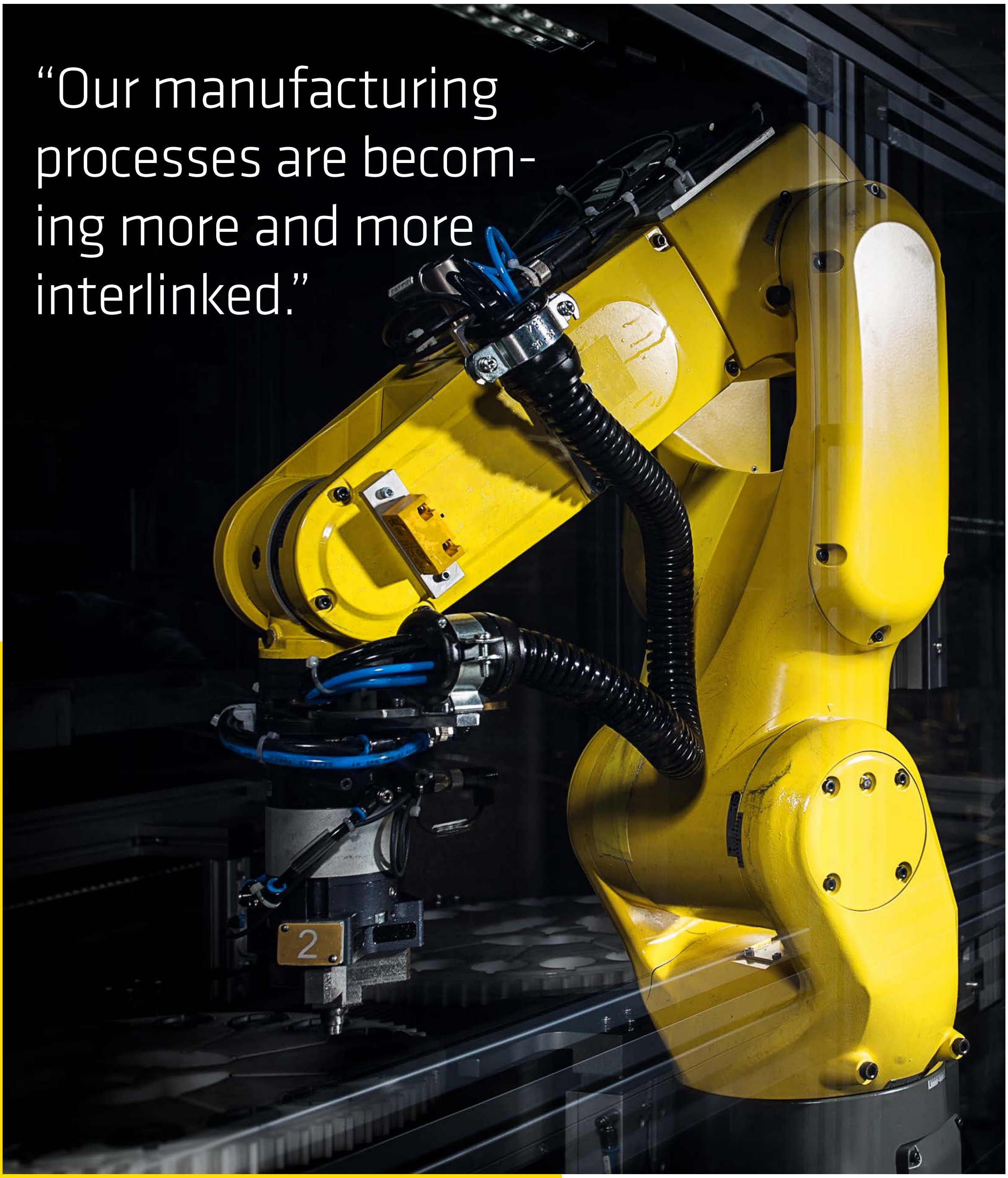
On the shop floor
The Chief Executive Officer of SHW in front of the new grinding machine in Powder Metallurgy at Aalen-Wasseralfingen

Powder Metallurgy at Aalen-Wasseralfingen (PM) is a place of change which represents a high priority for Dr Frank Boshoff. As we approach the entrance to the works, he tells us about the reason for today's visit. "Over the past few months we have not only established where SHW's strengths lie but also the areas in which our company needs to improve." Within the scope of its "SHW 2020" strategy, the Management Board has resolved changes including a more flexible and more efficient overall organisational structure. Process improvements, capacity expansions and an optimised international production network are intended to help satisfy the requirements of automotive customers and to boost the Company's competitiveness.



High precision, flexible and optimally timed
Dr Frank Boshoff is impressed by the automation of production processes

"Our manufacturing processes are becoming more and more interlinked."

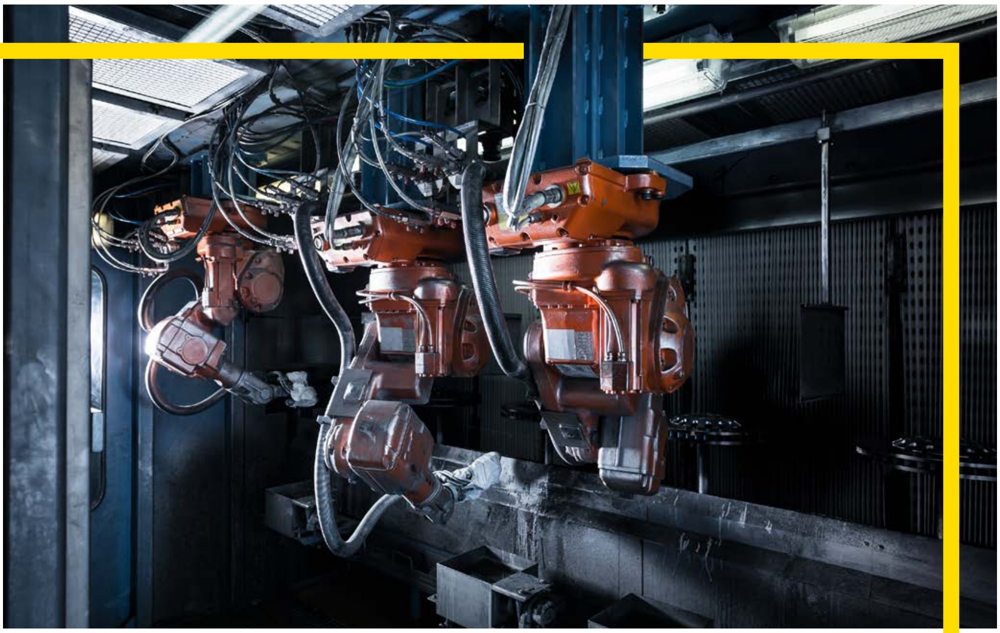


State-of-the-art surface superfinishing
Thanks to cutting-edge robotic technology, manufacturing in Powder Metallurgy is becoming increasingly automated. This ensures lower throughput times and systematically reduces non-productive times.

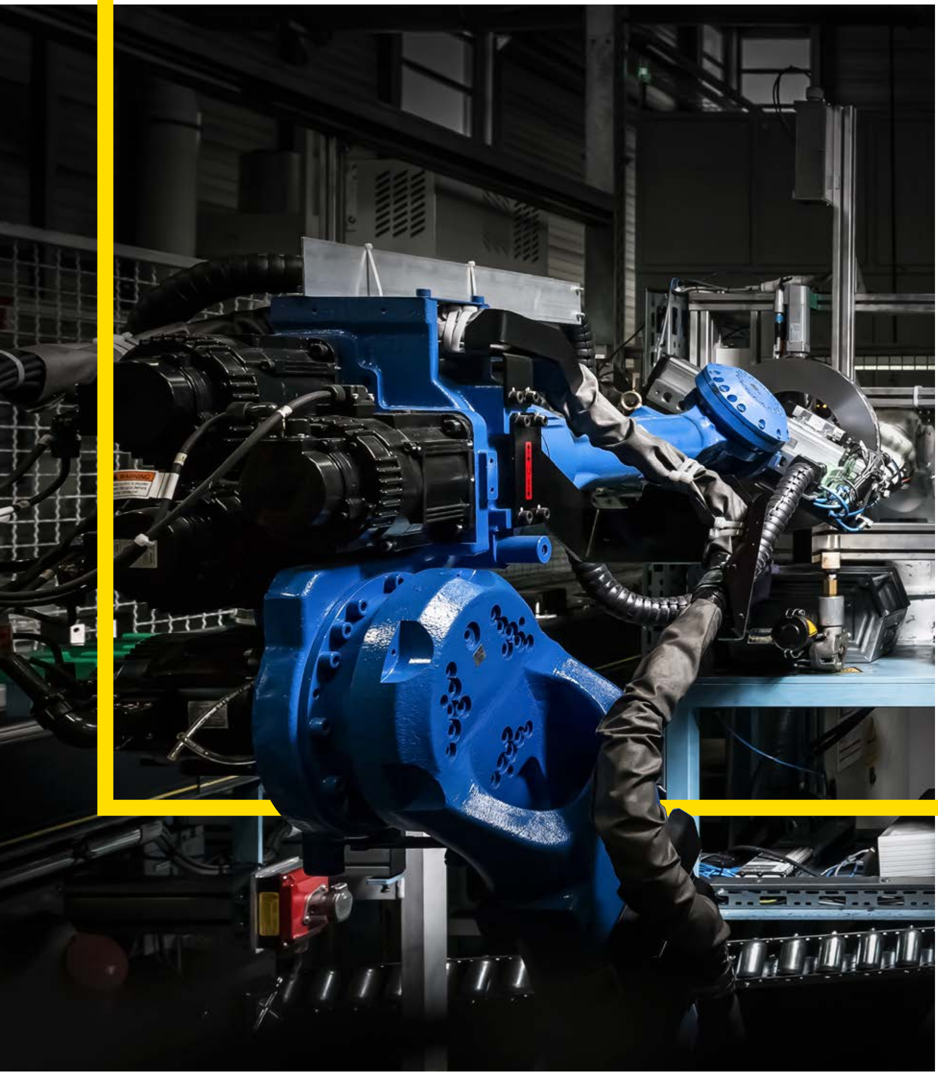
+25%

INCREASED PRODUCTIVITY IN POWDER METALLURGY

Keeping the environment in mind
Applying water-based coatings to the brake discs improves their resistance to corrosion and cuts energy costs.



50–80%
REDUCTION IN SOLVENTS



MACHINE AVAILABILITY
+19%

Increasing market leadership
Using robots for pin assembly significantly reduces takt times and eliminates setting-up times for the manufacturing of composite discs

“We are continuously optimising our production processes.”

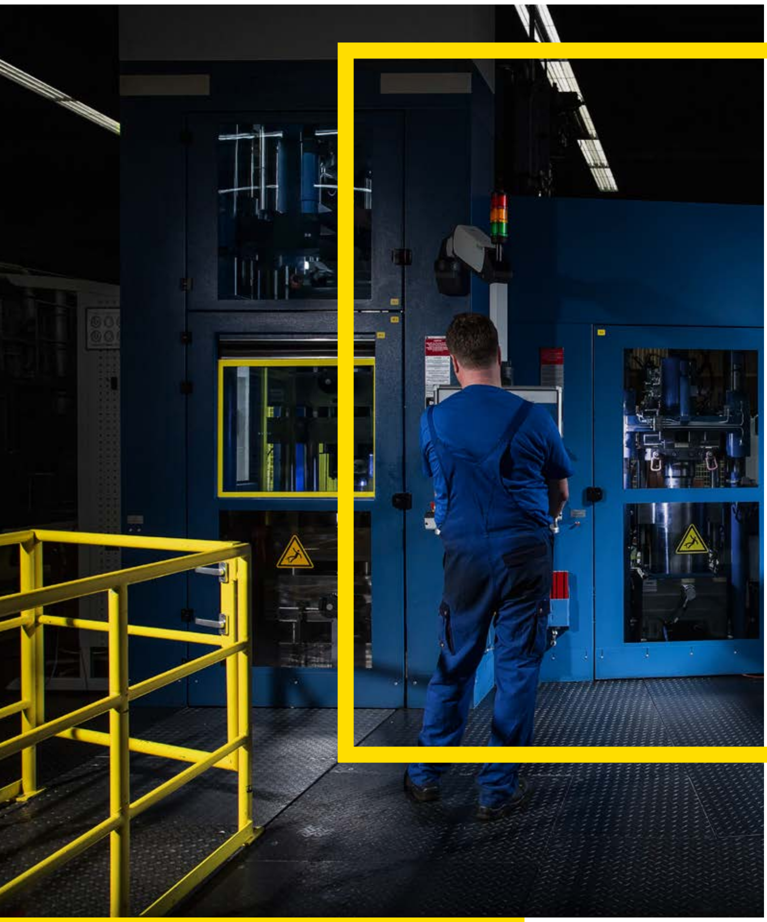
Through his weekly works visits, Dr Boshoff aims to check up on progress for himself and has an appointment with Dirk Fischer, Chief Operating Officer of the production plants in Bad Schussenried and Aalen-Wasseralfingen, and Jörg Herrmann, the PM plant manager, for that purpose. Fischer is keen to tell visitors about the substantial improvements in process optimisation realised over the past few months. “This manufacturing line is a good example of how we are making constant advances in terms of the automation of our processes and thus achieving increased efficiency,” he says, pointing to the works’ new grinding machine. This belongs to the latest generation of machinery and was commissioned in the third quarter of 2015. It wouldn’t be particularly noticeable in the huge factory hall if it wasn’t for its yellow robot arm: with a vivid glow visible even from a few metres away, it nonstop places components in the grinding moulds, with the utmost precision and speed. According to the plant manager Herrmann, the advantages are clear: thanks to the high level of automation, fewer workforce capacities are tied up and the processing time has been considerably reduced. “With equipment like this, at the end of the day we produce a higher number of pieces and are thus able to satisfy the increased level of customer demand,” Jörg Herrmann boasts.

A few hours later on the same day at Bad Schussenried. The plant manager, Jan-Ekke Rose, welcomes the Company’s CEO. Today’s meeting is focused on the works’ assembly line for 4-cylinder tandem pumps. This 28-metre facility represents a

–50%

REWORKING COSTS IN PUMP ASSEMBLY

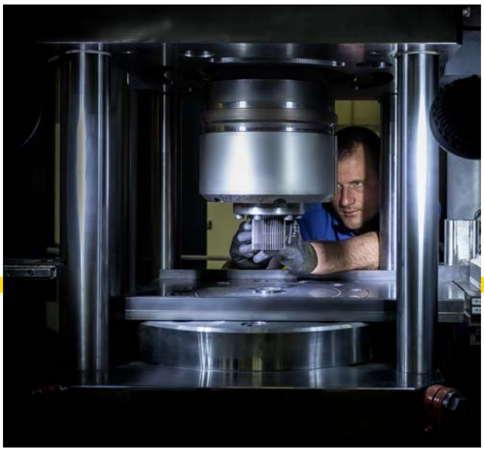
Saving time through modularity
SHW has been producing oil/vacuum pumps, known as tandem pumps, in Bad Schussenried since 2012. The new, fully automated ASIC assembly line manufactures eight different pump types. Thanks to the modularity of the machine, changing the pump type is quick and easy.



€ 20M

IN INVESTMENTS (2014 – 2016)

High precision
In 2015, SHW began operating a new, cutting-edge calibration press in Aalen-Wasseralfingen. The machine is primarily designed for extremely complex components with a high density, such as camshaft drive wheels and adjustment rings for tandem pumps. The calibration and bevelling stations are linked up by robots.



highly efficient pump assembly which is characterised by modularity and flexibility combined with a high level of availability. “With this line, we can produce eight different pump types, with only a short set-up time. This is essential in order to be able to react promptly to changing call-off situations,” Rose explains. The transfer line also offers further advantages; all of the facility’s process data are available online in SHW’s Intranet. This enables monitoring of its performance at all times and a rapid reaction in case of any discrepancies. Moreover, SHW has designed a drive-shaft laser structuring system for this facility, which replaces one part of the pump and thus helps to decrease costs. “In principle,” Rose emphasises, “every sub-step in the production procedure for our pump and engine components is equally important, whether it is performed by robots or by human hands. We therefore always review the efficiency of process steps – and where we can achieve even further productivity gains.

After Dr Frank Boshoff has said goodbye, he nods contentedly. “Our facilities at Aalen and Bad Schussenried show that SHW is on course to achieve further improvements in its competitiveness and thus return to profitable and capital-efficient growth. SHW is preparing for the future with production processes which are increasingly intelligent, flexible and rapid.”

Easy to use
With its state-of-the-art control system and high-precision adapter technology, the new calibration press is contributing to the current productivity gains in PM.

–90%

REDUCTION IN DELIVERY BACKLOGS

Cutting-edge coating machine with automatic type recognition on the conveyor belt and the option of multicolour coatings enables a wide range of applications.

“SHW combines manpower with automated processes.”

CHANGEOVER TIMES

–80%

HUMAN RESOURCE ALLOCATION

–55%

Automating the flow of materials
The new portal robots can automatically remove the composite brake discs after the aluminium is cast

WE ARE VERY WELL PREPARED

Dr.-Ing. Frank Boshoff
Chief Executive Officer

Dr Frank Boshoff has been the Chief Executive Officer of SHW AG since 1 July 2015. We talked with him about the current status of the Company's excellence programmes as well as progresses on SHW's markets.

Dr Boshoff, SHW and you go back a long way. How and when did you first get to know the firm?

Before I was appointed CEO of SHW AG, I spent 18 years working for a major manufacturer of light metal cast parts, for the last six of these years as the Chairman of its Management Board. I have thus been familiar with SHW and held it in high regard for many years, since 1998 to be precise. Having served as a supplier, I was highly familiar with its products and end-customers. I was therefore keen to take the opportunity to join the Company and thus assume the associated responsibility.

Which goals have you set for SHW over the next few years?
Within the scope of a strategic review, we defined three high-value areas where I can make a very positive contribution thanks to my professional experience in the field of operations. First of all, we must ensure that we achieve production efficiency gains. We have indeed achieved strong growth recently due to a high level of customer demand – especially in the area of sintered metal production – but we have neglected our homework a little in the operational field. However, thanks to technological and organisational actions we significantly boosted the productivity of our manufacturing operations in the second half of 2015. In terms of the Company's internationalisation …

… SHW's second core strategic area of focus …
… from 2017 our planned production plant in Eastern Europe will help to improve our competitiveness on the European supplier market. In addition, through our non-European plants in North America, Brazil and China we have acted in good time so as to establish the preconditions for a global production network. We assume this to provide a significant contribution to SHW's future sales growth. A positive trend is that our engine and transmission oil pumps are highly popular with the automobile manufacturers – except in Brazil, where we have likewise been affected by the current economic crisis.

And the Company's third area?
SHW has always advanced highly innovative solutions for its customers, and we operate in a market environment in which the level of demand for tailored solutions and the associated requirements are continuing to increase. Besides operational excellence and internationalisation, the ongoing development of our product range is therefore an important key for future profitable and capital-efficient growth.

What are your customers' biggest challenges, and what answers does SHW have to these?
The key challenge is still to cut the harmful emissions produced by combustion engines. Everyone recognizes that significant further reductions are required for CO_2, nitrogen oxide and other harmful emissions – not only in Europe, but also worldwide. Mechanical engine and transmission components and product solutions will provide a substantial contribution to this. In view of the events of the past year, the requirements for automobile manufacturers are likely to become even more rigorous

On location and close to production
Dr Frank Boshoff in conversation with the Head of Powder Metallurgy, Jörg Herrmann

due to the new, more realistic emissions measurement methods. Our product portfolio and our new technological methods cover significant fields of application which will help our customers to fulfil their CO_2 goals . For instance, this includes innovative, fuel-saving oil pump concepts and our reduced-weight composite brake discs. We are very well positioned in these areas.

> “We are going to significantly step up the productivity of our manufacturing.”

How much weight can SHW brake discs save?
We are talking here about up to 2 kg per wheel by comparison with conventional brake discs, i.e. 8 kg per vehicle. As well as lightweight brake discs and controlled oil pumps, we are continuously developing new technical solutions for our customers such as our primary transmission oil pumps. But the key issue is that we are operating in growing markets which require precisely these solutions. And we predict that combustion engines will have an unchanged high market share.

But aren't there supposed to be more hybrid and electric vehicles on the road in future?
The share of hybrid vehicles will certainly increase significantly over the next ten years, while purely electrically driven vehicles will still only account for a relatively small market share. The strongly increasing significance of hybrid vehicles is what is important for us

here. As well as an engine oil pump, these vehicles also require one or two transmission oil pumps for transmission lubrication and the start-stop function. We are continuing to monitor the level of market penetration of purely electrically driven vehicles very closely and are able to respond to changing consumer preferences at any time.

In this context, we believe that further electrification of the drivetrain's auxiliaries will be a priority in the near future and that this, together with the introduction of the 48V electrical system, will generate further market opportunities for SHW. We therefore aim to develop our expertise in the area of electronic drive and control units, to round off our core hydraulics competence. As well as recruiting qualified development experts, the Company is intensively evaluating potential acquisition targets and also opportunities for partnerships.

Is your company benefiting from the trend of people increasingly opting to buy cars with automatic transmissions?

You have to distinguish here. Unlike in America, where automatic transmissions are used almost universally, we have registered a significant level of growth in Europe and Asia for some time now. Over time, increasing numbers of consumers are appreciating the enhanced level of driving comfort. From SHW's point of view, the key element is that the automatic transmission increasingly includes two different oil pumps, a primary pump and a secondary pump. We are well positioned with our products in both of these fields. We still see considerable growth potential for us in this area and believe that with our transmission oil pump applications we will be able to match the level of success and market penetration of our engine oil pumps segment.

+25%
INCREASED PRODUCTIVITY
IN POWDER METALLURGY

–90%
REDUCTION IN DELIVERY BACKLOGS
IN THE POWDER METALLURGY

50–80%
REDUCTION IN SOLVENTS
IN THE BRAKE DISCS MACHINING

CHANGEOVER TIMES
–80%
IN THE BRAKE DISCS MACHINING

€ 20M
IN INVESTMENTS (2014–2016)
IN THE POWDER METALLURGY

MACHINE AVAILABILITY
+19%
IN THE COMPOSITE BRAKE DISCS MANUFACTURING

–50%
REWORKING COSTS IN PUMP ASSEMBLY

HUMAN RESOURCE ALLOCATION
–55%
IN THE ALUMINIUM CASTING

Where do you see SHW in five years' time?
Certainly significantly more productive, more profitable and more international than it currently is. Due to the actions which I have just outlined and the foreseeable market trends, I believe that we will achieve our goals on schedule by 2020.

> ”SHW 2020 – more productive, more profitable, more international

REPORT OF THE SUPERVISORY BOARD OF SHW AG

General information

In the reporting year 2015, 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 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. 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 chairmen 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 documents of the Company in the reporting year.

As a rule, the Supervisory Board passes resolutions within the scope of meetings. Where necessary, resolutions are also passed outside meetings, in particular through telephone conferences or by circulating relevant documents. The Supervisory Board also meets without the Management Board where necessary.

Meetings of the Supervisory Board and key matters

In the reporting year the Supervisory Board met four times in regular face-to-face meetings, three times in extraordinary face-to-face meetings and three times through extraordinary meetings held in the form of a telephone conference. All of the members of the Supervisory Board attended the face-to-face meetings of the Supervisory Board.

At its meetings held in the year 2015, through oral and written reports from the Management Board, the Supervisory Board was comprehensively briefed regarding all central issues of business development, corporate strategy, risk, risk management and the financing structure of SHW AG and the SHW Group. The Management Board outlined matters such as the current revenue and income trends for the SHW Group in Germany and other countries and commented in detail on the business performance of the individual business segments, while considering the level of competition. The following issues were key concerns in the reporting year:

- At its extraordinary meeting held on 11 February 2015, the Supervisory Board considered the Company's implementation of its internationalisation and cooperation strategy in its Brake Discs business segment. In addition, the Supervisory Board obtained information in particular regarding the execution of a capital increase on the basis of authorised capital, the associated agreements and the further terms for determination of the placement price and the amendment of the Articles of Association and passed resolutions accordingly.

- At its regular meeting held on 12 March 2015, 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 of 31 December 2014. 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 12 May 2015 as well as the Supervisory Board's report for the fiscal year 2014 and the 2014 corporate governance report. 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 SHW AG's subsidiaries. The Supervisory Board also considered issues concerning strategic and earnings-enhancing measures for the Pumps and Engine Components business segment. Other issues included recurrent information regarding risk management as well as personnel issues on the Management Board, in particular the extension of the employment contract of Mr Rydzewski.

- At its extraordinary meeting held on 12 May 2015 prior to the Annual General Meeting, the Supervisory Board considered personnel issues relating to the Management Board and resolved to grant the request of the current Management Board chairman, Dr Thomas Buchholz, to leave the Company for personal reasons as of 30 June 2015. The Supervisory Board also resolved to appoint Dr Frank Boshoff as the new Management Board chairman of SHW AG with effect as of 1 July 2015. Moreover, more than one year prior to the end of his current term of office (30 June 2016) the Supervisory Board resolved to reappoint Mr Sascha Rosengart (Chief Financial Officer) as a member of the Management Board of SHW AG for the period up to the expiry of 30 June 2019, while terminating his current term of office. The Supervisory Board also approved a new version of the Declaration of Conformity 2015.

- At its regular meeting held on 12 May 2015 following the Annual General Meeting, the Supervisory Board was subsequently notified of the status of strategic and earnings-enhancing measures and also future acquisition policy for the Pumps and Engine Components business segment. Moreover, the Supervisory Board considered the Company's implementation of its internationalisation and cooperation strategy in its Brake Discs business segment. It also considered the Company's business development and the proportion of women in management positions. In addition, the Supervisory Board passed resolutions concerning its consent to transactions requiring approval. Finally, the Supervisory Board was briefed on risk management and passed a resolution appointing the Company's auditor for 2015.

- At its extraordinary meeting held on 28 July 2015, after obtaining previous information, the Supervisory Board issued its consent to the Company's investments in the Group's joint venture in China in the Brake Discs business segment. It also passed resolutions on other transactions requiring consent.

- At its extraordinary meeting held on 31 August 2015, the Supervisory Board obtained information on the delivery situation of a key supplier in the Pumps and Engine Components business segment.

- At its extraordinary meeting of 2 September 2015, the Supervisory Board once again obtained information on this supplier's situation and passed a resolution concerning the further course of action. It also passed resolutions concerning its consent to transactions requiring approval.

- At its regular meeting held on 24 September 2015, the Supervisory Board initially discussed the report on the Company's business development. In addition, it considered the implementation of the earnings-enhancing measures in Powder Metallurgy at Aalen-Wasseralfingen and the status of strategic planning, including the cooperation strategy for the Pumps and Engine Components business segment. It also obtained information on the current status and the further course of action for the Company's internationalisation and cooperation strategy in the Brake Discs business segment. The Supervisory Board moreover passed resolutions on consent for transactions requiring approval and obtained information on the status of risk management. As well as the target ratio for the proportion of women in management positions, the Supervisory Board also passed resolutions regarding the 2016 elections to the Supervisory Board, the normal limit for the term of office of Supervisory Board members as well as the age limit for the Annual General Meeting's re-election of Supervisory Board members under the German Corporate Governance Code.

- At its extraordinary meeting held on 27 October 2015, the Supervisory Board resolved the allocation of duties plan for the Management Board of SHW AG from 1 November 2015.

- At its regular meeting of 26 November 2015, in particular the Supervisory Board was notified not only of the current status of the Company's cooperation strategy in its Brake Discs business segment but also of its general business development in its individual business segments and also the Company's earnings-enhancing measures in its Powder Metallurgy segment. The budget for the fiscal year 2016 and the multi-year planning for the period from 2017 to 2020 were approved. The Supervisory Board also passed resolutions concerning its consent to transactions requiring approval. Finally, the Supervisory Board obtained information on the Company's risk management and made a detailed assessment of the Supervisory Board's 2015 efficiency review.

Work of the committees

To ensure the efficient fulfilment of its duties, in the reporting year 2015, as in the previous year, the Supervisory Board appointed two committees – the Executive Committee and the Audit Committee:

- 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 of the Supervisory Board – in particular, the appointment and dismissal of the members of the Management Board and determination of their remuneration – as well as other personnel issues to be considered on 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 Sections 89, 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. The Executive Committee moreover performs the tasks of a nomination committee pursuant to item 5.3.3 of the German Corporate Governance Code. As such, it prepares the decisions of the Supervisory Board concerning its proposals to the Annual General Meeting for elections to the Supervisory Board. The Executive Committee met a total of four times during the reporting period. It also passed seven 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, compliance and the internal audit system. In accordance with item 7.1.2 of the German Corporate Governance Code, the Audit Committee also discusses the Company's quarterly and semi-annual reports with the Management Board prior to their publication. Overall, the Audit Committee met on seven occasions over the course of the reporting year.

- 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 and consolidated financial statements of SHW AG and the combined management report and Group management report for the fiscal year 2015 have been audited by the Company's auditor, Ebner Stolz GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, 70174 Stuttgart, and have been awarded an unqualified audit opinion.

Ebner Stolz GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, 70174 Stuttgart, has constantly audited the annual financial statements and consolidated financial statements and the combined management report and Group management report since 2013. In this period Mr Christoph Brauchle und Mr Christoph Lehmann accounted for the auditor's opinion as signatories for the annual audit and the audit of the consolidated financial statements. The appointment of the auditor as annual auditor and auditor of the consolidated financial statements is effective solely for one business year.

The following core audit areas were considered: impairment testing of financial assets and goodwill, risks resulting from mass transactions, revenues, recognition and measurement of inventories, receivables and accruals, assessment of estimates, fraud, financial losses and irregularities as well as the completeness of the notes to the consolidated financial statements and also the management report and the Group management report.

The Supervisory Board reviewed the above-mentioned documents in detail. The members of the Supervisory Board received all of the 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 in the Audit Committee and subsequently at a meeting of the overall Supervisory Board in the presence of the competent auditor. The auditing company reported the key findings of its audit. It also provided details of the scope, the core areas of focus and the 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 € 50 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 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 2015.

Corporate Governance

In May 2015, the Management Board and the Supervisory Board submitted a joint annual Declaration of Conformity in accordance with 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 2015, the following change occurred in the make-up of the Management Board:

Effective upon expiry of 30 June 2015, Dr Thomas Buchholz resigned from his position as chairman of the Company's Management Board. Since 1 July 2015, Dr Frank Boshoff has held his position on the Management Board of SHW AG. Dr Boshoff has been appointed the chairman of the Management Board.

There were no changes to the make-up of the Supervisory Board in the reporting year 2015.

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

Aalen, Germany, 23 March 2016
For the Supervisory Board

Georg Wolf, Chairman

THE SHW SHARE

A volatile stock market year with price gains on the European and Asian stock markets

The European Central Bank's announcement on 22 January 2015 that it would purchase bonds with a monthly volume of € 60 billion in the period from March 2015 to September 2016, the US Central Bank's relatively moderate monetary policy, numerous key interest-rate cuts by the Chinese Central Bank, the weak euro and robust economic data in the eurozone and the U.S. stimulated the stock markets in 2015. The negotiations over a third bailout package for Greece which dragged on for a number of weeks, less robust economic data in China, the Chinese stock market's significant correction, the devaluation of the renminbi, VW's emissions scandal and the fall in the price of oil to an 11-year low had a negative impact on prices.

This prompted a significant increase in levels of volatility on the international financial markets and broad discrepancies in terms of results as of the end of the year.

America's leading index, the Dow Jones, closed 2.2 per cent lower than at the end of 2014, at 17,425 points, due to the revaluation of the US dollar and the clear fall in commodities prices. Japan's Nikkei index improved by 9.1 per cent to a level of 19,034 points, thanks to the country's central bank and reform policies. China's Shanghai Composite Index gained 9.4 per cent or 305 points and ended the year at a level of 3,539 points, but nonetheless fell significantly short of the annual highs of 5,178 points reached in June 2015.

The Euro Stoxx 50 – which comprises the eurozone's leading fifty stocks – ended the January to December 2015 period up by 3.8 per cent at 3,268 points. Subject to strong levels of fluctuation – peak price of 12,375 points on 10 April/low of 9,428 points on 24 September – Germany's leading index, the DAX, gained 937 points or 9.6 per cent in 2015 and reached 10,743 points. The SDAX select index – on which the SHW share was listed until 21 December 2015 – even registered an annual performance of 26.6 per cent, climbing to 9,099 points.

PRICE TREND FOR SHW SHARE AND DAXSECTOR AUTOMOBILE PERFORMANCE INDEX (CXPA) IN THE PERIOD FROM JANUARY 2015 TO MARCH 2016

Source: Bloomberg

SHW share under considerable pressure in the second half of the year

SHW's benchmark index DAXsector Automobile Performance (CXPA) was also highly volatile. Following an all-time high of 2,039 points on 16 March 2015, a consolidation phase with a total volume of 38 per cent continued up to late September amid clear signs of a slowdown in the growth of the Chinese automobile market, with this trend worsened by the VW emissions scandal.

The negative sentiment in relation to automobile stocks, the non-timely implementation of the Company's efficiency programmes and a corresponding adjustment of its earnings forecast on 21 September 2015 as well as further exogenous factors resulted in a strong fall in SHW's share price in the second half of the year. Thanks to transparent communication and the publication of the Company's "2020 Strategy" and its related medium-term planning, in the last few days of the stock market year the SHW share was able to recover slightly from its lows for the year. The SHW share ended the 2015 stock market year at a share price of € 26.91 and thus underperformed the DAXsector Automobile Performance index by 34.9 percentage points. The SHW share is currently pricing at € 23.02 (as at 23 March 2016).

Dividend remains stable

Due to the Company's stable business development 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 10 May 2016. This represents an overall distribution of € 6.4 million or a payout ratio of 44.8 per cent of the Group's net income for the year. SHW has thus slightly exceeded the range of 30 to 40 per cent defined in its dividend policy.

IR activities once again ranked in the top third

In the second "Investors Darling" competition run by the business magazine "Manager Magazin", SHW's capital market communication activities were rated 11th out of 50 SDAX companies and thus once again achieved a ranking in the top third. The Company's 2014 annual report "Inside SHW – Roadmap 2020" picked up an LACP Bronze award 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.

Analysts' estimates: average price target € 28.20

Five banks and research firms currently publish regular studies of SHW.

Institution	Analyst	Recommendation	Price target
Bankhaus Lampe	Christian Ludwig	Hold	€ 24
Commerzbank	Sascha Gommel	Buy	€ 35
Kepler Cheuvreux	Michael Raab	Buy	€ 34
LBBW	Stefan Maichl	Hold	€ 24
Oddo Seydler	Daniel Kukalj	Hold	€ 24

Two banks are currently providing a buy recommendation, while three advise holding the Company's shares (as at March 2016). The average price target is € 28.20. A further bank is currently exploring including the Company in its coverage within the next few months.

Shareholder structure: free float still 100 per cent

In line with Deutsche Börse AG's definition, 100 per cent of SHW's shares continue to be held in free float. Of this amount, 9.8 per cent are held by the American investment firm Franklin Templeton. The second-largest individual shareholder with a stake of 9.1 per cent of the voting rights is the world's largest asset manager BlackRock (U.S.). Between 3 and 5 per cent of SHW's shares are held by Fortress Investment (U.S.), Universal Investment (Germany), Schroders (United Kingdom) and UBS (Switzerland).

Within the scope of its directors' dealings reporting, the Company hereby provides notice that its three Management Board members held the following number of SHW shares as of the end of 2015: Dr Frank Boshoff (4,000 shares), Sascha Rosengart (2,433 shares) and Andreas Rydzewski (2,400 shares).

Intensive dialogue with capital market participants

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

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

In the past year 2015, the Management Board and the Investor Relations team of SHW AG participated in a total of four capital market conferences and five road shows in Frankfurt, Berlin, Paris and London. The Company also held a large number of individual discussions with institutional investors on-site. SHW has recruited an additional member to the IR team in order to satisfy the increased communication needs of the capital market and the financial and business press. SHW intends to step up its Investor Relations activities in 2016. In this regard, SHW wants inter alia to satisfy the increasing level of interest from investors in Scandinavia and Scotland.

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/de/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]	€ 173.3 million
Free float	100 per cent
Stock exchange	Frankfurt Stock Exchange
Market segment	Regulated market (Prime Standard)
Initial quotation	7 July 2011
Designated sponsor	Commerzbank AG

[1] On the basis of the closing price of € 26.91 as at 30 December 2015.

CONSOLIDATED GROUP MANAGEMENT REPORT AND SHW AG MANAGEMENT REPORT

BASIC INFORMATION ABOUT THE GROUP

Group Business Model

SHW AG is the parent company of the SHW Group and a pure holding company. It holds all of the shares in SHW Automotive GmbH, Aalen. The Company also holds all of the shares – directly and indirectly – in its Brazilian subsidiary SHW do Brasil Ltda., São Paulo. SHW Automotive GmbH holds all of the 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 SHW Automotive Industries GmbH, Aalen. In addition, SHW Automotive GmbH holds 51 per cent of the shares in the joint venture SHW Longji Brake Discs (LongKou) Co., Ltd., LongKou, China. Schwäbische Hüttenwerke Zweite Beteiligungs GmbH was merged with SHW AG on 10 August 2015 in order to simplify the corporate structure of the SHW Group.

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

As at 1 January 2015, SHW Automotive Pumps (Kunshan) Co., Ltd. was included in the SHW AG scope of consolidation for the first time as this company has commenced its operating activities.

The joint venture SHW Longji Brake Discs (LongKou) Co., Ltd. launched its operating activities on 1 April 2015. Since this date, the joint venture has been included in the consolidated financial statements of SHW AG in accordance with the equity method.

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 thus CO_2 emissions in the automotive industry.

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

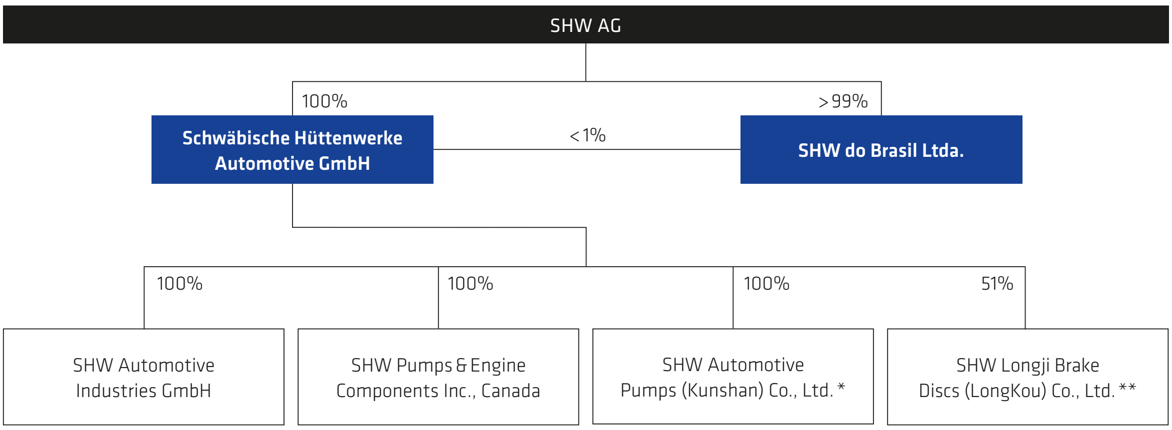
The Pumps and Engine Components business segment is the SHW Group's largest operating segment and has production and development facilities in the three strategically relevant automobile markets, Europe, China and NAFTA.

The Pumps and Engine Components business segment consists of the Powder Metallurgy, Passenger Car and Industry divisions. 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.

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			
Camshaft phaser			

OVERVIEW OF GROUP SUBSIDIARIES



* as of 1 of January 2015 consolidated
** as of 1 of April 2015 accounted for according the equity method

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, transmission oil pumps, electrical start-stop auxiliary pumps, oil / vacuum pumps with and without a balancer shaft unit and camshaft phasers.

At the Company's Chinese subsidiary SHW Automotive Pumps (Kunshan) Co., Ltd., at its Kunshan plant, preparations for the launch of series production of variable engine oil pumps for a European automobile manufacturer are well advanced. Production is set to begin shortly. In 2017, this plant will also commence production of transmission oil pumps for a leading Chinese automobile manufacturer.

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.

Technology leader in the field of lightweight brake discs – joint venture for the Asian market launched its operations in April 2015

The SHW Group is technology leader in the manufacturing of brake discs for high-performance vehicles. In its Brake Discs business segment, the Company develops and produces monobloc ventilated cast iron brake discs as well as lightweight brake discs, so-called "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.

2015 marks an important milestone in the internationalisation of the Brake Discs business segment. In early April, the joint venture was established in January 2015 between SHW Automotive GmbH and China's Shandong Longji Machinery Co., Ltd. launched its operational activities. This joint venture will initially produce unprocessed brake discs for the spare parts business of the Chinese joint venture partner. In future, the joint venture is to focus on the development and production of processed monobloc ventilated brake discs for passenger cars and light commercial vehicles, mainly for multinational automobile manufacturers on the Asian market. Its management is currently focusing on the ISO / TS16949 certification and on gaining customer orders from original equipment manufacturers.

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 long-term growth in 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 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 KSPG (Germany), Magna Powertrain (Canada), Mahle (Germany), TCG Unitech (Austria) and NIDEC GPM (Japan). In addition, some vehicle manufacturers such as Mercedes and VW have their own pump manufacturing divisions.

In Brazil, KSPG (Germany), Melling (USA), NIDEC GPM (Japan), Schadek (Brazil) and GKN (United Kingdom) 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). Japanese transplants are mainly supplied by the Japanese automotive suppliers Aisin and Yamada.

In the field of primary transmission oil pumps, Magna Powertrain (Canada) is the leading competitor worldwide. Other significant competitors include ZF-TRW (Germany), NIDEC GPM (Japan), Stackpole International (Canada), 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 manufacturing division.

Competitors in the field of secondary transmission oil pumps include Magna Powertrain (Canada), ZF-TRW (Germany), KSPG (Germany), NIDEC GPM (Japan), Stackpole International (Canada), Brose (Germany), EBM-Papst (Germany), SLPT (USA), Joma-Polytec, Bühler Motor and Continental (all Germany). In Europe, the Industry division mainly competes with KSPG (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 a significant manufacturer in Europe. Its main competitors are Fritz Winter (Germany), Buderus Guss (Germany), Brembo (Italy), Lingotes Especiales (Spain) and Fonderia di Torbole (Italy).

The key competitors for the Company's new brake discs joint venture SHW Longji Brake Discs (LongKou) Co., Ltd. in the OEM business segment are Brembo (Italy), Delphi (USA), Aisin (Japan), Tokico (Japan), Lioho Machine Works (Taiwan) and the Chinese firms Asimco Technologies, Fuzhou and Nanyang Machinery.

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.

Reductions in 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 requires the average CO_2 emissions for newly registered passenger cars to be reduced to 130 g CO_2/km in 2015 and to 95 g CO_2/km by 2021. To achieve more realistic consumption values which are comparable worldwide, in 2017 the European Union intends to replace the currently applicable "New European Driving Cycle (NEDC)" with the "Worldwide Harmonized Light Vehicles Test Procedure (WLTP)". This change of testing method is expected to result in a significant increase in the consumption values measured. Assessments by the International Council on Clean Transportation (ICCT) for 2013 have shown that WLTP-based real consumption figures are around 30 per cent higher than the values measured according to the NEDC method. However, the CO_2 limit for 2021 would only 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. As things currently stand, WLTP will be applied as the sole measurement method from 2020, so that automobile manufacturers still have several years in which to implement the necessary measures. For light commercial vehicles, a mandatory limit of 147 g CO_2/km has been determined for the year 2020 (2017: 175 g CO_2/km).

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)

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

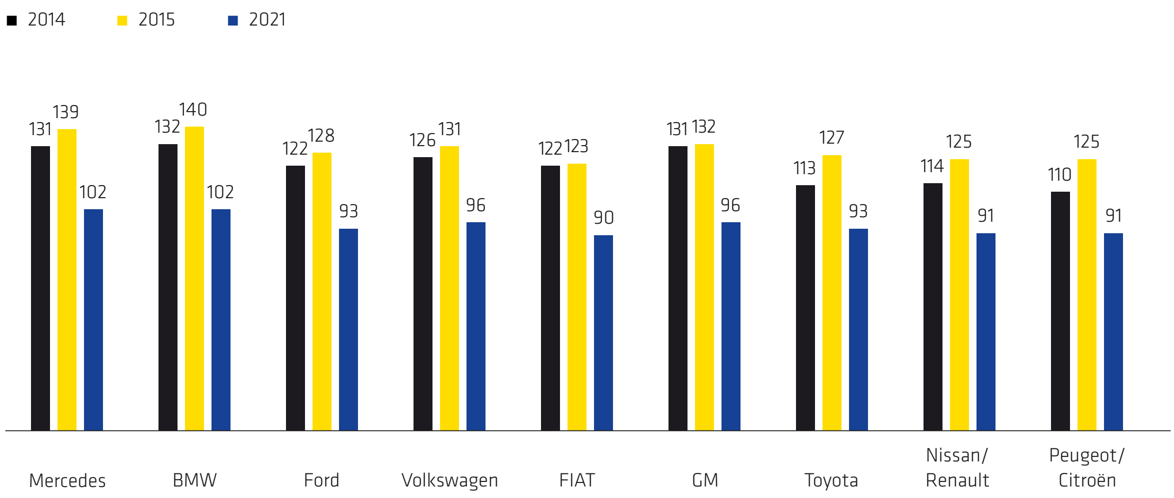
  - Optimisation of the energy use of auxiliaries (alternator, coolant pumps and oil pumps, vacuum pump for brake boosters, power steering, air conditioning compressor etc.)

- Use of alternative fuels in combustion engines

SHW began to intensively explore these technological approaches early on and has developed related 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 considerably reduce vehicle weight and the unsprung masses. The SHW Group is thus significantly benefiting from the major trend of CO_2 reductions.

The following overview shows the average specific CO_2 emissions of various passenger car manufacturers' vehicle fleets in Europe in 2014, in comparison with the targets for 2015 and 2021.

CO_2 EMISSIONS BY MANUFACTURER IN g/KM (NEDC)



Source: ICCT

This comparison shows that all of these vehicle manufacturers have already achieved their individual targets for 2015 ahead of schedule. However, by 2021 CO_2 emissions must be reduced by a further 23 per cent on average in order to satisfy the European Commission's targets.

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. In North America, by 2020 CO_2 emissions must be lowered to 125 g/km, 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.

Company Strategy, Management and Objectives

Company strategy

SHW AG aims to further consolidate its strong market position in its Pumps and Engine Components and Brake Discs business segments in order to achieve profitable and 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 a targeted M&A strategy with the goal of obtaining the necessary electronic drive and control unit expertise by means of acquisitions or partnerships.

Strategic field of 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-boosting measures, lean management and optimisation of its production network are key levers in this respect.

In the past fiscal year, elimination of the operational and logistical bottlenecks in the Powder Metallurgy division at its Aalen-Wasseralfingen plant and in the pump assembly field at its Bad Schussenried plant were core priorities for the Company. The scheduled completion of capacity-boosting measures at its Aalen-Wasseralfingen plant (capital expenditure 2014–2016: around € 20 million) towards the end of the first quarter of 2016 will ensure seamless production processes in the powder metallurgy and pump assembly fields. Moreover, machine output and automation of individual process steps will be optimised in the powder metallurgy field. The ongoing development of the Company's process and matrix organisation in its Pumps and Engine Components business segment is a further core priority. Key general business areas such as purchasing, sales and research and development are to be more strongly integrated within the Company's Aalen-Wasseralfingen and Bad Schussenried production network. Reorganisation of its purchasing and supplier management system will also help to deliver efficiency improvements.

Strong progress has been made in relation to process safety in the Company's foundry at its Tuttlingen plant. Future priorities are the automatic inspection of brake discs in the raw casting area and improvements to the casting control system in the moulding shop. The Company's Neuhausen plant is focusing on expanding its capacities and automating process workflows for mechanical processing of monobloc brake discs and composite brake discs. The linking-up of the paint shop, the automation of aluminium casting for brake disc pots for composite brake discs and the introduction of a visual inspection work step will provide a further improvement in profitability.

The third key component is the optimisation of the Company's production network, with the planned establishment of a new plant in Eastern Europe. This will be accompanied by the transfer of selected pump projects with reduced technological complexity and stages in the value chain. The Company will make a final decision on the location in the first half of 2016 – it currently has a shortlist of three possible locations – and will establish the necessary infrastructure. Initial processing and assembly lines will then be set up in the second half of the year. Production is due to begin in 2017.

Strategic field of internationalisation

SHW is now 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 fairly easily 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 plants 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.

A major North American automobile manufacturer has tasked the Group's Canadian subsidiary SHW Pumps & Engine Components Inc. with the series production of variable engine oil pumps for a global engine platform. The current planning envisages the start of production for the North America tranche for 2018. 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. In the area of industrial applications, the Company will intensify its existing business relationships with North American agricultural and construction machinery manufacturers.

In the spring of 2016, the Company's Chinese subsidiary SHW Automotive Pumps (Kunshan) Co., Ltd will begin processing existing pump assembly projects and focus on winning further engine and transmission projects which have currently been put out to tender. On the basis of orders which have already been contracted, production of transmission oil pumps for a leading Chinese automobile manufacturer will commence in 2017, while series production of variable engine oil pumps for a North American automobile manufacturer will begin in 2019.

In Brazil, the Company has manufactured engine oil pumps for a well-known US vehicle manufacturer since July 2014. This customer has also nominated the Company for a follow-up contract to deliver an identical engine oil pump for the European market. Production is expected to begin in the course of 2017. Further projects are currently in the tendering phase.

In the Pumps and Engine Components business segment, the Company's internationalisation strategy will increasingly be reflected in its sales and earnings figures from 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 will initially produce unprocessed brake discs for the Chinese partner's spare parts business. In future, the joint venture is to concentrate on the development and production of processed monobloc ventilated brake discs for passenger cars and light commercial vehicles, mainly for multinational automobile manufacturers on the Asian market.

The NAFTA region is a further attractive target market for the Brake Discs business segment. Various market entry options are currently under consideration here.

Strategic field of innovation

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

Due to the increasing level of 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 on the basis of a new generation of primary transmission oil pumps. SHW has successfully developed primary transmission oil pumps as two-stroke vane pumps which offer significant advantages in terms of weight, efficiency and size. Prototypes have already been delivered to several well-known manufacturers of automatic transmissions. 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 drivetrain 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 extremely innovative product in its product portfolio which combines a weight reduction with an improvement in braking performance. The Company is also considering adding weight-reducing components for the braking system to its product range.

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. On the basis of 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, income-oriented dividend policy – distribution volume amounting to between 30 and 40 per cent of the Group's net income for the year, allowing for statutory restrictions and considering the financing requirements of the SHW Group,
- Safeguarding solid liquidity – with the Group's current credit line of € 60 million for the period 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,
- Preserving the option of implementing further capital measures for potential non-organic growth – on the basis of the resolutions passed by 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.

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 optimal utilisation of potential for economic and commercial success.

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. 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 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 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, we focus here 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 long-term growth of its enterprise value and on capital-efficient growth. Its paramount goals are a medium- and long-term increase in its sales, adjusted consolidated earnings before interest, tax and depreciation and amortisation (adjusted EBITDA) 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 encapsulates 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. The 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 work days 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 by comparison with our value added.

Research and Development

Electrically-driven transmission 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 is supplying these pumps to a leading European automobile manufacturer since late 2012. Since this time, SHW is the market leader in Europe.

In the past fiscal year, a new oil / vacuum pump was added for a turbocharged in-line four-cylinder diesel engine and an in-line three-cylinder diesel engine for a premium European manufacturer, and likewise an oil / vacuum pump featuring an integrated balancer shaft unit for a leading European passenger car manufacturer.

In the field of automated manual, double-clutch and CVT transmissions, there is likewise a clear trend towards electrically-driven auxiliary transmission pumps. The potential savings offered by further start-stop "sailing" concepts are still considerable. 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 or the brake. Further fuel savings are possible in combination with navigation devices, by automatically switching off the engine upon entering built-up areas. These functions cannot be realised without electrical auxiliary pumps which maintain hydraulic pressure in the auxiliaries after switching off the combustion engine. 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 thus 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 levels of the vehicle's battery before and after the test cycle plus general cost pressure in the automobile industry mean than 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 series application. The development department is also currently 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 plants, to enable a prompt response to customers' inquiries.

SHW's Powder Metallurgy division has 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.

On one hand, the focus was on material and process development for more economical manufacturing of wear-resistant components for variable oil pumps and improved joining processes for oil pump parts. On the other hand, backlash-free pre-tensioned scissor gears went into series production for use in camshaft drives, and SHW made further advances with its surface compression method. In addition, several projects were launched 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. On the basis of the traditional screwing or riveting methods, SHW has made new concepts commercially viable. These include friction welding and pressure rolling. 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 the 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 development projects based on the composite brake disc as well as the conventional integral brake disc. Thanks to innovative approaches SHW was able to reduce the weight of an existing brake disc by an additional 500 g or 4 per cent, cutting CO_2 emissions by approx. 0.06 g per kilometre.

Progress was also made in various ratio projects, e.g. in relation to an increased level of automation for manufacturing of composite brake discs (automation of aluminium casting for brake disc pots). Further weight reductions 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

Robust upturn in the eurozone and the USA; structural changes adversely affect Chinese economy

The continuation of the Western central banks' loose monetary policy, the eurozone's neutral fiscal policy, reduced energy costs and the continuously improving labour market conditions buoyed most of the advanced economies (EU-28, Switzerland, Norway, the USA, Canada, Japan, South Korea, Taiwan, Hong Kong and Singapore). On the other hand, for the fifth consecutive year growth momentum in the emerging markets (Russia, China excluding Hong Kong, India, Indonesia, Thailand, Malaysia, the Philippines and Latin America) declined amidst lower commodities prices, more restrictive financing terms and structural bottlenecks. The world economy is suffering not least due to the unresolved conflict between Russia and Ukraine as well as the military confrontations in Iraq and Syria.

In the USA, the previous year's upturn continued with a growth rate of 2.5 per cent (previous year 2.4 per cent). The intact favourable trend for private consumer spending was a key driver of growth. Private households are continuing to benefit from an increase in their net worth as well as the clear rise in real wages, as result of lower energy prices and falling unemployment levels. The rise in construction activity and public sector demand also underpinned this trend.

Cyclical divergences in the eurozone have significantly declined. Since the autumn of 2013, the Spanish economy has achieved continuously improving growth levels, while Portuguese economic growth has been robust since the summer of 2014 and Italy appears to have overcome the previous year's recession. On the other hand, over the course of the year growth was curbed by a weakening global economy, the high level of private household debt and the correction on the real estate markets of several eurozone countries. All in all, the eurozone economy is likely to have nonetheless grown by 1.5 per cent (previous year 0.9 per cent).

The German economy's moderate upturn continued in 2015. Its growth is mainly based on private consumer spending. This is benefiting from the significant pick-up in employment as well as rising real wages in connection with lower crude oil prices. According to the currently available data, the German economy likely grew by 1.7 per cent (previous year 1.6 per cent) in 2015.

In 2015 the Japanese economy continued to recover only very slowly from the shock of the previous year's value-added tax hike, which significantly dampened the country's economic performance. A clear decline in exports to China, Europe and the USA and limited domestic demand in particular had a weakening impact. On balance, GDP increased by just 0.6 per cent.

The picture for the emerging markets remained varied. Russia and Brazil are still in a serious recession. In China, gross domestic product growth continued to weaken but still reached a level of 6.8 per cent according to government figures (previous year 7.3 per cent). The main influencing factors were the large surplus of unsold apartments, the decline in housing construction investments, the significant fall in demand for industrial raw materials and Chinese companies' high levels of debt.

On the basis of the currently available data (Commerzbank: Economy and Financial Markets, January 2016), the global economy achieved growth of around 2.9 per cent and thus thereby suffered a slight loss of momentum on the previous year (+3.2 per cent).

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.

Moderate increase in automobile production, with strong regional variations

In 2015, production of light vehicles (vehicles <6 tonnes) increased globally by 1.4 per cent, from 87.4 million units to 88.6 million units, a growth level which was thus weaker than the IHS research institute had originally assumed. The trend varied considerably in the world's key regions.

In Europe (incl. Russia), production figures increased by 3.8 per cent, from 20.2 million vehicles to 20.9 million vehicles. Spain (+13.1 per cent to 2.7 million units), Italy (+43.4 per cent to 1.0 million units), Turkey (+16.4 per cent to 1.3 million units) and France (+7.1 per cent to 1.9 million units) were the main sources of this volume growth. In Germany, the key production location in Europe, the level of production increased by 2.3 per cent on the previous year to 6.0 million vehicles. The vehicle production declined sharply in Russia, which with 1.3 million units fell short of the previous year's level by 27.1 per cent.

China (incl. Taiwan) clearly lagged behind the original forecasts and realised growth of just 4.1 per cent, with a production volume of 23.9 million light vehicles. In North America, 17.5 million vehicles (+2.7 per cent) came off the production line as consumer demand remained robust. Most of this related to the increase in production in the USA (+3.7 per cent to 11.9 million units) and Mexico (+5.7 per cent to 3.4 million units). In contrast, the vehicle production trend in South America remained strongly negative. The light vehicle production fell by 20.6 per cent to 3.0 million units, particularly in the context of a serious recession in Brazil.

Combustion engines still the leading drive type

In 2015, production of drive units for light vehicles (<6 tonnes) increased worldwide by 1.4 per cent to 88.6 million units. Production growth for diesel engines was slightly above-average and rose by 3.0 per cent to 18.2 million units. With a share of 79.0 per cent, or 70.0 million units, gasoline engines remained the dominant drive concept in 2015. With 0.4 million units, electrical engines played a very minor role.

In Europe (incl. Russia), a total of 22.4 million engines (+4.2 per cent on the previous year) were manufactured. Production of diesel engines increased by 6.7 per cent to 10.8 million units, while production of gasoline engines was up by 1.8 per cent to 11.5 million units. In 2015, North America remained a market for gasoline engines, with an engine production of 15.5 million units (market share: 96.0 per cent). Production of gasoline engines reached a volume of 14.9 million units (+2.6 per cent), while 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 5.2 per cent to 24.0 million units in 2015. Of this, 22.1 million units related to gasoline engines (market share: 92.1 per cent), and 1.7 million units to diesel engines.

Above-average growth rates in the field of automatic transmission production

In 2015, transmission production increased worldwide by 1.4 per cent to 88.6 million units. Production of automatic transmissions increased at an above-average rate of 4.8 per cent, from 45.8 million units to 48.0 million units. Their share of overall production thus rose from 52.4 per cent to 54.2 per cent. China was the main source of growth here, with 26.4 per cent growth in automatic transmissions to 7.2 million units. In North America and Europe, the proportion of automatic transmissions likewise continued to increase. Production in Europe rose by 3.9 per cent to 8.1 million units – these transmissions' share of overall production thus increased from 36.9 per cent to 37.3 per cent. In North America, with 13.9 million units 3.2 per cent more automatic transmissions were manufactured than in 2014. Their share of overall production rose from 97.7 per cent to 97.9 per cent.

Actual business development by comparison with the outlook for 2015

At € 463.5 million, SHW Group sales slightly exceeded the original sales forecast of € 460 million and were slightly lower than the sales forecast of € 470 million which had been upwardly revised in the financial report for the first six months of 2015. Overall in the 2015 fiscal year, SHW was once again able to disconnect itself from the general market trend – vehicle production in Europe increased by 3.8 per cent to 20.9 million units/engine production in Europe rose by 4.2 per cent to 22.4 million units/transmission production in Europe improved by 2.9 per cent to 21.8 million units – and increased its Group sales overall by 7.8 per cent to € 463.5 million (previous year € 430.0 million).

At € 43.5 million, adjusted consolidated earnings before interest, tax and depreciation and amortisation (EBITDA adjusted) was below the original earnings forecast of € 46 million to € 50 million and within the range of € 42 million to € 46 million which had been reduced in the Company's ad hoc announcement of 21 September 2015. In particular, this was attributable to the efficiency measures implemented somewhat belatedly in order to overcome operational and logistics bottlenecks in powder metallurgy at the Company's Aalen-Wasseralfingen plant and in pump assembly at its Bad Schussenried site.

In the fiscal year 2015 the Company made further progress in optimising its working capital. Its working capital increased by just 5.4 per cent to € 32.5 million, low by comparison with the previous year (2014: € 30.9 million), while sales increased by 7.8 per cent. The working capital ratio thus improved from 7.2 per cent to 7.0 per cent. Over the course of the year, the target level of 11.0 per cent was almost continuously realised.

At € 365.2 million, sales in the Pumps and Engine Components business segment slightly exceeded the original sales forecast of € 360 million and were marginally below the figure of € 370 million predicted in the financial report for the first six months.

The Brake Discs business segment achieved sales of € 98.3 million and thus fulfilled its forecast figure of around € 100 million.

Business Performance and Results of Operations, Net Assets and Financial Position of the SHW Group

Results of operations

Group sales up by 7.8 per cent to € 463.5 million

Due to the continuing high level of customer call-offs – particularly in the Pumps and Engine Components business segment – in the fiscal year 2015 SHW AG was once again able to disconnect itself from the general market trend and to increase its Group sales by 7.8 per cent to € 463.5 million (previous year € 430.0 million).

Incoming orders

In the fiscal year 2015, at € 445.0 million incoming orders relating to German Group companies almost matched the previous year's record figure of € 453.5 million.

Slight improvement in cost of sales ratio

In the fiscal year 2015, the cost of sales increased from € 388.9 million in the previous year to € 416.3 million. The cost of sales ratio thus declined from 90.4 per cent to 89.8 per cent. Changes in the Company's product mix generally had a negative impact in the Pumps and Engine Components business segment, due to disproportionately strong passenger car pump growth, but had a largely positive impact in the Brake Discs business segment due to a higher proportion of composite brake discs. Overall, the cost of sales ratio improved on the previous year due to a decline in additional costs for production and logistics. The previous year's additional costs related, in particular, to increased series start-up costs for a large scale product totalling € 5.8 million, which were directly associated with a short-term volume increase required by a customer due to its rescheduling the changeover of its diesel engines to the Euro 6 emissions standard.

Selling expenses increased by € 1.0 million in the fiscal year 2015 by comparison with the previous year to € 7.0 million. In particular, the increase in selling expenses reflects the Company's expansion of its international sales activities and the first-time consolidation of the Chinese subsidiary SHW Automotive Pumps (Kunshan) Co., Ltd. General administrative expenses increased by € 1.8 million to € 11.9 million on the fiscal year 2015. The administrative costs ratio thus rose from 2.4 per cent to 2.6 per cent. Above all, this increase is associated with the SHW Group's internationalisation strategy as well as the first-time consolidation of its Chinese subsidiary SHW Automotive Pumps (Kunshan) Co., Ltd. as at 1 January 2015. At € –0.7 million, the balance of other operating expenses and income was slightly lower than the previous year's level of € –0.9 million.

Research and development costs at same level as in previous year

In the fiscal year 2015, research and development costs (€ 7.5 million) matched the previous year's level (€ 7.6 million). In addition, development costs of € 1.4 million (previous year € 1.3 million) were capitalised as fixed assets. Further development services were billed within the scope of customer orders. Amortisation of capitalised development costs amounted to € 2.3 million in the fiscal year 2015 (previous year € 2.0 million). The R&D ratio (including the capitalised development costs) accordingly declined to 1.9 per cent of sales (previous year 2.1 per cent). Transmission oil pumps and the electrification of pumps were the core areas of development in the Pumps and Engine Components business segment. The Brake Discs business segment is focusing on the ongoing development of high-quality composite brake discs and other lightweight concepts.

KEY FIGURES: SHW GROUP

K EUR	2015	2014	Change as %
Sales	463,478	430,041	7.8%
EBITDA	42,675	34,827	22.5%
as % of sales	9.2%	8.1%	–
EBIT	20,132	16,575	21.5%
as % of sales	4.3%	3.9%	–
Net income for the year	14,351	10,679	34.4%
EBITDA adjusted	43,458	40,597	7.0%
as % of sales	9.4%	9.4%	–
EBIT adjusted	21,028	22,495	-6.5%
as % of sales	4.5%	5.2%	–
Equity	116,240	84,507	37.6%
Equity ratio	50.4%	40.3%	–
Working capital	32,534	30,877	5.4%
as % of sales	7.0%	7.2%	–
Investments	23.923	34.788	-31,2%
as % of sales	5,2%	8,1%	–

Adjusted EBITDA increases by € 2.9 million or 7.0 per cent

Adjusted consolidated earnings before interest, tax and depreciation and amortisation (EBITDA adjusted) improved by 7.0 per cent, from € 40.6 million to € 43.5 million, almost matching the sales trend. As in the previous year, the EBITA margin amounts to 9.4 per cent.

The slightly negative margin trend in the Pumps and Engine Components business segment is attributable, in particular, to backlogs in the implementation of efficiency measures initiated to eliminate operational and logistics bottlenecks in powder metallurgy at the Company's Aalen-Wasseralfingen plant and pump assembly at its Bad Schussenried site.

In the fiscal year 2015, the performance of the Group's international plants varied. Due to a three-week closure of the works of a major automobile manufacturer, the sales and earnings trend for the Group's Brazilian subsidiary SHW do Brasil Ltda. fell short of expectations. However, for the year as a whole the Brazilian plant generated a positive earnings contribution. The development of the Group's new plants in Canada and China was in line with expectations overall.

On the other hand, the adjusted EBITDA margin increased in the Brake Discs business segment. As well as positive product mix effects, the Group's earnings also improved due to productivity gains from greater levels of automation.

On account of the high capital expenditure in the past few fiscal years, depreciation increased by € 4.3 million to € 22.5 million in fiscal year 2015.

Adjusted consolidated earnings before interest and tax (EBIT adjusted) accordingly decreased in the fiscal year 2015 by € 1.5 million or 6.5 per cent on the previous year to € 21.0 million (previous year € 22.5 million). The adjusted EBIT margin amounts to 4.5 per cent, compared to 5.2 per cent in the previous year.

RECONCILIATION STATEMENT: SHW GROUP

K EUR	2015	2014
Sales	**463,478**	**430,041**
Operating result (EBIT)	**20,132**	**16,575**
PPA [1] property, plant and equipment	113	150
Increased series start-up costs	–	5,770
Costs for Management Board changes	783	–
EBIT adjusted	**21,028**	**22,495**
as % of sales	4.5%	5.2%
Other depreciation	22,430	18,102
as % of sales	4.8%	4.2%
EBITDA adjusted	**43,458**	**40,597**
as % of sales	9.4%	9.4%

1) Amortisation on the purchase price allocation

One-off factors in the fiscal year 2015 and the previous year

In the 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 on the purchase price allocation in the amount of € 0.1 million (previous year € 0.1 million).

In the fiscal year 2014, significant one-off series start-up costs for a large-scale product totalling € 5.8 million adversely affected consolidated earnings before interest and tax (EBIT). These additional costs were directly associated with a short-term volume increase required by a customer due to its rescheduling the changeover of its diesel engines to the Euro 6 emissions standard. The Company's capacity bottlenecks were eliminated in the fiscal year 2015.

Improved financial result

In the fiscal year 2015, the net financial result comprises expenses of € 1.3 million, compared to € 1.8 million in the previous year. Of the improvement in the financial result, € 0.5 million relates to reduced interest expenses for pension and anniversary obligations. Interest expenses for the working capital loan decreased by € 0.2 million due to lower interest rates as well as a reduced utilisation.

Increased tax ratio

In 2015, income taxes amounted to € 5.9 million (previous year € 4.1 million). The SHW Group's tax ratio amounts to 29.2 per cent for the fiscal year 2015, compared to 27.7 per cent in the previous year. The higher tax ratio is mainly attributable to the tax audit which was completed in the past fiscal year.

Significant increase in net income for the year

Earnings after tax increased significantly on the previous year, by € 3.7 million or 34.4 per cent to € 14.4 million.

Earnings per share increased from € 1.83 to € 2.26. The weighted average number of shares for the calculation of earnings per share amounted to 6,359,263 shares in the fiscal year 2015 (previous year 5,851,100 shares).

Business segments

Pumps and Engine Components

Further significant sales growth

The Pumps and Engine Components business segment recorded an increase in sales of 9.5 per cent to € 365.2 million in the fiscal year 2015 (previous year € 333.6 million). Due to the high level of customer demand for variable oil/vacuum pumps (SHW's tandem pumps), electrical auxiliary pumps for the start-stop function and camshaft phasers, the Passenger Car division generated sales growth of 12.7 per cent, to € 306.6 million (previous year € 272.0 million). The Industry division achieved a sales contribution of € 27.7 million (previous year € 29.8 million). In the fiscal year 2015, sales in the Powder Metallurgy division amounted to € 30.9 million (previous year € 31.7 million).

KEY FIGURES: PUMPS AND ENGINE COMPONENTS

K EUR	2015	2014	Change as %
Sales	365,158	333,560	9.5%
EBITDA	35,201	27,286	29.0%
as % of sales	9.6%	8.2%	–
EBIT	17,312	13,371	29.5%
as % of sales	4.7%	4.0%	–
EBITDA adjusted	35,201	33,056	6.5%
as % of sales	9.6%	9.9%	–
EBIT adjusted	17,342	19,181	-9.6%
as % of sales	4.7%	5.8%	–
Investments	17,981	26,053	-31,0%
as % of sales	4.9%	7.8%	-

Adjusted EBITDA increased to € 35.2 million

Adjusted segment earnings before interest, tax and depreciation and amortisation (EBITDA adjusted) improved from € 33.1 million to € 35.2 million in the past fiscal year. The corresponding EBITDA margin decreased from 9.9 per cent to 9.6 per cent.

This slightly negative margin trend is attributable, in particular, to backlogs in the implementation of efficiency measures initiated to eliminate the operational and logistics bottlenecks in powder metallurgy at the Company's Aalen-Wasseralfingen plant and in pump assembly at its Bad Schussenried site. In addition, the Company's product mix had a marginally negative impact on its gross margin, by comparison with the previous year.

Due to the high capital expenditure of the past two fiscal years, depreciation in the Pumps and Engine Components business segment increased by € 4.0 million to € 17.9 million.

Adjusted earnings before interest and tax (EBIT adjusted) for the Pumps and Engine Components business segment accordingly decreased in the fiscal year 2015 by € 1.8 million or 9.6 per cent on the previous year to € 17.3 million (previous year € 19.2 million). The adjusted EBIT margin amounts to 4.7 per cent (previous year 5.8 per cent).

In the fiscal year 2015, the performance of the Group's international plants varied in the Pumps and Engine Components business segment. Due to a three-week closure of the works of a major automobile manufacturer, the sales and earnings trend for the Group's Brazilian subsidiary SHW do Brasil Ltda. fell short of expectations. However, for the year as a whole the Brazilian plant generated a positive earnings contribution. The development of the Group's new plants in Canada and China was in line with expectations overall.

RECONCILIATION STATEMENT: PUMPS AND ENGINE COMPONENTS

K EUR	2015	2014
Sales	**365,158**	**333,560**
Segment EBIT	**17,312**	**13,371**
PPA [1] property, plant and equipment	30	40
Increased series start-up costs	–	5,770
EBIT adjusted	**17,342**	**19,181**
as % of sales	4.7%	5.8%
Other depreciation	17,859	13,875
as % of sales	4.9%	4.2%
EBITDA adjusted	**35,201**	**33,056**
as % of sales	9.6%	9.9%

1) Amortisation on the purchase price allocation

One-off factors in the fiscal year 2015 and the previous year

No significant one-off items resulted in the fiscal year 2015 at the level of the Pumps and Engine Components business segment.

In the fiscal year 2014, significant one-off series start-up costs for a large-scale product totalling € 5.8 million adversely affected the reported segment earnings before interest and tax (EBIT). These additional costs were directly associated with a short-term volume increase required by a customer due to its rescheduling the changeover of its diesel engines to the Euro 6 emissions standard. The Company's capacity bottlenecks were eliminated in the fiscal year 2015.

Brake Discs

Sales increased to € 98.3 million

In the fiscal year 2015, the Brake Discs business segment increased its revenues by 1.9 per cent on the same period in the previous year to € 98.3 million (previous year € 96.5 million).

With 4.24 million units in the fiscal year 2015, the total number of brake discs sold was 1.7 per cent lower than in the previous year. At the same time, the number of higher-quality composite brake discs increased by 48.4 per cent.

KEY FIGURES: BRAKE DISCS

K EUR	2015	2014	Veränderung in %
Sales	98,320	96,481	1.9%
EBITDA	9,797	9,070	8.0%
as % of sales	10.0%	9.4%	–
EBIT	5,427	5,013	8.3%
as % of sales	5.5%	5.2%	-
EBITDA adjusted	9,797	9,070	8.0%
as % of sales	10.0%	9.4%	–
EBIT adjusted	5,510	5,123	7.6%
as % of sales	5.6%	5.3%	–
Investments	5,424	8,492	-36,1%
as % of sales	5.5%	8.8%	-

EBITDA target margin of 10 per cent realised

In the fiscal year 2015, adjusted segment earnings before interest, tax and depreciation and amortisation (EBITDA adjusted) increased by € 0.7 million to € 9.8 million. The EBITDA margin accordingly rose from 9.4 per cent to 10.0 per cent and thus exactly matched the target level. As well as positive product mix effects, earnings also improved due to productivity gains from higher levels of automation.

On account of a high capital expenditure, depreciation in the Brake Discs business segment increased by € 0.3 million on the previous year to € 4.4 million.

Adjusted earnings before interest and tax (EBIT adjusted) rose from € 5.1 million to € 5.5 million. The adjusted EBIT margin in relation to sales accordingly increased to 5.6 per cent, compared to 5.3 per cent in the previous year.

The conclusion of a joint venture agreement with China's Shandong Longji Machinery Co., Ltd. in the first quarter of 2015 is an important step in the internationalisation of the Group's brake discs business. After obtaining its business licence, the joint venture SHW Longji Brake Discs (LongKou) Co., Ltd., launched its operating activities on 1 April 2015. Until it commences production for its first customer contracts for processed brake discs, this joint venture will initially produce unprocessed brake discs for the spare parts business of the Chinese joint venture partner. A constant level of utilisation for the foundry is thus guaranteed right from the outset. Since this joint venture commenced its operating activities, its business development has proceeded as planned.

RECONCILIATION STATEMENT: BRAKE DISCS

K EUR	2015	2014
Sales	**98,320**	**96,481**
Segment EBIT	**5,427**	**5,013**
PPA [1] property, plant and equipment	83	110
EBIT adjusted	**5,510**	**5,123**
as % of sales	5.6 %	5.3 %
Other depreciation	4,287	3,947
as % of sales	4.4 %	4.1 %
EBITDA adjusted	**9,797**	**9,070**
as % of sales	10.0 %	9.4 %

1) Amortisation on the purchase price allocation

One-off factors in the fiscal year 2015 and the previous year

For the fiscal years 2015 and 2014, expenses have only resulted due to amortisation of the purchase price allocation in the amount of € 0.1 million (previous year € 0.1 million).

Net assets and financial position

Working capital ratio still at low level

As at 31 December 2015, working capital increased by € 1.7 million or 5.4 per cent to € 32.5 million, which was low compared to the previous year. The increase in gross inventories before impairments was weaker than the sales trend, due to further logistical improvements. A significant proportion of the considerable decline in receivables from customers is attributable to a consistent accounts receivable management. In addition, lower December sales in comparison with the same month in the previous year had an effect. The working capital ratio – calculated in relation to Group sales in the last twelve months – once again improved on the previous year, from 7.2 per cent to 7.0 per cent.

WORKING CAPITAL

K EUR	2015	2014	Change absolute	Change as %
Inventories	41,630	42,380	-750	-1.8%
Trade receivables	34,388	44,656	-10,268	-23.0%
Trade payables	-43,484	-56,159	12,675	-22.6%
Working capital	**32,534**	**30,877**	**1,657**	**5.4%**
as % of sales	7.0%	7.2%	–	–

Capital increase results in significant rise in equity ratio

On 18 February 2015, SHW AG issued 585,109 new no-par value bearer shares from the capital increase against a contribution in cash resolved on 17 February 2015. The new shares were placed within the scope of a private placement with institutional investors, by way of an accelerated bookbuilding process, at a placement price of € 42.00 per share, at a markdown of just 2.2 per cent on the relevant closing price for the previous day. The capital increase raised the Company's share capital from € 5,851,100 to € 6,436,209.

As at 31 December 2015, the Group's equity increased by € 31.7 million or 37.6 per cent on the previous year to € 116.2 million. Besides the effect of the capital increase in the amount of € 24.3 million, this increase largely resulted from the net income for the fiscal year 2015 in the amount of € 14.4 million, which contrasts with a dividend payment of € 6.4 million. Despite the higher balance sheet total, the equity ratio increased from 40.3 per cent to 50.4 per cent.

FINANCIAL POSITION

K EUR	2015	2014	Change absolute	Change as %
Equity	116,240	84,507	31,733	37.6%
Non-current liabilities and accruals	42,635	37,797	4,838	12.8%
of which other financial liabilities	7,855	152	7,703	5.067.8%
of which liabilities to banks	1,297	2,486	-1,189	-47.8%
Current liabilities and accruals	71,588	87,185	-15,597	-17.9%
of which liabilities to banks	1,189	12,162	-10,973	-90.2%
of which trade payables	43,484	56,159	-12,675	-22.6%
of which other accruals	9,984	4,482	5,502	122.8%
Total equity and liabilities	**230,463**	**209,489**	**20,973**	**10.0%**

The increase in other non-current financial liabilities includes, in the amount of € 6.9 million, the still outstanding second purchase price instalment for the joint venture SHW Longji Brake Discs (LongKou) Co., Ltd.

Trade payables decreased by 22.6 per cent on the previous year, from € 56.2 million to € 43.5 million. As well as a slightly reduced business volume in December and further optimisations in inventories, in particular this is attributable to a lower capital spending in the fourth quarter by comparison with the previous year.

The € 5.5 million increase in other accruals to € 10.0 million has resulted, in particular, from an increased requirement for customer project- and product-related accruals.

Operating cash flow significantly exceeds previous year's level

In the fiscal year 2015, at € 40.9 million cash flow from operating activities significantly exceeded the previous year's level of € 29.9 million. On the basis of a € 3.7 million increase in net income for the year, in particular the depreciation included in this figure (€ +4.3 million), the increased accruals (€ +2.4 million) and the income tax effects (€ +2.1 million) positively influenced the Company's operating cash flow. The non-cash result from the joint venture accounted for according to the equity method had the opposite effect, in an amount of € 1.4 million. Overall in the fiscal year 2015, the changes in working capital and other assets and liabilities balanced one another out.

In the fiscal year 2015, at € –31.8 million cash flow from investing activities was lower than the previous year's level of € 35.5 million. Investment activities clearly shifted from property, plant and equipment to financial assets within the scope of the Group's internationalisation. In particular, payments for investments in financial assets relate to the joint venture SHW Longji Brake Discs (LongKou) Co., Ltd.

For the fiscal year 2015, the Group's free cash flow thus amounted to € 9.1 million (previous year € –5.6 million).

Net liquidity increased to € 12.3 million

As at 31 December 2015, the net liquidity of the SHW Group totalled € 12.3 million. As at the reporting date for the previous year, net financial debt still amounted to € –14.4 million.

The improvement in net liquidity has resulted from the positive free cash flow in the amount of € 9.1 million as well as other cash inflows of € 17.6 million which relate, in particular, to the capital increase executed less dividend payments made. As at 31 December 2015, the SHW Group had liquid assets of € 14.8 million (previous year € 0.3 million). Bank debts of € 2.5 million comprise two amortising loans. In addition, the Group has working capital loans 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, this credit line had been exclusively utilised for the purpose of guarantees in the amount of € 1.1 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.

DERIVATION OF THE CHANGE IN NET LIQUIDITY

K EUR	2015	2014
Cash flow from operating activities	40,894	29,891
Cash flow from investing activities (intangible assets and property, plant and equipment)	-22,797	-35,245
Operating free cash flow	**18,097**	**-5,354**
Cash flow from investing activities (financial assets)	-9,041	-275
Total free cash flow	**9,056**	**-5,629**
Other items (in particular, capital increase/dividend payments)	17,628	-5,846
Change in net liquidity	**26,684**	**-11,475**

Declining investments in property, plant and equipment

In the fiscal year 2015, additions to property, plant and equipment and intangible assets amounted to € 23.9 million (previous year € 34.8 million). The figure for the previous year was unusually high, due to a large number of new product launches. 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 the non-cash asset additions from finance leasing.

The Pumps and Engine Components business segment accounts for additions in the amount of € 18.0 million (previous year € 26.1 million), including investments for research and development amounting to € 1.4 million (previous year € 1.3 million). These investments focused on new assembly lines, processing centres and a sizing machine. The Brake Discs business segment invested a total of € 5.4 million (previous year € 8.5 million). These investments include an automatic aluminium casting machine as well as further processing capacities for manufacturing composite brake discs and monobloc processed brake discs.

Growth and internationalisation result in increased property, plant and equipment and financial assets

As of the end of the fiscal year 2015, the balance sheet total had increased by 10.0 per cent on the previous year and amounted to € 230.5 million (previous year € 209.5 million). Property, plant and equipment rose by € 2.5 million year-on-year to € 94.8 million, due to the commissioning of new production facilities.

The joint venture accounted for using the equity method, in the amount of € 16.7 million, exclusively comprises the Chinese joint venture SHW Longji Brake Discs (LongKou) Co., Ltd. SHW Automotive GmbH already contributed € 9.0 million to the share capital in the year under review. Since 1 April 2015 this joint venture has been included in the consolidated financial statements of SHW AG in accordance with the equity method. The still outstanding second purchase price instalment in the amount of € 6.9 million is included in the other non-current financial liabilities and is to be paid by the end of February 2017 at the latest.

Inventories were reduced by 1.8 per cent to € 41.6 million as of the reporting date by comparison with the previous year. The increase in gross inventories before impairments was weaker than the sales trend, due to further logistical improvements.

A considerable proportion of the significant (23.0 per cent) decline in receivables from customers to € 34.4 million is attributable to a consistent accounts receivable management system. In addition lower December sales in comparison with the same month in the previous year had an effect.

NET ASSET POSITION

K EUR	2015	2014	Change absolute	Change as %
Non-current assets	135,466	119,014	16,452	13.8%
of which other intangible assets	11,346	13,008	-1,662	-12.8%
of which property, plant and equipment	94,810	92,346	2,464	2.7%
of which joint ventures accounted for according to the equity method	16,669	0	16,669	0
of which other (financial) assets	918	1,810	-892	-49.3%
Current assets	94,997	90,475	4,522	5.0%
of which inventories	41,630	42,380	-750	-1.8%
of which trade receivables	34,388	44,656	-10,268	-23.0%
of which liquid assets	14,814	292	14,522	4,973.3%
Total assets	**230,463**	**209,489**	**20,974**	**10.0%**

ROCE influenced by corporate growth and internationalisation

The return on capital employed (ROCE) decreased from 17.7 per cent to 16.2 per cent in the past fiscal year.

RETURN ON CAPITAL EMPLOYED (ROCE)

K EUR	2015	2014
Goodwill	7,055	7,055
Other intangible assets	11,346	13,008
Property, plant and equipment	94,810	92,346
Deferred tax assets	4,668	4,795
Joint ventures accounted for according to the equity method	16,669	0
Other (financial) assets (non-current)	918	1,810
Inventories	41,630	42,380
Trade receivables	34,388	44,656
Other assets	4,165	3,147
Capital employed asset item	215,649	209,197
Deferred tax liabilities	-3,237	-3,456
Other accruals (non-current)	-3,972	-3,652
Other financial liabilities (non-current)	-7,855	-152
Trade payables	-43,484	-56,159
Other financial liabilities (current)	-7,088	-6,070
Income tax liabilities	-2,013	-444
Other accruals (current)	-9,984	-4,482
Other liabilities	-7,830	-7,868
Capital employed liability item	-85,463	-82,283
Capital employed	130,186	126,914
EBIT adjusted	21,028	22,495
ROCE	16.2 %	17.7 %

On the one hand, this is attributable to the continuing company growth, which is reflected in a significant increase in financial assets and, through increasing amortisation, in adjusted consolidated earnings before interest and tax (EBIT adjusted). On the other hand, the development of the Group's international plants is generating a further increase in the capital employed.

Workforce continues to increase

In the SHW Group, on average over the past year the number of employees increased by 9.7 per cent to 1,287 employees. The Pumps and Engine Components business segment accounted for most of these additional employees.

At the plants of the Pumps and Engine Components business segment, the average number of employees increased from 768 to 866. At the two plants of the Brake Discs business segment, the average number of employees increased from 372 to 384.

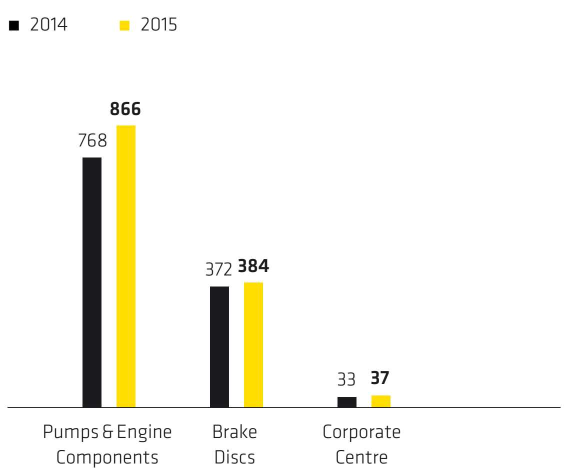
Personnel expenses increased by 14.3 per cent in 2015 to € 89.9 million, compared to € 78.6 million in the previous year. As well as the increase in the number of employees, this also reflects a 3.4 per cent rise in collectively agreed rates of pay from 1 April 2015. The collective bargaining agreement concluded in 2015 has an overall term of 12 months and expires on 31 March 2016. The personnel expense ratio – the ratio of personnel expenses to Group sales – increased from 18.3 per cent to 19.4 per cent. Employee productivity – defined as sales per employee (annual average) – decreased on the previous year by 1.8 per cent, from € 367 thousand to € 360 thousand.

As at 31 December 2015, SHW had 40 apprentices at all of its plants (previous year 49). It mainly hired new apprentices for the training of industrial mechanics.

In 2015, seven employees celebrated their 40th anniversary, twelve employees their 25th and 27 employees their 10th anniversary of service with the Company. This demonstrates the low level of fluctuation and the long period of employment at the Company.

On 25 June 2015, together with the other SHW companies the Company celebrated SHW's 650th anniversary. Family days were also held on this occasion at various German plants.

EMPLOYEES BY BUSINESS SEGMENT



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 2015 was satisfactory. The consolidated sales target – most recently updated in the interim report as at 30 June 2015 – was almost achieved. Adjusted consolidated earnings before interest, tax and depreciation and amortisation (EBITDA adjusted) fell within the range revised as at 21 September 2015 of between € 42 million and € 46 million. Due to the growth investments of previous years, total depreciation increased by 23.5 per cent on 2014, from € 18.3 million to € 22.5 million, and the rate of depreciation – i.e. the ratio of depreciation to Group sales – accordingly rose from 4.2 per cent to 4.9 per cent. Due to the higher reported consolidated earnings before interest, tax and depreciation and amortisation (EBITDA) and the result of the joint venture accounted for according to the equity method SHW Longji Brake Discs (LongKou) Co., Ltd., the net income for the year improved by 34.4 per cent, from € 10.7 million to € 14.4 million. The working capital ratio improved from 7.2 per cent to 7.0 per cent, since only a below-average increase in the working capital was required for the sales increase.

With an equity ratio of 50.4 per cent and net liquidity of € 12.3 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 that the Group is well positioned in order to achieve stronger growth than the underlying vehicle market in the period from 2018. 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 by means of acquisitions and partnerships.

ANNUAL FINANCIAL STATEMENTS OF SHW AG

The Group management report and the management report of SHW AG for the fiscal year 2015 have been combined in accordance with Section 315 (3) of the German Commercial Code (Handelsgesetzbuch, HGB) in conjunction with Section 298 (3) HGB. The annual financial statements and the combined Group management report and the management report of SHW AG are simultaneously published in the German 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 and the German Stock Corporation Act (Aktiengesetz, AktG).

With effect as of 1 January 2015, as the transferring entity Schwäbische Hüttenwerke Zweite Beteiligungs GmbH merged with SHW AG as the absorbing entity.

This merger has resulted in several structural changes to the annual financial statements of SHW AG which should be considered in the following comments on its results of operations, net assets and financial position.

Comments on the Results of Operations

INCOME STATEMENT

K EUR	2015	2014
1. General administration expenses	-3,185	-2,673
2. Other operating income	1,264	1,383
3. Other operating expenses	-1,740	-733
4. Income from investments	20,943	15,101
5. Income from tax levies paid over by controlled companies	2,559	0
6. Income from loans of financial assets	12	0
7. Other interest and similar income	57	3,505
8. Interest and similar expenses	-462	-1,644
9. Profit / loss on ordinary activities	19,448	14,939
10. Income taxes	-6,222	-4,910
11. Other taxes	-318	-16
12. Net income for the year	12,908	10,013
13. Profit carried forward	42	15
14. Net earnings for the year	**12,950**	**10,028**

The profit on ordinary activities increased from € 14.9 million in the previous year to € 19.5 million. This is attributable to the increase in income under the profit and loss transfer agreement with SHW Automotive GmbH (previous year SHW Zweite Beteiligungs GmbH) which was reported in profit or loss under income from investments. Income from this profit and loss transfer was affected, in particular, by the effects on earnings before interest and taxes 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.

In particular, the clear decline in interest income and interest expenses relates to interest on loan accounts within the scope of consolidation. The balances of the relevant loan accounts have declined considerably or have been completely cancelled due to the merger of SHW Zweite Beteiligungs GmbH with SHW AG.

Comments on the Net Assets and Financial Position

STATEMENT OF FINANCIAL POSITION (SUMMARISED)

K EUR	31.12.2015	31.12.2014
Fixed assets	143,401	76,749
Current assets, including deferred expenses and accrued income	23,013	86,467
Total assets	**166,414**	**163,216**
Equity	159,693	128,646
Accruals and liabilities	6,721	34,570
Total capital	**166,414**	**163,216**

Fixed assets mainly comprise the investment in SHW Automotive GmbH of € 141.3 million (previous year SHW Zweite Beteiligungs GmbH in the amount of € 74.6 million). The addition of the shares in SHW Automotive GmbH and the disposal of the shares in SHW Zweite Beteiligungs GmbH have resulted from the merger of SHW Zweite Beteiligungs GmbH with SHW AG in the fiscal year 2015.

Current assets mainly comprise receivables from the transfer of profit and loss in the amount of € 20.9 million (previous year € 14.9 million) as well as value-added tax refund claims of € 1.8 million (previous year € 0.9 million). In the previous year, the Company still had an interest-bearing loan to SHW Zweite Beteiligungs GmbH in the amount of € 70.3 million.

SHW AG's equity increased by € 31.0 million on the reporting date for the previous year. Of this increase, € 24.6 million resulted from the capital increase executed in February 2015. This also reflects the net income for the fiscal year 2015 in the amount of € 12.9 million less a dividend payment to the shareholders of € 6.4 million. The equity ratio thus increased from 78.8 per cent in the previous year to 96.0 per cent.

The decrease in accruals and liabilities is chiefly attributable to the reduction in liabilities resulting from loans of SHW Automotive GmbH, which mainly reflects the merger of SHW Zweite Beteiligungs GmbH with SHW AG in the fiscal year 2015.

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. As a rule, SHW AG participates in its subsidiaries' risks and opportunities in line with its respective ownership interest. These are outlined in the "Risk report" and "Outlook and opportunities report" sections.

For the year 2016, we except that SHW AG will generate net income which is slightly higher than the level for the fiscal year 2015. Due to the integration of SHW AG with the Group companies, we refer to our comments on the SHW Group in the "Outlook and opportunities report" 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 German commercial law (German Commercial Code, HGB) as well as the International Financial Reporting Standards (IFRS); it also considers the recommendations of the German Corporate Governance Code.

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. 40 per cent of the variable remuneration consists of an annual bonus and 60 per cent a rolling long-term performance bonus, half of which is assessed over a two-year performance period and the other half over a three-year assessment period. The remuneration components are structured so that they are appropriate individually and collectively while considering the duties of the individual Management Board member, his personal performance and the economic position, the performance and the future outlook of SHW AG.

Non-performance-related remuneration components

The members of the Management Board receive fixed annual remuneration which is paid out in twelve equal monthly instalments. In addition, the members of the Management Board receive additional benefits in the form of a company car, contributions to insurance policies or the conclusion of insurance policies for the Management Board members including payment of the related insurance premiums; the Company's expenses for these additional benefits may not exceed an annual amount of € 200 thousand.

Variable remuneration components

For the performance-related remuneration, a target bonus has been stipulated 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 this 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 indicators of the Company and its subsidiaries and investments (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 rate. The EBITDA and the average monthly working capital rate targets for the SHW Group defined in the annual budget approved by the Supervisory Board for the relevant fiscal year are the key benchmark for measurement of the level of target achievement. 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 long-term performance bonus, which accounts for 60 per cent of the target bonus. For its part, half of the long-term performance bonus is calculated on the basis of a two-year assessment period and the other half on the basis of a three-year assessment period. Its amount reflects the Company's share price trend by comparison with the benchmark index DAXsector Automobile Performance in the current fiscal year and a following year (two-year assessment period) or in the current fiscal year and two following years (three-year assessment period). The relevant price is determined as a 90-day average price at the end of the respective year. The target will have been fully achieved if the stock exchange price trend matches the performance of the benchmark index in the relevant period. The long-term performance bonus will be increased or reduced in relation to the pro rata target bonus to the same extent as the stock exchange 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 Management Board chairman, 200 per cent) of the pro rata target bonus. The calculated long-term performance bonus will be paid out two months after expiry of the relevant assessment period.

Pension obligations

At the present time, the Company only has a contractual pension scheme with the former chairman of its Management Board, 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 work incapacity within the meaning of the statutory old-age pension insurance scheme or provision for surviving dependants in the event of death. In case of occupational disability or work incapacity before reaching retirement age, the former Management Board chairman 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 for each orphan the orphan's pension 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 Management Board chairman Dr Krause was terminated upon expiry of 30 April 2013 and before he reached the age of 65; his pension expectancy has been reduced accordingly. This expectancy is non-forfeitable in accordance with applicable statutory provisions. For the above-mentioned pension obligation to Dr Krause, pension accruals amount to € 72 thousand. The cash value of this pension obligation is € 72 thousand. The expected fixed monthly old-age pension amounts to approx. € 330.

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 provision ensuring appropriate old-age pension benefits.

Total remuneration of the Management Board for the fiscal year 2015 in accordance with German Accounting Standard (DRS) 17

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

TOTAL REMUNERATION OF THE MANAGEMENT BOARD FOR THE FISCAL YEAR 2015

K EUR	Non-performance-related remuneration components		Performance-related remuneration components		**Annual remuneration**
Name	Fixed annual remuneration	Additional benefits	Annual bonus	Long-term performance 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 the 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 the year 2015. The other half (€ 67.5 thousand, shown under "Long-term performance bonus") will be paid out upon expiry of the year 2016.
3) Pro rata temporis up to date of resignation on 30 June 2015.
4) The long-term performance bonus for the fiscal year 2014 with a two-year assessment period will fall due two months after the expiry of the year 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 from 1 January 2015.
8) Total value for the long-term performance bonus (two and three-year assessment period) for the fiscal year 2015 in case of 100 per cent target achievement (for further details of the procedure for calculation of the long-term performance bonus, see the section "Remuneration report – Management Board – Variable remuneration components").
9) The target long-term performance bonus amounted to € 60 thousand for the period up to 31 December 2014 and to € 82.5 thousand from 1 January 2015.
10) The long-term performance bonus for the fiscal year 2013 with a three-year assessment period will fall due two months after the expiry of the year 2015. For Mr Andreas Rydzewski it amounts to € 14 thousand. The long-term performance bonus for the fiscal year 2014 with a two-year assessment period will fall due two months after the expiry of the year 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 long-term performance bonus amounted to € 60 thousand for the period up to 31 December 2014 and to € 66 thousand from 1 January 2015.
14) The long-term performance bonus for the fiscal year 2014 with a two-year assessment period will fall due two months after the expiry of the year 2015. For Mr Sascha Rosengart it amounts to € 15 thousand.

TOTAL REMUNERATION OF THE MANAGEMENT BOARD FOR THE FISCAL YEAR 2014

K EUR	Non-performance-related remuneration components		Performance-related remuneration components		**Annual remuneration**
Name	Fixed annual remuneration	Additional benefits	Annual bonus	Long-term performance bonus	**Total**
Dr Thomas Buchholz	300	17	60	150 [2]	527
Andreas Rydzewski	230 [1]	15	24	60 [2), 3)]	329
Sascha Rosengart	200	13	24	60 [2]	297
Total	**730**	**45**	**108**	**270**	**1,153**

1) This includes a one-off special payment of € 10 thousand.
2) Total value for the long-term performance bonus (two and three-year assessment period) for the fiscal year 2014 in case of 100 per cent target achievement (for further details of the procedure for calculation of the long-term performance bonus, see the section "Remuneration report – Management Board – Variable remuneration components").
3) The long-term performance bonus for the fiscal year 2012 with a three-year assessment period will fall due two months after the expiry of the year 2014. For Mr Andreas Rydzewski it amounts to € 27 thousand. The long-term performance bonus for the fiscal year 2013 with a two-year assessment period will fall due two months after the expiry of the year 2014. For Mr Andreas Rydzewski it amounts to € 23 thousand.

Management Board remuneration in 2015 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 2015.

BENEFITS PROVIDED TO THE MANAGEMENT BOARD FOR THE FISCAL YEAR 2015

K EUR	Dr Frank Boshoff Chief Executive Officer (CEO) Joined: 01.07.2015				Dr Thomas Buchholz Chief Executive Officer (CEO) Joined: 01.08.2013 Left: 30.06.2015				Andreas Rydzewski Member of the Management Board Joined: 01.10.2008				Sascha Rosengart Chief Financial Officer (CFO) Joined: 06.05.2013 Left: 29.02.2016			
Benefits provided	2014	2015	2015 (Min)	2015 (Max)	2014	2015	2015 (Min)	2015 (Max)	2014	2015	2015 (Min)	2015 (Max)	2014	2015	2015 (Min)	2015 (Max)
Fixed remuneration	–	165 1)	165	165	300	318 2)	318	318	230 3)	262 4), 5)	262	262	200	235 4), 6)	235	235
Additional benefits	–	10	10	10	17	8	8	8	15	16	16	16	13	13	13	13
Total	**–**	**175**	**175**	**175**	**317**	**326**	**326**	**326**	**245**	**278**	**278**	**278**	**213**	**248**	**248**	**248**
One-year variable remuneration																
Annual bonus 2014	–	–	–	–	100 *	–	–	–	40 *	–	–	–	40 *	–	–	–
Annual bonus 2015	–	67.5 1), 7)	67.5	67.5	–	–	–	–	–	55 8), *	0	110	–	44 9), *	0	88
Multiple-year variable remuneration																
Long-term performance bonus 2014 (2-year period)	–	–	–	–	75 **	–	–	–	30 **	–	–	–	30 **	–	–	–
Long-term performance bonus 2014 (3-year period)	–	–	–	–	75 **	–	–	–	30 **	–	–	–	30 **	–	–	–
Long-term performance bonus 2015 (2-year period)	–	67.5 1), 7)	67.5	67.5	–	–	–	–	–	41 10), **	0	62	–	33 11), **	0	50
Long-term performance bonus 2015 (3-year period)	–				–	–	–	–	–	41 10), **	0	62	–	33 11), **	0	50
Total remuneration	**–**	**310**	**310**	**310**	**567**	**326**	**326**	**326**	**345**	**415**	**278**	**512**	**313**	**358**	**248**	**436**

* 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 long-term performance bonus as of the payment date.

1) Pro rata temporis; member of the Management Board since 1 July 2015.

2) Of which fixed remuneration pro rata temporis up to his resignation on 30 June 2015 in the amount of € 150 thousand, a 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 long-term performance bonus for the 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 became due for payment one month after the resignation of Dr Thomas Buchholz.

3) This includes a one-off special payment of € 10 thousand.

4) This includes a one-off special payment of € 20 thousand.

5) Fixed annual remuneration amounted to € 220 thousand for the period up to 31 March 2015 and to € 250 thousand from 1 April 2015.

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 the 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 2015") was paid out upon expiry of the year 2015. The other half (€ 67.5 thousand, shown in the remuneration table under "Long-term performance bonus 2015 (2 or 3-year period)") will be paid out upon expiry of the year 2016.

8) The target annual bonus amounted to € 40 thousand for the period up to 31 December 2014 and to € 55 thousand from 1 January 2015.

9) The target annual bonus amounted to € 40 thousand for the period up to 31 December 2014 and to € 44 thousand from 1 January 2015.

10) The target long-term performance bonus amounted to € 60 thousand for the period up to 31 December 2014 and to € 82.5 thousand from 1 January 2015.

11) The target long-term performance bonus amounted to € 60 thousand for the period up to 31 December 2014 and to € 66 thousand from 1 January 2015.

The following table shows the payments made to the individual members of the Management Board in the fiscal year 2015 and in the previous calendar year:

PAYMENTS TO THE MANAGEMENT BOARD IN THE FISCAL YEAR 2015

K EUR	**Dr Frank Boshoff** Chief Executive Officer (CEO) Joined: 01.07.2015		**Dr Thomas Buchholz** Chief Executive Officer (CEO) Joined: 01.08.2013 Left: 30.06.2015		**Andreas Rydzewski** Member of the Management Board Joined: 01.10.2008		**Sascha Rosengart** Chief Financial Officer (CFO) Joined: 06.05.2013 Left: 29.02.2016	
Payments (received)	2015	2014	2015	2014	2015	2014	2015	2014
Fixed remuneration	165 [1)]	–	318 [2)]	300	262 [3), 4)]	230 [5)]	235 [3), 6)]	200
Additional benefits	10	–	8	17	16	15	13	13
Total	**175**	**–**	**326**	**317**	**278**	**245**	**248**	**213**
One-year variable remuneration *								
Annual bonus 2014	–	–	–	60	–	24	–	24
Annual bonus 2015	67.5 [1), 7)]	–	–	–	36 [8)]		29 [9)]	–
Multiple-year variable remuneration **								
Long-term performance bonus 2012 (3-year period)	–	–	–	–	–	27	–	–
Long-term performance bonus 2013 (2-year period)	–	–	–	52 [10)]	–	23	–	32.5 [11)]
Long-term performance bonus 2013 (3-year period)	–	–	–		14	–	–	
Long-term performance bonus 2014 (2-year period)	–	–	36	–	15	–	15	–
Total remuneration	**242.5**	**–**	**362**	**429**	**343**	**319**	**292**	**269.5**

* 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 2014 is paid out in 2015, while the annual bonus for 2015 is paid out in 2016.

** These figures include the amount paid out for the long-term performance 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 long-term performance bonus 2012 on the basis of a 3-year assessment period or for the long-term performance bonus 2013 on the basis of a 2-year assessment period were made in 2015. The payments for the long-term performance bonus 2013 with a 3-year assessment period and for the long-term performance bonus 2014 with a 2-year assessment period were made in 2016. For the arrangements for Dr Frank Boshoff, Dr Thomas Buchholz and Mr Sascha Rosengart, please see the following footnotes 7, 10 and 11.

1) Pro rata temporis; member of the Management Board since 1 July 2015.

2) Of which fixed remuneration pro rata temporis up to his resignation on 30 June 2015 in the amount of € 150 thousand, a 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 long-term performance bonus for the 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 became due for payment one month after the resignation of Dr Thomas Buchholz.

3) This includes a one-off special payment of € 20 thousand.

4) Fixed annual remuneration amounted to € 220 thousand for the period up to 31 March 2015 and to € 250 thousand from 1 April 2015.

5) This includes a one-off special payment of € 10 thousand.

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 the 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 2015") was paid out upon expiry of the year 2015. The other half (67.5 thousand) will be paid out upon expiry of the year 2016.

8) The target annual bonus amounted to € 40 thousand for the period up to 31 December 2014 and to € 55 thousand from 1 January 2015.

9) The target annual bonus amounted to € 40 thousand for the period up to 31 December 2014 and to € 44 thousand from 1 January 2015.

10) For the fiscal year 2013, Dr Thomas Buchholz was promised a non-performance-related bonus totalling € 104 thousand; half of this amount (€ 52 thousand) was paid out upon expiry of the year 2013. The other half (€ 52 thousand, shown under "Long-term performance bonus 2013 (2 or 3-year period)") was paid out upon expiry of the year 2014.

11) For the fiscal year 2013, Mr Sascha Rosengart was promised a non-performance-related bonus totalling € 65 thousand; half of this amount (€ 32.5 thousand) was paid out upon expiry of the year 2013. The other half (€ 32.5 thousand, shown under "Long-term performance bonus 2013 (2 or 3-year period)") was paid out upon expiry of the year 2014.

Other benefits in case of death

In the event of the death of a member of the Management Board during his term of office, his widow or alternatively his dependent relatives are entitled to receive his fixed remuneration for the month of his death and for the next two months.

Benefits upon termination of employment contracts

In the event of premature termination of the term of office of a member of the Management Board for cause, their employment contracts stipulate that the Company may at the Supervisory Board's discretion either release the relevant Management Board member from his work duties – subject to continued payment of his fixed remuneration (and offsetting this against any vacation entitlement not yet utilised) – or prematurely terminate his 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 his contract.

Moreover, the employment contract of the Management Board member Andreas Rydzewski entitles him to resign from office and terminate his employment contract in the event of a third-party purchaser executing a squeeze-out for SHW AG. The employment contract of the former Management Board member Sascha Rosengart contained a similar right of termination up until his amicably agreed early termination. Upon exercising this right of termination, the Management Board member 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 his contract. A third-party purchaser within the meaning of this provision is a purchaser which is neither SHW Holding L.P. – which was the main 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 at the request of Mr Rosengart for personal reasons, and on the most amicable of terms, upon expiry of 29 February 2016 ("termination date"). Mr Rosengart resigned from his position as a member of the Management Board with effect as 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. Mr Sascha Rosengart is also to receive a compensation payment in the amount of € 580 thousand. This sum will be paid out in two € 290 thousand instalments in February 2016 and February 2017. An appropriate accrual has been established for this compensation payment. The compensation payment covers the pro rata annual bonus for the fiscal year 2016 as well as the long-term performance bonus calculated over a two or three-year assessment period as well as any entitlements for vacation not taken. The long-term performance bonus for the fiscal year 2014 with a three-year assessment period and the annual bonus and the long-term performance bonus for the fiscal year 2015 will be calculated and paid out on the basis of the actual levels of target achievement.

Other remuneration components

In the reporting year, none of the members of the Management Board were promised and / or provided third-party benefits in relation to his service as a member of the Management Board. Moreover, none of the members of the Management Board were provided with additional remuneration for the assumption of positions within SHW Group companies. In the reporting year the members of the Management Board were not provided with 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 THE FISCAL YEAR 2015

K EUR	Non-performance-related remuneration components		Performance-related remuneration components		**Annual remuneration**
Name	Fixed annual remuneration	Additional benefits	Annual bonus	Long-term performance 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 will continue 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 long-term performance bonus for the fiscal year 2013 with a three-year assessment period will fall due two months after the expiry of the year 2015. For Mr Oliver Albrecht it amounts to € 14 thousand.
3) The long-term performance bonus for the fiscal year 2014 with a two-year assessment period will fall due two months after the expiry of the year 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 long-term performance bonus for the 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 became due for payment one month after the resignation of Dr Thomas Buchholz.
5) The long-term performance bonus for the fiscal year 2014 with a two-year assessment period will fall due two months after the expiry of the year 2015. For Dr Thomas Buchholz it amounts to € 36 thousand.

TOTAL REMUNERATION OF FORMER MEMBERS OF THE MANAGEMENT BOARD IN THE FISCAL YEAR 2014

K EUR	Non-performance-related remuneration components		Performance-related remuneration components		**Annual remuneration**
Name	Fixed annual remuneration	Additional benefits	Annual bonus	Long-term performance bonus	**Total**
Dr Wolfgang Krause	11 [1]	0	0	0 [2]	11
Oliver Albrecht	34 [3]	1	0	10 [3), 4), 5]	45
Total	**45**	**1**	**0**	**10**	**56**

1) In the period from May to October 2013, Dr Krause received monthly non-competition compensation which did not yet include the long-term performance bonus with a three-year assessment period for the fiscal year 2012, which must be included in the calculation of this non-competition compensation. The portion of the non-competition compensation accounted for by the above-mentioned long-term performance bonus was recalculated upon determination of this bonus and will be paid out once it falls due, two months after the expiry of 2014.
2) The long-term performance bonus for the fiscal year 2012 with a three-year assessment period will fall due two months after the expiry of the year 2014. For Dr Wolfgang Krause it amounts to € 45 thousand.
3) Pro rata temporis to 28 February 2014. Mr Oliver Albrecht resigned from his position on the Management Board with effect as of 31 May 2013. However, payment of his remuneration will continue 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.
4) Total value for the long-term performance bonus pro rata temporis (two and three-year assessment period) for the fiscal year 2014 in case of 100 per cent target achievement (for further details of the procedure for calculation of the long-term performance bonus, see the section "Remuneration report – Management Board – Variable remuneration components").
5) The long-term performance bonus for the fiscal year 2012 with a three-year assessment period will fall due two months after the expiry of the year 2014. For Mr Oliver Albrecht it amounts to € 27 thousand. The long-term performance bonus for the fiscal year 2013 with a two-year assessment period will fall due two months after the expiry of the year 2014. For Mr Oliver Albrecht it amounts to € 23 thousand.

Supervisory Board

The remuneration of the Supervisory Board is determined by the Annual General Meeting and is stipulated in Section 14 of the Company's Articles of Association.

Section 14 of the Articles of Association as amended on 1 July 2014 prescribes the following remuneration scheme for the Supervisory Board:

As a rule, members of the Supervisory Board receive 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 Supervisory Board chairman receives € 100 thousand and his deputy € 40 thousand.

In addition, Supervisory Board members 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 this committee receives twice this amount (€ 1 thousand). If a Supervisory Board member 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 will not receive any attendance fee for their service on committees of the Supervisory Board. The fixed annual remuneration of the Audit Committee chairman will instead be increased to € 50 thousand; in the case of the Supervisory Board chairman, the agreed 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 positions and any value-added tax applicable on their remuneration and expenses.

TOTAL REMUNERATION OF THE SUPERVISORY BOARD FOR THE 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.

TOTAL REMUNERATION OF THE SUPERVISORY BOARD FOR THE FISCAL YEAR 2014

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	69	2	71
Christian Brand Deputy Chairman of the Supervisory Board [3] Chairman of the Audit Committee	37	2	39
Dr Martin Beck [2] Deputy Chairman of the Supervisory Board	11	1	12
Kirstin Hegner-Cordes [3]	18	0	18
Prof. Dr Jörg Ernst Franke [3]	18	0	18
Dr Hans Albrecht [2]	7	0	7
Edgar Kühn	25	1	26
Frank-Michael Meißner [3]	18	0	18
Ernst Rieber [2]	7	0	7
Total	**210**	**6**	**216**

1) Excluding amounts which were reimbursed as expenses or as value-added tax applicable on remuneration or expenses.
2) Up to the expiry of the Company's Annual General Meeting on 9 May 2014
3) Since 9 May 2014

In the reporting year, no 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 Supervisory Board members 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 of 31 December 2015 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, for their service as members of the Supervisory Board of Schwäbische Hüttenwerke Automotive GmbH instead of the Supervisory Board remuneration otherwise payable, the latter company only pays them an attendance fee for their attendance of Supervisory Board meetings of Schwäbische Hüttenwerke Automotive GmbH. 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.

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 of the key management practices and a description of the procedures followed by the Management Board and the Supervisory Board and the make-up and procedures 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 – may 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 stock market-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 rules have 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 2015, 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 support women in management positions to the best of its ability.

SHW AG believes in the positive effect of mixed management teams and is committed to ensuring equal opportunities for men and women in their career paths.

DISCLOSURES REQUIRED UNDER TAKEOVER LAW AND RELATED COMMENTS

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

Composition of Subscribed Capital

The Company's subscribed capital amounted to € 6,436,209.00 as at 31 December 2015, divided up into 6,436,209 no-par value bearer shares with a notional 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 2015, to the best of the Company's knowledge, no shareholder held an equity interest which exceeded 10 per cent of the voting rights.

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. § 84 (1) Clauses 1 to 4 AktG).

The appointment of Management Board members requires 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 (§ 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 the chairman of the Management Board (Section 84 (2) AktG, Section 6 (2) of the Company's Articles of Association) and a further member of the Management Board the deputy chairman (Section 6 (2) of the Company's Articles of Association). In the absence of a required Management Board member, in urgent cases the court shall appoint a member following an application from a relevant party (§ 85 (1) Clause 1 AktG). The Supervisory Board may revoke the appointment of a member of the Management Board and the position of the Management Board chairman for cause (cf. § 84 (3) Clauses 1 and 2 AktG).

As a rule, the Annual General Meeting must resolve any changes to the Articles of Association (§ 179 (1) Clause 1 AktG). At SHW AG, a resolution passed by 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 (§ 179 (2) AktG in conjunction with Section 20 (2) of the Articles of Association), unless a larger majority is required in accordance with imperative statutory provisions. For instance, this applies in case of a change to the Company's purpose of business (Section 179 (2) Clause 2 AktG) or the establishment of authorised capital (Section 202 (2) Clause 2 AktG) or contingent capital (Section 193 (1) Clause 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) Clause 2 AktG in conjunction with § 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 partly 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 right of subscription 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 right of subscription. The Management Board is thus authorised with the consent of the Supervisory Board in the period up to 11 May 2020 (inclusive) 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 bearer shares (Authorised Capital 2015).

With the consent of the Supervisory Board, the Management Board is authorised to determine the 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 stipulated 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 this 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, as of the issue of new shares shareholders will have a statutory right of subscription in proportion to their interest in the share capital; however, with the consent of the Supervisory Board, the Management Board is authorised to exclude this 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 right of subscription which are proposed as a component of the Authorised Capital 2015 are limited to a total of 20 per cent of the share capital.

To restrict the overall volume of future authorisations for capital increases to a total of 50 per cent of the share capital, the Management Board's authorisation to issue convertible bonds and/or bonds with warrants on the basis of the resolution passed by the Annual General Meeting on 14 June 2011 – which the Company has not made use of and which would have expired in June 2016 – and the related Contingent Capital 2011 have been cancelled in accordance with Section 4 (5) of the Articles of Association, as resolved by the Annual General Meeting on 12 May 2015. This cancellation became effective as of the entry of the new Authorised Capital 2015 in the commercial register for the Company on 10 June 2015.

As resolved by the extraordinary Annual General Meeting held on 14 June 2011, SHW AG is moreover authorised pursuant to Section 71 (1) No. 8 AktG in the period up to 13 June 2016 with the consent of the Supervisory Board to purchase treasury shares of the Company amounting to a total mathematical share of up to 10 per cent of the Company's share capital as of the grant of this authorisation. Together with other treasury shares which the Company has purchased and still holds, the shares purchased on the basis of this authorisation may not at any time exceed 10 per cent of the share capital. These shares may be purchased through the stock market or else through a public offer which is submitted to all of the Company's shareholders and/or by means of a public request to submit offers to sell. Purchased treasury shares may be resold or called in without any further resolution passed by 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 specific cases stipulated in further detail in the resolution passed by the Annual General Meeting. Pursuant to the resolution passed by the extraordinary Annual General Meeting held on 14 June 2011, in addition to the above-mentioned authorisation to purchase treasury shares in accordance with Section 71 (1) No. 8 AktG, as well as the procedures indicated therein, the Company's shares may also be purchased subject to the use of derivatives.

For this purpose, the Management Board is authorised with the consent of the Supervisory Board to sell options obligating the Company to purchase shares of the Company upon exercising this option (put options). The Management Board is moreover authorised with the consent of the Supervisory Board to purchase options granting the Company the right to purchase shares in the Company upon exercise of this option (call options) as well as shares in the Company using put options, call options and/or a combination of put and call options. Share purchases using put options, call options or a combination of put and call options are limited to shares amounting to a maximum of 5 per cent of the applicable share capital as of the grant of this authorisation. The term of these options must be selected so that shares in the Company will not be purchased while exercising these options in the period after 13 June 2016.

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 thus 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 2015, the working capital line of credit was used exclusively for guarantee lines totalling € 1.1 million, which will be offset against the credit line. 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 for the Event of a Takeover Offer

The Company has not concluded any compensation agreements with Management Board members or employees for the event of a takeover offer. However, in the event of a third-party purchaser executing a squeeze-out for SHW AG the employment contract of one current member of the Management Board stipulate that this member of the Management Board is entitled to resign from office and terminate it's 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 main 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. He monitors all risk management activities, aggregates these risks at Group level and reviews the plausibility and completeness of the notified risks. He is also responsible for the continuous ongoing development of the risk management system. The Group risk manager directly reports to the Management Board.

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

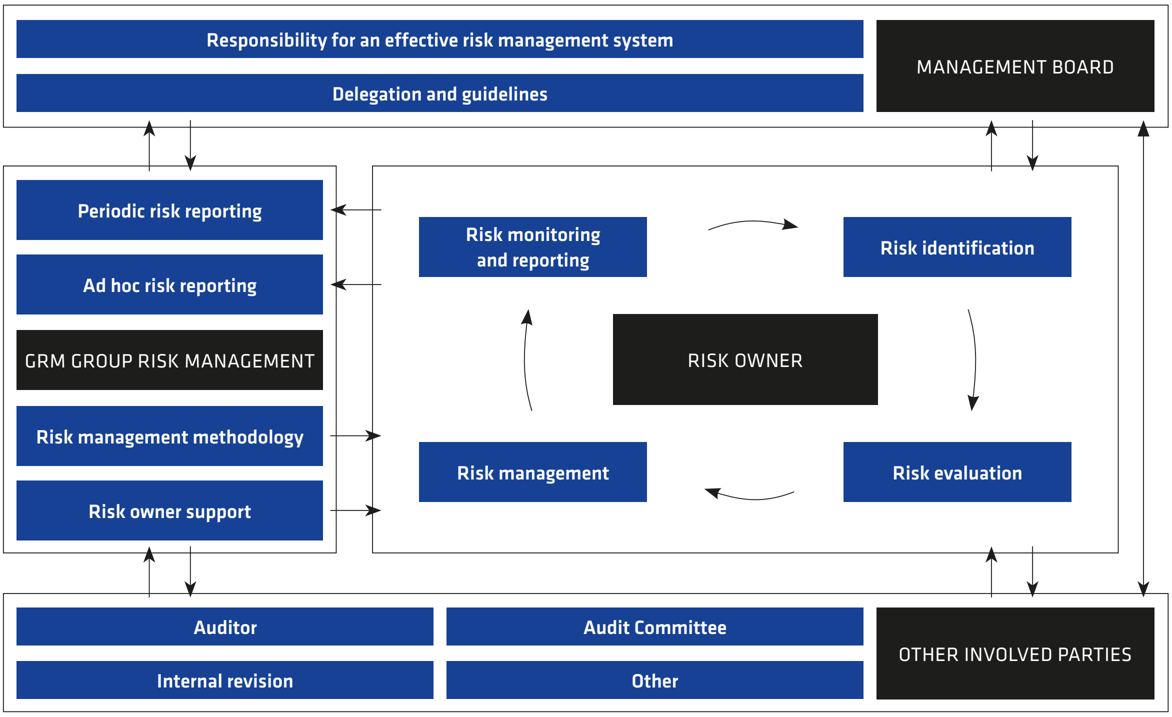
To ensure that our risk management system is as effective as possible, we utilise an integrated risk management system which identifies, assesses, manages, monitors and systematically reports risks. The core objective of our risk management system is to safeguard and increase the Company's enterprise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

THE RISK MANAGEMENT PROCESS



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 his 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 Group's risk management aggregates the reported risks and likewise provides the Management Board of SHW AG with a consolidated quarterly Group-wide report on the basis of 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 Group guidelines on risk management and control instruments are regularly reviewed and refined.

Internal monitoring and risk management system in relation to the 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) Clause 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 on the basis of SHW AG's specific requirements. These requirements are regularly reviewed and updated if necessary. However, it should be noted that 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 its Aalen headquarter. 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 critically dependent upon the production of new vehicles, engines and transmissions. For the year 2016, the IHS research institute currently predicts further 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 for China and North America. In the engine segment, IHS predicts above-average growth for gasoline engines, while in the transmission segment automatic transmissions' overall market share will increase considerably.

The Group's Pumps and Engine Components business segment is currently highly dependent on the engine and transmission production in Europe as well as its customers' export activities in relation to North America and China. In particular, another flare-up of the sovereign debt crisis might negatively affect consumers' purchasing behaviour and thus 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 both 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 strongly stepping up the establishment and expansion of its pumps and engine components business in Brazil, North America and China.

With its current structure, the Brake Discs business segment is highly dependent upon its European customers' vehicle production. In particular, another flare-up of the sovereign debt crisis might negatively affect consumers' purchasing behaviour and thus 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 developing its brake discs business in China and North America by pursuing joint ventures and other models of cooperation. In the fiscal year 2015, the conclusion of a joint venture agreement with China's Shandong Longji Machinery Co., Ltd. was an important first step towards the internationalisation of the Company's brake discs business. After obtaining its business licence, the joint venture SHW Longji Brake Discs (LongKou) Co., Ltd. launched its operating activities on 1 April 2015. Until it commences production for its first customer contracts for processed brake discs, this joint venture will initially produce unprocessed brake discs for the spare parts business of the Chinese joint venture partner. A consistently high level of utilisation for the foundry is thus guaranteed right from the start.

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 Group's financial position and profitabilty.

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 2016.

Risks resulting from alternative drive technologies

SHW's customers are faced with increasingly demanding CO_2 limits for their vehicle fleets. The current trends are increasingly powerful but also 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-related vehicle components for all drive technologies and to bring these onto the market in good time.

The SHW Group identified the future significance of hybrid vehicles early on and 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.

Risks resulting from structural change to the European combustion engines market

According to calculations by the market research institute IHS, a total of 22.4 million engines (+4.2 per cent on the previous year) were manufactured in Europe (incl. Russia) in 2015. Production of diesel engines increased by 6.7 per cent to 10.8 million units, the share of overall production amounts to 48.1 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. At the present time, there are no indications of a short-term change in the call order behaviour of customers of the SHW Group.

On the basis of the resolutions passed by the European Parliament on 3 February 2016, from September 2017, the output of nitrogen oxides from new passenger car types under real-world 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 proportion of diesel vehicles to decline. In the period up to 2020, the IHS research institute assumes an increasing engine production in overall terms – with relatively stable diesel engine production figures – which corresponds to a decline in the diesel engine market share in Europe from 48 per cent in 2015 to 45 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 successfully developed primary transmission oil pumps as two-stroke vane pumps which offer significant advantages in terms of weight, efficiency and size. Prototypes have already been delivered to several well-known manufacturers of automatic transmissions. Moreover, standardisation of secondary transmission oil pumps for the start-stop function will be stepped up. Initial 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 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 strongly 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 provide itself with a broader footing through internationalisation as well as 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 and China. 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 OE 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 original equipment service 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 the Group's sales. The share of sales realised with SHW's largest customer increased from 41.4 per cent to 42.8 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. The Company's nomination by a US automobile manufacturer as a series supplier of variable engine oil pumps for a global engine platform and by a leading Chinese automobile manufacturer for transmission oil pumps are key milestones in this respect.

An important aspect in strengthening the Group's relative cost position is the optimisation of its production network with the planned establishment of a new plant in Eastern Europe. This will be accompanied by the transfer of selected pump projects and stages in the value chain. In the first half of 2016, the Company will decide on the location and establish the necessary infrastructure. Initial processing and assembly lines will then be set up in the second half of the year. Production is due to begin in 2017.

In summary, as things currently stand on the basis of current contracts (which are mainly long-term) and the Company's long-established customer relationships the complete loss (or even a 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 costs of sales

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- 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 growth within the scope of future wage agreement negotiations significantly exceeds productivity gains, this might weaken the relative competitiveness of SHW AG and negatively affect its achievement of its earnings goals.

The optimisation of the production network with the scheduled establishment of a new plant in Eastern Europe represents a crucial step towards strengthening the relative competitive position. This will be accompanied by the transfer of selected pump projects with reduced technological complexity and stages in the value chain. The Company will make a final decision on the location in the first half of 2016 and will establish the necessary infrastructure. Initial processing and assembly lines will then be set up in the second half of the year. Production is due to begin in 2017.

Risks associated with unexpected adjustments of delivery 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 SHW Group hires personnel on short-term contracts as well as temporary workers.

On the other hand, SHW Group is exposed to risks associated with unforeseeable increases in delivery call-offs beyond the contractually agreed volumes. This may result in significant problems throughout the delivery chain and impose a considerable additional burden. 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 our 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 thus 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 functional capacity 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 associated 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 implement 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, German customers of the SHW Group 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 a few 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 established accruals for several of these cases. No lawsuits are currently pending with customers.

Environmental risks

The plants of the SHW Group are subject to a large number of environmental regulations e.g. in relation to emissions 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 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

In the calendar year 2015, continuing growth in our key vehicle markets meant that the earnings situation of the globally positioned customers of the SHW Group remains good. 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, on the whole there has been no significant change in the economic situation. Due to our multiple-supplier strategy, in our view the current risk of financial support for a supplier 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 (Pumps and Engine Components business segment) at the end of the second quarter of 2014, no additional transaction risks have arisen for the 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.

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 in euros which is 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 from the joint venture.

Due to the planned establishment of a new location in Eastern Europe, 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 the fiscal year 2016.

Financing risks

With an equity ratio of 50.4 per cent, net liquidity as at 31 December 2015 of € 12.3 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 the fiscal year 2015 the Company complied with the values required for both of these covenants, the economic equity ratio and the leverage ratio.

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 Group's subscribed capital – which corresponds to 3,218,104 shares – in the period to 11 May 2020 in case of non-organic growth.

Overall, financing of the SHW Group's planned organic and acquisition-driven growth has thus 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 on the basis of its cash flow from operating activities. In 2015, 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 Company's tax audit for the German Group companies for the assessment periods 2008 to 2011 was completed in the year under review. The audit has not resulted in any significant findings. The results of this tax audit are fully reflected in the Company's annual financial statements as at 31 December 2015.

Impairment risks

Some of the assets of the SHW Group comprise intangible assets, including goodwill. As at 31 December 2015, goodwill reported in the statement of financial position of the SHW Group amounted to € 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 2015 was conducted on the basis of the planning for the period from 2016 to 2019, and assumptions were made regarding future developments.

While the Group's goodwill was classified as non-impaired as at 31 December 2015, in principle the need for impairment as of a future date cannot be ruled out.

Significant risks in the fiscal year 2016

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

Risk category	Probability of realisation	Damage (net)
New product start-ups	< 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 brought against SHW. SHW has conclusively rejected this customer's claim and referred this case to its insurer. The potential level of damage has increased on the previous year due to further deliveries in the fiscal year 2015.

The supplier risks reported in the previous year were associated with supply bottlenecks which were eliminated in the fiscal year 2015.

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 Group's overall risk situation is well under control. No risks are currently discernible which are capable of weakening the 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 Group's continued existence. As at 31 December 2015, no significant lawsuits were pending against the SHW Group.

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

There have not been any significant changes in the Company's and the Group's situation and the industry environment since the start of the fiscal year 2016.

OUTLOOK AND OPPORTUNITIES REPORT

Outlook for the overall economy and for the industry

World economy registers further moderate growth

For 2016, Commerzbank's economists (January 2016) predict global economic growth to pick up slightly, by 3.1 per cent. This assumes that the so-called advanced economies (EU-28, Switzerland, Norway, the USA, Canada, Japan, South Korea, Taiwan, Hong Kong and Singapore) and the so-called emerging markets (Russia, China excluding Hong Kong, India, Indonesia, Thailand, Malaysia, the Philippines and Latin America) will both deliver growth momentum. In the latter case, the economic situation in Brazil and Russia in particular is expected to gradually improve.

For the eurozone, in the current year Commerzbank's economists expect only moderate growth of 1.3 per cent. Declining demand from the emerging markets, bad loans in banks' balance sheets, the continuing high level of debt of many companies and private households and falling real estate prices in Italy and France will have a dampening effect. Ireland (GDP 4.1 per cent), Spain (GDP +3.0 per cent), the Netherlands (GDP +1.5 per cent) and Portugal (GDP +1.5 per cent) are expected to achieve above-average growth. Greece (GDP +1.2 per cent), Italy (GDP +1.0 per cent) and France (GDP +0.9 per cent) will trail behind.

For the German economy, Commerzbank's analysts predict GDP growth of 1.3 per cent (previous year 1.5 per cent). On the one hand, exports will be curbed by the problems in the emerging countries and the tailwind provided by the weaker euro will subside, while on the other consumer demand will likely be stimulated by rising real wages and additional public spending, partly associated with the strong level of immigration.

In 2016 the US economy is expected to once again achieve growth of around 2.5 per cent. This will mainly be buoyed by the robust domestic demand trend. Private consumer spending will benefit from falling unemployment rates, lower commodities prices and strong rises in real incomes. The public sector will also support this growth. Weaker demand in the emerging markets and the strong dollar will have a negative impact.

Commerzbank's economists expect that Chinese economic growth will continue to slow down in 2016 and will reach a level of 6.3 per cent (previous year 6.5 per cent). The surplus supply of real estate and the high level of corporate debt remain the main influencing factors.

Despite the prevailing risks, the economic outlook and increasing disposable incomes in many emerging markets represent a solid foundation for a continuation of the upturn in the global automobile sector in 2016.

Further moderate rise in vehicle production

The IHS market research institute expects the global light vehicle production (vehicles <6 tonnes) to increase by 3.1 per cent in 2016, from 88.6 million vehicles to 91.4 million vehicles. This growth will mainly be underpinned by production growth in China and North America. IHS assumes growth of 5.5 per cent to 25.3 million vehicles for China, and for North America an increase of 4.2 per cent to 18.2 million vehicles. For the South America region, following the sharp decline in the previous year IHS envisages another significant downturn in production figures of 8.6 per cent, to 2.8 million vehicles.

The further increase in internal demand in the European Union and rising overseas exports represent the basis for another relatively good year for European vehicle manufacturers in 2016, with growth of around 1.6 per cent. This growth will mainly be supported by increases in production in the United Kingdom (+9.9 per cent to 1.8 million vehicles), France (+3.2 per cent to 2.0 million vehicles) and Italy (+6.2 per cent to 1.0 million vehicles).

For Germany, the IHS research institute forecasts a slight, 0.7 per cent increase in the production volume to somewhat more than 6.0 million units in 2016.

Combustion engines to remain the key drive type

On the basis of the expected production figures for light vehicles, for engine production IHS expects a global growth rate of 3.1 per cent to 91.4 million units. The petrol engine segment will mainly account for this increase. Its production is expected to rise by 3.2 per cent to 72.2 million units. Despite "dieselgate", the industry experts predict slight growth of 2.6 per cent for diesel engines worldwide in 2016, to 18.7 million units. This would represent a market share of 20.5 per cent. Electrical engines will account for 0.5 per cent of the total global engine production.

In Europe diesel engines are expected to provide stable production figures, with 10.8 million units. Petrol engines will serve as the main source of growth and are expected to account for 11.8 million units (+2.6 per cent). In the North American market, too, an above-average, 5.9 per cent increase in the production of gasoline engines to 15.8 million units is expected. In North America, the diesel engine will remain a peripheral phenomenon in 2016, with a market share of 3.3 per cent. A similar trend is apparent for China. Growth of 5.4 per cent to 25.3 million units will mainly relate to the production of gasoline engines. Diesel engines will remain a long way behind, with a market share of 7.2 per cent.

With product solutions for combustion engines – both diesel and petrol – SHW remains well placed to exploit the relevant growth opportunities.

Automatic transmissions gaining ground worldwide

For 2016, IHS predicts a global transmission production growth of 3.1 per cent to 91.4 million units. This volume growth is exclusively attributable to the automatic transmission segment, whose share of global production will thus continue to increase, from 54.2 per cent to 55.6 per cent. This strong growth is mainly attributable to the production locations in China and North America. In China, the IHS research institute predicts transmission production growth of 7.7 per cent to 21.7 million units. Here too, automatic transmissions are the key source of growth. Their volume of production is expected to rise by 18.2 per cent to 8.5 million units. 15.0 million transmissions will be assembled in North America. This represents a growth rate of 5.9 per cent.

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

In the past fiscal year SHW established the foundations for gradual improvements in its profitability – even in the fiscal years 2016 and 2017, a phase of sales consolidation.

Slight decline in sales envisaged

Assuming that its orders situation remains stable and that the industry environment is stable, for the fiscal year 2016 SHW expects Group sales of between € 440 million and € 460 million.

It is therefore forecasting sales of between € 340 million and € 360 million in its Pumps and Engine Components business segment and sales similar to the previous year's level in its Brake Discs business segment, with a further increase anticipated in the percentage of higher-value composite brake discs in 2016.

The decline in sales which is expected by comparison with the fiscal year 2015 relates to the Pumps and Engine Components business segment. On the one hand, it is attributable to reduced sales contributions from project business and other volume/mix changes regarding the ramp-up of customer projects. On the other hand, this fall in sales reflects the premature termination of a contract for camshaft phasers for diesel vehicles – with a significant reduction in volumes already seen in the fiscal year 2016 – due to a customer's changeover to the urea injection system (SCR technology) for the purpose of meeting the Euro 6 standard.

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 spare parts business of the Chinese joint venture partner, we assume that the foundry will once again maintain a constant level of utilisation in 2016.

Gradual improvement in profitability despite decline in sales

Despite the expected sales decrease, for the fiscal year 2016 the Company assumes consolidated earnings before interest, tax and depreciation and amortisation (EBITDA adjusted) of between € 43 million and € 47 million. In particular, this reflects the effects of the implementation of the Group's operational excellence programmes in its two business segments (see Company Strategy chapter – pages 36 ff.).

Continued working capital ratio target of 11 per cent

The optimisation of the Company's working capital is a further area of focus for the Management Board in the fiscal year 2016. It aims to achieve a sustainable working capital ratio – i.e. the ratio of working capital to sales – on a monthly basis of 11.0 per cent.

Higher investments in 2016

For the fiscal year 2016, the Company plans temporarily increased investments with an estimated range of between € 32 million and € 35 million in connection with its development of new markets and the establishment of a new production location in Eastern Europe.

These investments mainly relate to the development of the Group's production capacities at its international locations as well as its assembly machines and foundry and processing centers in Germany.

Depreciation will roughly match the previous year's level of € 22.5 million.

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

The SHW Group pursues a sustainable, income-oriented dividend policy. In future, while complying with statutory restrictions and considering the financing requirements of the SHW Group, the Company plans 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 Company's solid balance-sheet structure and positive business outlook, the Management Board and the Supervisory Board have decided to propose a stable dividend of € 1.00 per share at the Annual General Meeting which will be held in Heidenheim on 10 May 2016.

"SHW 2020" strategy – returning to profitable and capital-efficient growth

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

- Global demand for mobility continues to increase. In the period to 2020, global production figures of "light vehicles (vehicles < 6 tonnes)" are expected to increase by an average of 2.7 per cent per year to approx. 103 million units. China and Europe 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. By 2020, automobile manufacturers must reduce CO_2 emissions per kilometre by a further 21 per cent in North America, by 23 per cent in Europe and by 27 per cent in China. This will continue to require consistent optimisation of engines and transmissions, for which SHW has the necessary product portfolio.

Within the scope of its "SHW 2020" strategy, from 2018 the Company expects that its sales and earnings will once again pick up significantly. It aims to increase its sales to between € 630 million and € 660 million by 2020. In the same period, its EBITDA margin should increase significantly, to at least 12 per cent. The issues of operational excellence, the expansion of the Group's international presence and its innovation leadership are priorities (see Company Strategy chapter – pages 36 ff.). Following temporarily increased investments in new markets and further production locations in 2016 and 2017, in the period from 2018 the Company intends to return its investments to a normal level.

Opportunities

Principles of opportunities management

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 emissions target

Over the past few years, manufacturers of passenger cars have realised some significant progress towards the CO_2 limit of 130 g/km which was stipulated for 2015.

However, considerable further efforts remain necessary in order to achieve the emissions 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 drive, 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 electric vehicles. The introduction of the "Worldwide Harmonised Light Vehicles Test Procedure" (WLTP) – which is planned for 2017 and is intended to produce more realistic reference figures which are comparable worldwide – may further increase the pressure to act.

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.

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

On the basis of 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 new vehicle market.

Besides organic growth, the continuing process of consolidation in the engine and transmission components segment represents an additional growth opportunity. SHW is financially well placed in order 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 drivetrain 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 supply its core hydraulic competence. In particular, it is evaluating potential acquisition targets and opportunities for partnerships.

This medium-term planning also does not consider possible insourcing of selected processing 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 a 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. SHW is currently exploring various options for the planned market entry of its Brake Discs business segment in North America.

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.

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 a slight decrease in sales together with a stable operating income. In the fiscal year 2016, the Management Board will focus in particular on the issues of operational excellence and internationalisation.

Aalen, 29 February 2016

Dr Frank Boshoff	Sascha Rosengart	Andreas Rydzewski
Chief Executive Officer	Chief Financial Officer	Member of the Management Board

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

as at 31 December 2015

ASSETS

K EUR	Note	31.12.2015	31.12.2014
Goodwill	(1)	7,055	7,055
Other intangible assets	(1)	11,346	13,008
Property, plant and equipment	(1)	94,810	92,346
Deferred tax assets	(19)	4,668	4,795
Joint ventures accounted for according to the equity method	(18)	16,669	0
Other financial assets	(2)	341	910
Other assets	(2)	577	900
Non-current assets		135,466	119,014
Inventories	(3)	41,630	42,380
Trade receivables	(4)	34,388	44,656
Other financial assets	(5)	401	0
Other assets	(5)	3,764	3,147
Cash and cash equivalents	(6)	14,814	292
Current assets		94,997	90,475
Total assets		**230,463**	**209,489**

EQUITY AND LIABILITIES

K EUR	Note	31.12.2015	31.12.2014
Subscribed capital	(7)	6,436	5,851
Capital reserves	(7)	38,510	14,780
Revenue reserves	(7)	76,058	68,424
Other reserves	(7)	-4,764	-4,548
Equity		116,240	84,507
Pension accruals and similar obligations	(8)	26,274	28,051
Deferred tax liabilities	(19)	3,237	3,456
Other accruals	(9)	3,972	3,652
Other financial liabilities	(10)	7,855	152
Liabilities to banks	(10)	1,297	2,486
Non-current liabilities and accruals		42,635	37,797
Liabilities to banks	(10)	1,189	12,162
Trade payables	(10)	43,484	56,159
Other financial liabilities	(10)	7,088	6,070
Income tax liabilities	(10)	2,013	444
Other accruals	(9)	9,984	4,482
Other liabilities	(10)	7,830	7,868
Current liabilities and accruals		71,588	87,185
Total equity and liabilities		**230,463**	**209,489**

CONSOLIDATED INCOME STATEMENT

for the fiscal year from 1 January to 31 December 2015

K EUR	Note	2015	2014
Sales	(11)	463,478	430,041
Cost of sales	(16), (20)	-416,296	-388,921
Gross profit		47,182	41,120
Selling expenses	(12), (16)	-6,961	-5,968
General administration expenses	(13)	-11,870	-10,113
Research and development costs	(14)	-7,505	-7,588
Other operating income	(15)	2,617	1,745
Other operating expenses	(16)	-3,331	-2,621
Operating result		20,132	16,575
Financial income	(17)	16	12
Financial expenses	(17)	-1,268	-1,816
Net income from joint ventures accounted for according to the equity method	(18)	1,383	0
Earnings before tax		20,263	14,771
Deferred taxes	(19)	327	844
Current income tax	(19)	-6,239	-4,936
Earnings after tax		14,351	10,679
Net income for the year		**14,351**	**10,679**
Earnings per share (€) *		2.26	1.83

* Calculated in relation to an average of 6,359,263 shares (previous year: 5,851,100 shares), see Note 7 “Equity”.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the fiscal year from 1 January to 31 December 2015

K EUR	**2015**	2014
Net income for the year	14,351	10,679
Items that will not be reclassified to profit and loss in future periods		
Actuarial gains/losses from pension accruals and similar obligations before tax	1,199	-3,993
Tax effect	-338	1,126
Items that may be reclassified to profit and loss in future periods		
Currency translation differences	-44	51
Tax effect	0	0
Unrealised gains/losses from currency translation for joint ventures accounted for by means of the at equity method	-1,033	0
Tax effect	0	0
Other earnings after tax	-216	-2,816
Total comprehensive income after tax	**14,135**	**7,863**
Net income for the year attributable to		
– shareholders of SHW AG	14,351	10,679
– holders of non-controlling interests	0	0
Total comprehensive income attributable to		
– shareholders of SHW AG	14,135	7,863
– holders of non-controlling interests	0	0

CONSOLIDATED CASH FLOW STATEMENT

for the fiscal year from 1 January to 31 December 2015

K EUR	Note	2015	2014
1. Cash flow from operating activities			
Net income for the year		14,351	10,679
Depreciation / amortisation (+) of fixed assets	(1)	22,543	18,252
Income tax expenses through profit or loss (+)	(19)	6,239	4,936
Income taxes paid (-)		-4,916	-5,686
Financing costs through profit or loss (+)	(17)	1,268	1,816
Interest paid (-)		-458	-660
Financial investment income through profit or loss (-)	(17)	-16	-12
Interest received (+)		16	12
Increase (+) / decrease (-) in accruals	(9)	4,756	1,761
Change in deferred taxes		-327	-844
Other non-cash effective expenses (+) / income (-)		0	-78
Gain (-) / loss (+) from the disposal of assets		42	172
Net income from joint ventures accounted for according to the equity method	(19)	-1,383	0
Increase (-) / decrease (+) in inventories, trade receivables and other assets	(3), (4), (5)	10,282	-7,800
Increase (-) / decrease (+) in trade payables and other liabilities	(10)	-11,503	7,343
Cash flow from operating activities		40,894	29,891

K EUR	Note	2015	2014
2. Cash flow from investing activities			
Cash received (+) from the disposal of tangible assets		324	17
Cash paid (-) for investments in tangible assets		-20,747	-32,716
Cash paid (-) for investments in intangible assets		-2,374	-2,546
Cash paid (-) for investments in financial assets		-9,041	-275
Cash flow from investing activities		-31,838	-35,520
3. Cash flow from financing activities			
Cash received (+) from the assumption of financial liabilities	(10)	0	10,012
Cash paid (-) for the redemption of financial liabilities	(10)	-12,162	-1,082
Cash received (+) from the issue of shares	(7)	24,213	0
Dividends paid (-) to shareholders	(7)	-6,436	-5,851
Cash paid (-) for finance leasing		-120	0
Cash flow from financing activities		5,495	3,079
4. Cash and cash equivalents at the end of the period			
Cash-effective changes in cash and cash equivalents (sum of positions 1–3)		14,551	-2,550
Exchange rate-related changes in cash and cash equivalents		-58	5
Cash and cash equivalents at the beginning of the period	(6)	292	2,837
Changes in cash position from scope of consolidation-related changes		29	0
Cash and cash equivalents at the end of the period	**(6)**	**14,814**	**292**

STATEMENT OF CHANGES IN GROUP EQUITY

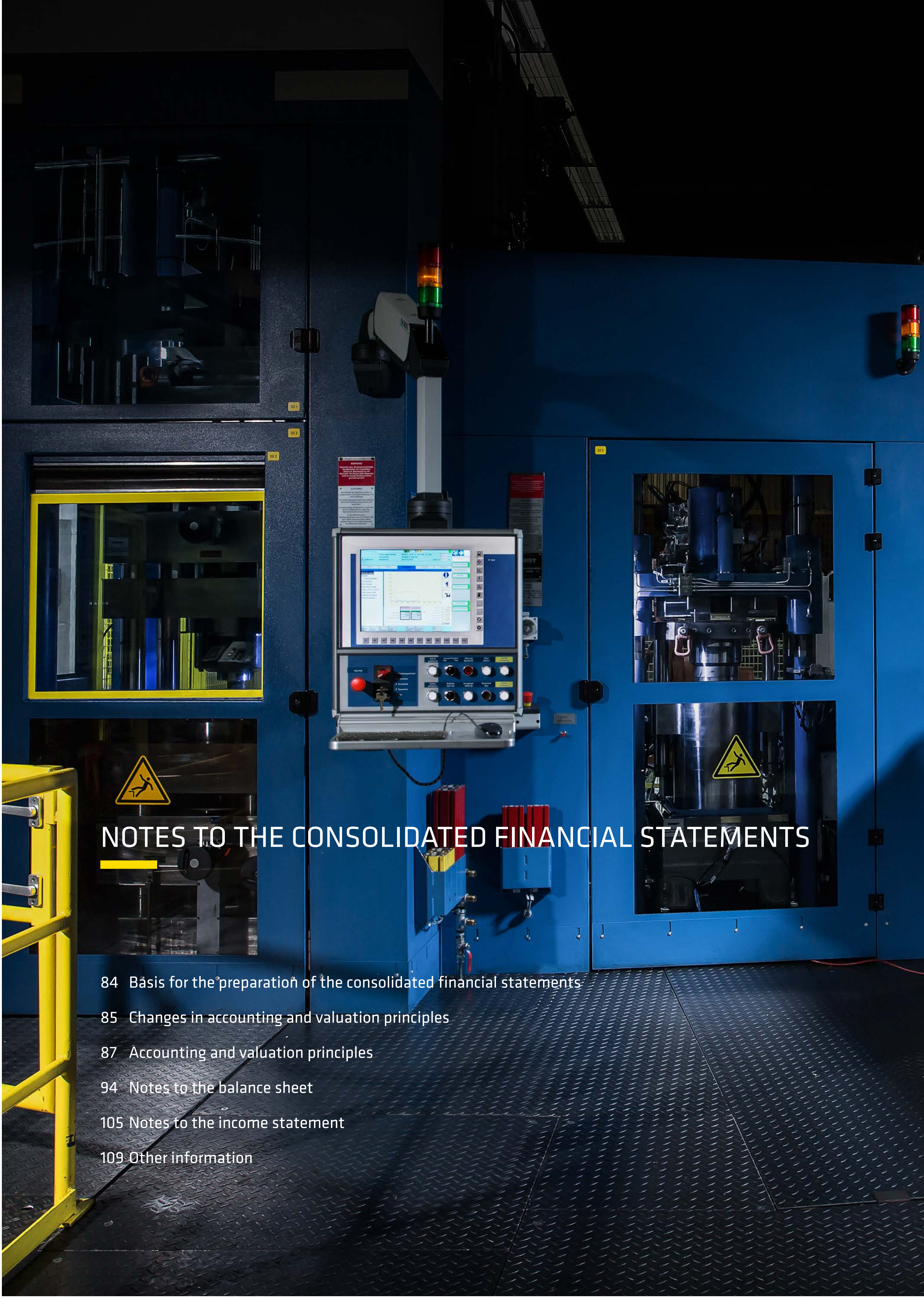
as at 31 December 2015

K EUR	Subscribed capital (Note 7)	Capital reserves (Note 7)	Revenue reserves (Note 7)	Other reserves (Note 7)	**Total equity**
Position as at 1 January 2014	5,851	14,780	63,630	-1,732	82,529
Changes from actuarial gains and losses	0	0	0	-2,867	-2,867
Foreign currency translation differences	0	0	0	51	51
Income recognised directly in equity	0	0	0	-2,816	-2,816
Net income for 2014	0	0	10,679	0	10,679
Total comprehensive income for the period	0	0	10,679	-2,816	7,863
First-time consolidation of previously non-consolidated subsidiaries for reasons of materiality	0	0	-34	0	-34
Dividends paid	0	0	-5,851 *	0	-5,851
Position as at 31 December 2014	**5,851**	**14,780**	**68,424**	**-4,548**	**84,507**

* € 1 per share

K EUR	Subscribed capital (Note 7)	Capital reserves (Note 7)	Revenue reserves (Note 7)	Other reserves (Note 7)	**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 according to 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 income 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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the fiscal year from 1 January to 31 December 2015

Basis for the preparation of the consolidated financial statements

SHW AG's consolidated financial statements as at 31 December 2015 were approved by the Management Board on 29 February 2016 for submission to the Supervisory Board. SHW Aktiengesellschaft with registered offices at Wilhelmstr. 67, Aalen, Germany, was created in 2011 by a change of legal form and recorded in the commercial register on 8 June 2011. All of the Company's shares have been in free float since 5 November 2013. The Group's principal activity is the production and sale of hydraulic pumps, powder metallurgy parts and brake discs. The consolidated financial statements presented conform to the applicable International Financial Reporting Standards (IFRS) set by the International Accounting Standards Board (IASB) in London. The authoritative version of IFRS is that as at 31 December 2015 as to be applied in the EU. All interpretations of the International Financial Reporting Interpretations Committee (IFRIC) relevant for the 2015 fiscal year, as well as previous interpretations of the Standing Interpretations Committee (SIC), have been applied.

The consolidated financial statements are generally prepared in accordance with the 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 Group from preparing financial statements in accordance with the German Commercial Code (HGB), pursuant to Section 315a III HGB.

In accordance with the resolution passed on 25 January 2016, 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 released to the Federal Gazette on 27 January 2016 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 major subsidiaries controlled, as defined by IFRS 10, as at 31 December of the respective fiscal year. The financial statements of subsidiaries are prepared as at the same reporting date as those of the parent company using uniform accounting and valuation principles. In fiscal year 2015, SHW Automotive Pumps (Kunshan) Co., Ltd., Kunshan, China, was included in the scope of consolidation for the first time as this company has commenced its operating activities. The first-time consolidation had no significant effects on the results of operations, net assets and financial position of the SHW Group. SHW Automotive Industries GmbH, Aalen, is not currently operational and has not been included in the consolidated financial statements on grounds of materiality.

Under a merger agreement of 24 June 2015, as the transferring entity Schwäbische Hüttenwerke Zweite Beteiligungs GmbH merged with SHW AG as the absorbing entity. The effective merger date was 1 January 2015. The merger was entered in the commercial register for SHW AG on 10 August 2015.

A complete list of all SHW Group holdings is on file at the commercial register of the Aalen district court, HRB 7-A, and 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 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 according to 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 per year or when there is good cause. If the impairment test reveals a loss in value, then unscheduled amortisation 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 by means of the equity method in accordance with IAS 28. In the case of joint ventures, SHW AG pursues economic activities subject to joint control together with other parties. The controlling parties are entitled to the net assets surplus but not the assets and liabilities. Joint ventures are included in the consolidated financial statements in accordance with the equity method from the date as at which joint control becomes applicable. On the basis of the acquisition costs for the shares in the jointly controlled entity, changes in equity recognised in income or equity for the investment measured at equity 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). The company's business activities is going to concentrate on the development and production of single-piece 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 in the amount of € 6.9 million is included in the other non-current financial liabilities. This is to be paid by February 2017 at the latest.

According to its corporate articles, 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 are currently mainly generated by Shandong Longji Machinery Co., Ltd. A joint arrangement is thus applicable within the meaning of IFRS 11.

Due to its corporate articles 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 2015

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and interpretations, which have been transposed by the EU into European law and must be applied to reporting periods beginning on 1 January 2015:

Standard / Interpretation		Status	To be applied from
IFRIC 21	Levies	new	17.06.2014
AIP 2011-2013	Annual Improvements Project (2011-2013)	revised	01.01.2015

- IFRIC 21 "Levies" provides guidance on when to recognise a liability for a levy imposed by a government. The obligating event for the recognition of a liability is identified as the activity that triggers the payment of the levy in accordance with the relevant legislation. Levies must only be recognised in the balance sheet once the obligating event has occurred.

  The adoption of this interpretation did not have any effect on the consolidated financial statements.

- The annual improvements to the IFRS (cycle 2011 to 2013) relate to the following standards:

  – IFRS 1 "First-time Adoption of International Financial Reporting Standards" clarifies that an entity, in its first IFRS financial statements, has the choice between applying an existing and currently effective IFRS or applying early a new or revised IFRS that is not yet mandatory, provided that the new or revised IFRS permits early application.

  – IFRS 3 "Business Combinations" clarifies the scope of exception for joint ventures.

  – IFRS 13 "Fair Value Measurement" clarifies the scope of paragraph 52 for the portfolio exception.

  – IAS 40 "Investment Property" clarifies the relationship between IFRS 3 and IAS 40 for the classification of property.

  The adoption of these amendments did not have any effect on the consolidated financial statements.

2. Standards, interpretations and amendments to published standards not yet mandatory in 2015 and not adopted early by the 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
AIP 2010-2012	Annual Improvements Project (2010–2012)	revised	01.02.2015
Amend. to IAS 19	Defined Benefit Plans: Employee Contributions	revised	01.02.2015
Amend. to IAS 16 / IAS 41	Agriculture: Bearer Plants	revised	01.01.2016
Amend. to IFRS 11	Acquisition of an Interest in a Joint Operation	revised	01.01.2016
AIP 2012-2014	Annual Improvements Project (2012-2014)	revised	01.01.2016
Amend. to IFRS 10 / IAS 28	Sales or Contributions of Assets between an Investor and its Associate / Joint Venture	revised	01.01.2016
Amend. to IAS 1	Disclosure Initiative	revised	01.01.2016
Amend. to IAS 27	Equity Method in Separate Financial Statements	revised	01.01.2016
Amend. to IAS 16 / IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	revised	01.01.2016
Amend. IFRS 10, IFRS 12, IAS 28	Investment Entities Applying the Consolidation Exception	revised	01.01.2016
IFRS 9	Financial Instruments	new	01.01.2018
IFRS 14	Regulatory Deferral Accounts	new	01.01.2016
IFRS 15	Revenue from Contracts with Customers	new	01.01.2018
IFRS 16	Leasing	new	01.01.2019
Amend. to IAS 12	Income taxes	revised	01.01.2017
Amend. to IAS 7	Cash flow statement	revised	01.01.2017

- IFRS 9 "Financial Instruments" introduces uniform approach for the recognition and measurement of financial assets. The subsequent measurement of financial assets will in future 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. The effects of the adoption of IFRS 9 on the consolidated financial statements are still being examined.

- IFRS 15 "Revenue from Contracts with Customers": The new standard replaces IAS 18 "Revenue" and IAS 11 "Construction Contracts" and the related interpretations. IFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise. The core principle of IFRS 15 is that a company should recognise revenue upon the transfer of promised goods or services to customers. This core principle is delivered in a five-step model framework, within the scope of this standard. For this purpose, the relevant contracts with the customer and the included performance obligations are identified. Revenue is then realised in the amount of the expected consideration for each separate performance obligation, either over time or at a point in time. IFRS 15 also includes detailed application guidance in relation to a large number of individual topics (e.g. contract modifications, sale with a right of return, handling of contract costs, extension options, licence revenue, principal versus agent considerations, bill-and-hold-arrangements, consignment arrangements, etc.). The scope of the disclosures has also been expanded. The new disclosure objective is to disclose information regarding the nature, amount, timing and uncertainty of revenue from contracts with customers, including the resulting cash flows.

  SHW AG has not yet completed its analysis of customer contracts in terms of the effects of the application of IFRS 15 on the consolidated financial statements of SHW AG. 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 disclosure requirements have also been expanded. We do not currently 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. The effects on the results of operations, net assets and financial position of the SHW Group are yet to be analysed.

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 Group. Each company within the 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 Group are shown in the following table:

		Closing rate 31.12		Average rate	
	€ 1	**2015**	2014	**2015**	2014
Brazil	BRL	4.3198	3.2268	3.6430	3.1172
Canada	CAD	1.5128	1.4085	1.4168	1.4656
China	RMB	7.0804	7.4655	6.9061	8.1566

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 their acquisition cost or production cost, less accumulated amortisation and accumulated impairment losses. A distinction is made between intangible assets with limited useful lives and those with indefinite useful lives. Aside from goodwill, the SHW Group 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 four 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 Group can verify the technical feasibility of completing the intangible asset which would allow for the internal use or sale of the asset, as well as the intention of completing the intangible asset and the intention to use or to sell the asset. Furthermore, the Group must provide proof of the establishment of the asset's future economic use, the availability of resources for the purposes of completing the asset, and 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 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 per year or when needed and is impaired if necessary. To test for impairment, the goodwill is allocated as of the acquisition date to cash-generating units in the Group that are expected to benefit from the synergies of the business combination. This 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 proportionate basis and in accordance with the carrying amount of each asset in the unit. Any recognised impairment loss on goodwill May not be reversed in subsequent periods.

Property, plant and equipment

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

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

Depreciation is based on the following useful lives:

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

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

Impairment of property, plant and equipment and intangible assets

At the end of each fiscal year, the 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 of 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 an active 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 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 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 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 and/or 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 the same 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 to 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 have been enacted on the balance sheet date or that are expected to be enacted in the near future.

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

Leasing

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

If 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 on the basis of a reference value which generally does not require any acquisition costs or only requires minor acquisition costs and which is settled as of 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. The 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 made at the time of the product's sale. Interest and other borrowing costs are recorded as incurred as long as the borrowing costs are not related to qualified assets within the meaning of IAS 23 and if the opportunities and risks of the goods sold have been transferred to the buyer.

Government grants

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

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

Government grants for investments are deducted from the relevant assets.

Key estimates

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

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

Goodwill impairment

The SHW Group tests goodwill for impairment at least once annually 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 Group must estimate the fair value, less the cost of sale, based on the EBIT forecasts and, in addition, select an interest rate in order to calculate the present value of cash flows. Further details May be found in Note 1 "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 2015, the capitalised development costs amount to € 7,388 thousand (previous year € 8,318 thousand).

Pensions and similar obligations

Expenses for defined benefit plans and other post-employment benefits are determined on the basis of 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 2015, the accrual for pensions and similar obligations amounted to € 26,274 thousand (previous year € 28,051 thousand). For further details, please refer to Note 8 "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 19 "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 balance sheet

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

	Acquisition and production costs				
K EUR	As at 01.01.2015	Additions from first-time consolidation	Additions	Disposals	Reclassifications
Intangible assets					
Customer base	47,569	0	0	0	0
Goodwill	7,055	0	0	0	0
Internally generated assets	14,466	0	1,410	-32	0
Other intangible assets	7,860	0	964	-40	-26
	76,950	0	2,374	-72	-26
Property, plant and equipment					
Land, land rights, and buildings	34,502	0	1,288	-107	1,667
Technical equipment and machinery	115,069	7	13,369	-4,316	11,542
Other equipment, operating and office equipment	20,202	7	2,537	-688	455
Advance payments and assets under construction	13,859	0	4,355	0	-13,638
	183,632	14	21,549	-5,111	26
Total	**260,582**	**14**	**23,923**	**-5,183**	**0**

	Acquisition and production costs				
K EUR	As at 01.01.2014	Additions from first-time consolidation	Additions	Disposals	Reclassifications
Intangible assets					
Customer base	47,569	0	0	0	0
Goodwill	7,055	0	0	0	0
Internally generated assets	12,669	0	1,971	-174	0
Other intangible assets	7,322	0	575	-37	0
	74,615	0	2,546	-211	0
Property, plant and equipment					
Land, land rights, and buildings	32,360	0	1,955	0	187
Technical equipment and machinery	95,339	0	14,153	-634	6,211
Other equipment, operating and office equipment	17,823	3	3,055	-737	57
Advance payments and assets under construction	7,229	0	13,079	-7	-6,455
	152,751	3	32,242	-1,378	0
Total	**227,366**	**3**	**34,788**	**-1,589**	**0**

Exchange rate differences	As at 31.12.2015	Accumulated depreciation	Net carrying amounts 31.12.2015	Net carrying amounts 01.01.2015	Depreciation in the fiscal year
0	47,569	47,569	0	0	0
0	7,055	0	7,055	7,055	0
0	15,844	7,603	8,241	9,564	2,706
0	8,758	5,653	3,105	3,444	1,280
0	79,226	60,825	18,401	20,063	3,986
0	37,350	10,180	27,170	25,483	1,186
-251	135,420	81,884	53,536	43,790	14,805
-37	22,476	12,948	9,528	9,214	2,566
0	4,576	0	4,576	13,859	0
-288	199,822	105,012	94,810	92,346	18,557
-288	**279,048**	**165,837**	**113,211**	**112,409**	**22,543**

Exchange rate differences	As at 31.12.2014	Accumulated depreciation	Net carrying amounts 31.12.2014	Net carrying amounts 01.01.2014	Depreciation in the fiscal year
0	47,569	47,569	0	0	0
0	7,055	0	7,055	7,055	0
0	14,466	4,902	9,564	10,198	2,431
0	7,860	4,416	3,444	4,007	1,139
0	76,950	56,887	20,063	21,260	3,570
0	34,502	9,019	25,483	24,425	1,085
0	115,069	71,279	43,790	34,854	11,431
1	20,202	10,988	9,214	8,273	2,166
13	13,859	0	13,859	7,229	0
14	183,632	91,286	92,346	74,781	14,682
14	**260,582**	**148,173**	**112,409**	**96,041**	**18,252**

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 € 1,410 thousand (previous year: € 1,349 thousand).

Other intangible assets mainly include capitalised costs from the SAP project of € 2,098 thousand (previous year € 2,852 thousand).

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

Purchase commitments for intangible assets and property, plant and equipment amount to € 7,354 thousand (previous year € 4,761 thousand).

As at 31 December 2015, the residual book value of finance leasing of property, plant and equipment is € 976 thousand (previous year € 0 thousand). The acquisition costs for this finance leasing amount to € 1,075 thousand (previous year € 0 thousand). The additions were fully recognised in the fiscal year 2015. Accumulated depreciation amounted to € 0 thousand at the start of the fiscal year and to € 99 thousand at the end of the fiscal year. Accordingly, in the fiscal year 2015 depreciation totalled € 99 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 2016 to 2019 approved by management. This concerns a determination of fair value according to level 3 of the valuation hierarchy as defined by IFRS 13. Calculation of the terminal value is based on an inflation/growth rate of 0.5 per cent (previous year 1.0 per cent). A 10.0 per cent discount rate was used for the EBIT forecasts (previous year 9.6 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	31.12.2015	31.12.2014
Pumps & Engine Components	4,233	4,233
Brake Discs	2,822	2,822
Total	**7,055**	**7,055**

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

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

Planned gross margins

The gross margins in the planning period were determined on the basis of standard costing and empirical values. During the planning period, revenue was 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 1.5 per cent and an after-tax market risk premium of 6.5 per cent. The beta factor, capital structure and borrowing cost rate 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.

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

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

K EUR	31.12.2015	31.12.2014
Cash surrender value of reinsurance	316	337
Shares in associated companies	25	510
Other	0	63
Total	**341**	**910**

Other non-current financial assets include interests of € 25 thousand (previous year € 510 thousand) in the form of investments in equity instruments, which are categorised as financial investments held for sale. These are measured at acquisition cost since there is no quoted price on an active market available for these instruments. Since this relates to a non-operational company, it is also not possible to reliably measure their fair values due to unpredictable cash flows. In the previous year, this item still included the carrying amount of SHW Automotive Pumps (Kunshan) Co., Ltd., which has been fully consolidated in the consolidated financial statements of SHW AG since 1 January 2015.

Of the other non-current assets, a total of € 520 thousand (previous year € 900 thousand) are prepaid expenses.

(3) Inventories

K EUR	31.12.2015	31.12.2014
Raw materials and supplies	16,430	15,115
Unfinished products	12,979	16,542
Finished products	12,093	10,543
Advance payments	128	180
Total	**41,630**	**42,380**

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

Impairments of inventories in fiscal year 2015 amounted to € 3,304 thousand (previous year € 2,279 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 € 292,338 thousand (previous year € 283,321 thousand).

The net realisable value totalled € 41,630 thousand (previous year € 42,380 thousand).

(4) Trade receivables

K EUR	31.12.2015	31.12.2014
Receivables from customers	37,618	46,661
Impairments	-83	-98
Impairments for uncleared items in process	-3,147	-1,907
Total	**34,388**	**44,656**

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.

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

K EUR	2015	2014
Bad debt provisions as at 01.01.	**2,005**	**1,552**
Additions (impairment expenses)	0	64
Reversals (other operating income)	-15	0
Change of provisions for uncleared items in process (sales)	1,240	389
Bad debt provisions as at 31.12.	**3,230**	**2,005**

(5) Other current assets and other financial assets

Other assets include, in particular, receivables from the reimbursement of electricity and energy taxes in the amount of € 777 thousand (previous year € 991 thousand) as well as value-added tax claims in the amount of € 1,914 thousand (previous year € 1,113 thousand).

The other financial assets relate to a claim in connection with a machinery lease agreement.

(6) Cash and cash equivalents

K EUR	31.12.2015	31.12.2014
Cash in banks, cheques, cash in hand	14,814	292
Total	**14,814**	**292**

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

(7) 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 5,851,100) no-par value bearer shares with a proportionate share of the share capital of € 1.00 per no-par value share. The shares are fully paid up.

On 18 February 2015, SHW AG issued 585,109 new no-par value bearer shares from the capital increase against a contribution in cash resolved on 17 February 2015. The new shares were placed with institutional investors by way of an accelerated book-building process at a placement price of € 42.00 per share. The 585,109 new shares were issued from authorised capital. The subscription rights of shareholders were excluded. The new shares will carry full dividend rights as of 1 January 2014.

The capital reserves include the premiums from the issue of shares less transaction costs directly attributable to raising capital totalling € 295 thousand. Due to the capital increase as at 18 February 2015, the capital reserves increased by € 23,730 thousand.

Revenue reserves and other reserves

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

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

K EUR	Pension liabilities	Joint ventures accounted for at equity	Foreign currency translation	**Total other reserves**
Position as at 01.01.2014	-1,552	0	-180	-1,732
Total result directly recognised in equity	-2,867	0	51	-2,816
Position as at 31.12.2014	-4,419	0	-129	-4,548
Total result directly recognised in equity	861	-1,033	-44	-216
Position as at 31.12.2015	**-3,558**	**-1,033**	**-173**	**-4,764**

In the fiscal year 2015, other reserves increased by € 861 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 € –1,033 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, up to € 3,218,104.00 by issuing new no-par value bearer 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 right of subscription for the new shares. The right of subscription May also entail an indirect right of subscription pursuant to § 186 (5) AktG. However, with the consent of the Supervisory Board the Management Board is authorised to exclude the shareholders' right of subscription in whole or in part, subject to certain preconditions. Overall, on the basis of the Authorised Capital 2015 the shares issued while excluding the shareholders' subscription right May not exceed 20 per cent of the share capital.

At the same time, a resolution passed by the Annual General Meeting on 12 May 2015 required the cancellation of the Authorised Capital 2011 if the Authorised Capital 2011 had not yet been utilised at that time. On this date, the residual amount of the Authorised Capital 2011 totalled € 2,340,441.00.

Contingent capital

A resolution passed by the Annual General Meeting on 12 May 2015 cancelled and did not replace the Management Board's authorisation to issue convertible bonds and/or bonds with warrants for a total nominal amount of € 125,000,000.00 on the basis of the Annual General Meeting's resolution of 14 June 2011, which the Company did not make use of and which would have expired in June 2016, and also the related Contingent Capital 2011 pursuant to Section 4 (5) of the Articles of Association.

Appropriation of earnings

The Management Board and Supervisory Board propose to distribute a dividend of € 1.00 per share from the fiscal year 2015 unappropriated profit. This is equivalent to a total dividend distribution of € 6,436,209.00 for 6,436,209 no-par value bearer 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 2015.

(8) Pension accruals and similar obligations

Pension accruals and similar obligations include pension accruals of € 26,274 thousand (previous year € 28,051 thousand), including death benefits of € 143 thousand (previous year € 131 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 € 5.6 million).

The pension plans are funded by recognising pension accruals and, in some cases, liability insurance policies were concluded. The corresponding plan assets are reported under "other non-current financial assets" (cf. Note 2). This does not concern qualifying insurance policies that should be considered as plan assets.

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 per cent	31.12.2015	31.12.2014
Interest rate	2,2	1,8
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 gains resulting from a change in actuarial assumptions or from adjustments based on experience amounted to € 1,199 thousand in the past fiscal year (previous year losses of € –3,993 thousand).

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

K EUR	31.12.2015	31.12.2014
Defined benefit obligation (funded)	267	259
Defined benefit obligation (unfunded)	26,141	27,922
Total defined benefit obligation (DBO)	**26,408**	**28,181**
Fair value of plan assets	-134	-130
Pension accruals	**26,274**	**28,051**

The development of the pension accruals is as follows:

K EUR	
Accruals as at 01.01.2014	24,488
Current service cost	285
Interest cost	737
Pension payments	-1,452
Actuarial gains and losses from the change in actuarial assumptions	4,070
Actuarial gains and losses from experience adjustments	-77
Accruals as at 31.12.2014	**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**

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

K EUR	2015	2014
Defined Benefit Obligation (DBO) as at 01.01.	28,181	24,614
Current service cost	403	285
Interest cost	494	741
Pension payments	-1,474	-1,452
Actuarial gains and losses from the change in actuarial assumptions	-1,560	4,070
Actuarial gains and losses from experience adjustments	361	-77
Defined Benefit Obligation (DBO) as at 31.12.	**26,408**	**28,181**

The development of the plan assets is as follows:

K EUR	2015	2014
Fair value of plan assets as at 01.01.	130	126
Interest revenue	4	4
Plan assets as at 31.12.	**134**	**130**

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 2016.

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

K EUR	2015	2014
Current service cost	403	285
Net interest cost	490	737
Net pension cost	**893**	**1,022**

Liabilities from defined benefit plans are as follows:

K EUR	31.12.2015	31.12.2014
Active employees	7,669	7,683
Former employees with vested rights	1,507	1,640
Pensions / other	17,098	18,728
Pension accruals	**26,274**	**28,051**

The current service costs are included in the cost of sales, selling expenses, general administration expenses, and research and development costs. Interest is recognised under interest expenses. Pension payments are expected to amount to € 1,453 thousand in fiscal year 2016. Pension payments in this amount are also expected for the years to come. The pension plan costs in 2016 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 increases. There is no intention to hedge these risks.

Sensitivity analysis

An increase or decrease in the key actuarial assumptions would have the following impact on the present value of the obligation (Defined Benefit Obligation [DBO]):

K EUR		DBO
Change in interest rate 1,7 % (-0,5 %)	28,400	26,408
Change in interest rate 2,7 % (+0,5 %)	24,658	26,408
Change in inflation rate 1,3 % (-0,5 %)	25,154	26,408
Change in inflation rate 2,3 % (+0,5 %)	27,775	26,408
Change in life expectancy +1 year	27,661	26,408

The weighted duration of pension accruals amounts to 14.1 years (previous year 14.4 years) as at 31 December 2015.

(9) Other accruals

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

K EUR	As at 31.12.2013	Utilised	Reversals	Additions	As at 31.12.2014
Warranties	1,351	0	-500	1,803	2,654
Other business-related obligations	126	0	0	1,694	1,820
Obligations to employees	3,388	-62	0	326	3,652
Other accruals	15	-10	0	3	8
Total	**4,880**	**-72**	**-500**	**3,826**	**8,134**
Of which non-current accruals	3,388	-62	0	326	3,652

Other non-current accruals

Other non-current accruals of € 3,972 thousand (previous year € 3,652 thousand) include accruals for obligations to employees for service anniversary bonuses of € 2,143 thousand (previous year € 2,085 thousand) and semi-retirement obligations of € 1,829 thousand (previous year € 1,567 thousand).

Warranties

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

Other business-related obligations

Other business-related obligations primarily comprise customer project- and product-related accruals in the amount of € 6,407 thousand (previous year € 1,610 thousand).

Obligations to employees

Obligations to employees mainly comprise € 2,143 thousand (previous year € 2,085 thousand) in accruals for service anniversary bonuses and € 1,829 thousand (previous year € 1,567 thousand) for semi-retirement obligations.

(10) Liabilities

K EUR	31.12.2015	31.12.2014
Non-current liabilities to banks	1,297	2,486
Other non-current financial liabilities	7,855	152
Non-current liabilities	9,152	2,638
Current liabilities to banks	1,189	12,162
Trade payables	43,484	56,159
Other current financial liabilities	7,088	6,070
Income tax liabilities	2,013	444
Other current liabilities	7,830	7,868
Current liabilities	61,604	82,703
Total	**70,756**	**85,341**

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 2015.

At the end of the year, this working capital credit had been exclusively utilised by guarantees in the amount of € 1,061 thousand. In addition, on 10 December 2012, 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 2015, 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 € 902 thousand (previous year € 0 thousand).

Other current financial liabilities mainly include liabilities for expenses where the underlying services were received in fiscal year 2015, but the corresponding invoice was only recognised in fiscal year 2016.

Other liabilities mainly comprise liabilities for overtime and working hours carried forward in the amount of € 2,720 thousand (previous year € 2,735 thousand), remaining leave in the amount of € 1,259 thousand (previous year € 1,486 thousand), management bonuses in the amount of € 1,234 thousand (previous year € 1,111 thousand), wage and church tax in the amount of € 935 thousand (previous year € 832 thousand) and severance payments in the amount of € 730 thousand (previous year € 248 thousand).

(11) 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 is derived by taking into account the respective depreciation/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 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 prior year, there were no revenues to report on the basis of business transactions with other business segments in fiscal year 2015.

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
Net income from joint ventures accounted for according to 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 capital investments	17,981	5,424	518	23,923
Segment assets	135,924	69,576	24,963	230,463
of which joint ventures accounted for according to 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

BUSINESS SEGMENTS IN 2014

K EUR	Pumps and Engine Components	Brake Discs	Other Elimination / Consolidation Effects	**Group**
Segment sales	333,560	96,481	0	430,041
Segment EBIT	13,371	5,013	-1,809	16,575
Segment EBITDA	27,286	9,070	-1,529	34,827
Financial result	0	0	-1,804	-1,804
Earnings before tax	13,371	5,013	-3,613	14,771
Segment depreciation / amortisation	13,915	4,057	280	18,252
Segment capital investments	26,053	8,492	243	34,788
Segment assets	146,848	52,631	10,010	209,489
Material segment expenses *	5,770	0	0	5,770
Number of customers with sales > 10% of total sales	2	1		
VW Group	126,425	51,566		177,991
Daimler Group	83,420	250		83,670

* Additional start-up costs for large series production

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

GEOGRAPHIC SEGMENTS 2014

K EUR	Germany	Rest of Europe	America	Other	Total
External sales	274,151	147,364	7,334	1,192	430,041
Other segment information					
Non-current segment assets	111,075	0	1,334	0	112,409

Notes to the income statement

(12) 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 charges, commissions, and dispatch costs.

(13) General administration expenses

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

(14) 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 the fiscal year 2015, the additionally capitalised development costs amounted to € 1.4 million (previous year € 1.3 million). Further development services were billed within the scope of customer orders.

(15) Other operating income

Other operating income includes, in particular, reversals of accruals and other liabilities in the amount of € 1,525 thousand (previous year € 1,239 thousand), income from compensation payments and insurance compensation in the amount of € 500 thousand (previous year € 103 thousand), income from the disposal of fixed assets in the amount of € 233 thousand (previous year € 17 thousand) and income derecognised receivables from customers in the amount of € 94 thousand (previous year € 78 thousand).

(16) Other operating expenses

Other operating expenses include employee severance payments of € 1,027 thousand (previous year € 430 thousand), € 398 thousand for the remuneration of supervisory board members (previous year € 323 thousand) and € 344 thousand for preparing the financial statement costs and consulting fees (previous year € 321 thousand).

(17) Financial result

The financial result is comprised as follows:

K EUR	2015	2014
Financial income	16	12
Financial expenses		
Interest and similar expenses	-742	-1,079
Interest portion in the addition to pension accruals	-490	-737
Interest expense from finance leasing	-39	0
	-1,268	-1,816
Financial result	**-1,252**	**-1,804**

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 € 508 thousand (previous year € 734 thousand) determined using the effective interest rate method (see Note 10 "Liabilities").

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

K EUR	Net results		Of which expense / income from impairments	
	2015	2014	**2015**	2014
Loans and receivables (LaR)	-1,209	-441	-1,225	-441
Available-for-sale assets(AfS)	-20	-6	-20	-6
Financial liabilities measured at amortised cost (FLAC)	-781	-734	0	0
Total	**-2,010**	**-1,181**	**-1,245**	**-447**

(18) Joint venture accounted for according to the equity method

The joint venture accounted for by means of the at equity method in the amount of € 16.7 million exclusively comprises the Chinese joint venture SHW Longji Brake Discs (LongKou) Co., Ltd. Since 1 April 2015 this joint venture has been included in the consolidated financial statements of SHW AG in accordance with the equity method. The still outstanding second purchase price instalment in the amount of € 6.9 million is included in the other non-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	
Share (in %)	51,0
Balance sheet as at 31.12.2015	
Non-current assets	16,164
Current assets	17,606
Of which cash and cash equivalents	4,916
Deferred tax liabilities	643
Current liabilities	7,213
Other financial liabilities	554
Net assets	25,914
Income statement 01.04.-31.12.2015	
Sales	15,457
EBITDA	2,034
Amortisation	1,246
EBIT	788
Earnings before tax	788
Income tax expense	197
Earnings after tax	591
Other earnings after tax (from currency translation)	-2,025
Total comprehensive income after tax	-1,434

Within the scope of an 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.

Reconciliation statement for the summarised financial information and the carrying amount in the consolidated financial statements:

K EUR	
At-equity carrying amount as at 01.01.2015	0
Acquisition costs for investment	16,319
Negative difference resulting from initial measurement	1,081
Share of earnings after tax	302
Share of other earnings after tax (from currency translation)	-1,033
At-equity carrying amount as at 31.12.2015	**16,669**

The acquisition costs for the investment increased by € 110 thousand in the fourth quarter of 2015 on currency-related grounds. This resulted in a corresponding reduction in the negative difference arising from the initial measurement.

(19) Income taxes

a) Tax recognised in profit or loss

K EUR	**2015**	2014
Current taxes	-6,239	-4,936
Current year	-5,852	-4,998
Adjustments for previous years	-387	62
Deferred taxes	327	844
Appearance / reversal of temporary differences	277	668
Recognition of previously unrecognised tax losses	50	176
Total	**-5,912**	**-4,092**

The revaluation of defined benefit obligations resulted in deferred tax expenses of € 338 thousand (previous year deferred tax benefits of € 1,126 thousand) which were recognised directly in equity.

b) Reconciliation of effective tax rate

K EUR	**2015**	2014
Earnings before tax	20,263	14,771
Expected income tax (28.2%)	5,714	4,165
Tax-free income, non-deductible expenses	-16	49
Tax effect of joint ventures accounted for by means of the at equity method	-390	0
Taxes from previous years	387	-62
Reduction in assessed value	-12	-12
Additions (pursuant to Section 8 of the German Trade Tax Act. GewStG)	28	35
Unrecognised deferred tax assets from loss carryforwards	27	110
Tax effects of loss carryforwards	-50	-176
Deviating foreign tax rate	14	8
Permanent differences	63	0
Other	147	-25
Income taxes	**5,912**	**4,092**
Effective tax rate	29.2%	27.7%

In Germany, corporate income tax totalled 15.8 per cent in 2015. 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; the actual tax rate of 28.2 per cent is used for Germany.

No deferred taxes were calculated on what is referred to as "outside basis differences" amounting to € 2,056 thousand (previous year € 6,031 thousand) since SHW is able to control the timing of their release, and it is likely that the temporary difference will not be reversed in the foreseeable future.

The distribution of dividends to shareholders of SHW AG did not have an impact on income tax in 2015 and 2014 and will not have an impact on the 2016 income taxes.

c) Composition of deferred taxes

	Consolidated balance sheet	
K EUR	**31.12.2015**	31.12.2014
Deferred income tax liabilities		
Intangible assets	2,431	2,697
Property, plant and equipment	294	210
Other non-current assets	248	282
Inventories	0	17
Other current assets	135	158
Current liabilities and accruals	129	92
Total	**3,237**	**3,456**
Deferred income tax assets		
Inventories	171	0
Pension accruals and similar obligations	3,053	3,507
Other non-current liabilities and accruals	846	517
Current liabilities and accruals	183	595
Unused tax losses	415	176
Total	**4,668**	**4,795**

d) Deferred taxes directly recognised in equity

K EUR	Before tax	Tax income / expense	After tax
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 according to the equity method	-1,033	0	-1,033
Currency translation differences	-44	0	-44
Total	**122**	**-338**	**-216**
2014			
Actuarial gains / losses from pension accruals and similar obligations	-3,993	1,126	-2,867
Currency translation differences	51	0	51
Total	**-3,942**	**1,126**	**-2,816**

e) Unrecognised deferred tax assets

No deferred tax assets were recognised for tax losses amounting to € 97 thousand (previous year € 391 thousand) 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, € 262 thousand is attributable to the Chinese subsidiary SHW Automotive Pumps (Kunshan) Co., Ltd., which generated a loss for the period in both the 2015 fiscal year and the previous year. The Group's Chinese subsidiary is about to commence series production of variable engine oil pumps. In the fiscal year 2015, deferred tax assets in the amount of € 262 thousand on tax losses (€ 1,049 thousand) were recognised because the Management Board believes it is probable that a taxable income will be available in the future to offset these tax losses.

The deferred tax assets first recognised in the previous year on tax losses realised by the Group's Brazilian subsidiary SHW do Brasil Ltda. were utilised in the fiscal year 2015 in the amount of € 23 thousand.

(20) Other income statement disclosures

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

COST OF MATERIALS

K EUR	2015	2014
Cost of raw materials and supplies and of goods purchased	275,395	262,932
Cost of purchased services	16,943	20,389
Total cost of materials	**292,338**	**283,321**

Depreciation and amortisation

Depreciation and amortisation of intangible assets and property, plant and equipment totalled € 22,543 thousand (previous year € 18,252 thousand).

PERSONNEL EXPENSES

K EUR	2015	2014
Wages and salaries	76,280	66,182
Social security contributions and pension expenses	13,601	12,434
Total personnel expenses	**89,881**	**78,616**

Pension expenses comprise the addition of € 403 thousand (previous year € 285 thousand) to pension accruals (excluding the interest component). Statutory pension insurance expenses totalled € 6,248 thousand (previous year € 5,603 thousand).

Annual average number of employees:

EMPLOYEES

	2015	2014
Wage earners	1,012	939
Salaried employees	275	234
	1,287	**1,173**

Other information

(21) Contingent liabilities

There were no contingent liabilities in fiscal years 2015 and 2014.

(22) Financial instruments

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

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).

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

The Company has the following types of financial instruments:

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

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 2015.

K EUR	Measurement category acc. IAS 39	Carrying amount as at 31.12.2014	Fair value as at 31.12.2014	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	337	337	337	–	–
Shares in associated companies	AfS	510	*	510	–	–
Trade receivables	LaR	44,656	*	44,656	–	–
Cash and cash equivalents	LaR	292	*	292	–	–

* The fair value approximately equals the carrying amount

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	6,914	6,914	6,914	–	–
Obligations from finance leasing	FLAC	994	994	994	–	–
Other current financial liabilities						
Other non-interest-bearing liabilities	FLAC	7,088	7,088	7,088	–	–

K EUR	Measurement category acc. IAS 39	**Carrying amount as at 31.12.2014**	**Fair value as at 31.12.2014**	Valuation		
				Amortised cost	Fair value through equity	Fair value through profit or loss
EQUITY AND LIABILITIES						
Liabilities to banks	FLAC	14,648	14,648	14,648	–	–
Trade payables	FLAC	56,159	56,159	56,159	–	–
Other non-current financial liabilities					–	–
Other non-interest-bearing liabilities	FLAC	67	67	67	–	–
Other current financial liabilities						
Other non-interest-bearing liabilities	FLAC	6,070	6,070	6,070	–	–

AfS: Available for Sale
LaR: Loans and Receivables
FLAC: Financial Liabilities measured at Amortized 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 2015:

K EUR	Total	2016	2017	2018	2019	2020 ff,
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**

The situation as at 31 December 2014 can be summarised as follows:

K EUR	Total	2015	2016	2017	2018	2019 ff,
Non-current liabilities						
Liabilities to banks	2,522	0	1,214	1,200	108	0
Other liabilities	152	58	58	10	10	16
Current liabilities						
Trade payables	56,159	56,159	0	0	0	0
Liabilities to banks	12,200	12,200	0	0	0	0
Other financial liabilities	0	0	0	0	0	0
Total	**71,033**	**68,417**	**1,272**	**1,210**	**118**	**16**

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 liabilities. The Group monitors its capital structure on the basis of its net financial liabilities and its target ratios in accordance with the covenant provisions. A monthly report is prepared in this regard and discussed at the Management Board meetings. The Group's equity is managed and controlled through a targeted retention of earnings, which is defined by the resolution of the shareholders' meeting. The following table shows the composition of the net financial liabilities as at the respective balance sheet dates.

K EUR	31.12.2015	31.12.2014
Liabilities to banks	2,486	14,648
Trade payables	43,484	56,159
Cash and cash equivalents	-14,814	-292
Net financial liabilities	**31,156**	**70,515**

Credit risk

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

K EUR		Of which:			Of which: not impaired and overdue in the following time bands					
Trade receivables	Carrying amount	Of which: neither impaired nor overdue	Of which: impaired and not overdue	Of which: impaired and overdue	Up to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	More than 360 days
As at 31.12.2015	**37,618**	**28,790**	**2,170**	**1,060**	**3,663**	**867**	**432**	**274**	**173**	**189**
As at 31.12.2014	46,661	38,659	1,428	808	3,995	400	847	206	292	26

Credit risk results from the possibility of the full or partial default of a counterparty and also exists in the context of cash investments. Impairments of trade receivables and other receivables and assets are recognised according to uniform Group rules and cover all recognisable 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 € 27,594 thousand (previous year € 38,804 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 the revenues and expenditures of the forthcoming months. The SHW Group strives to be in a position to meet its financial obligations at all times and seeks the most optimum balance of short-term cash deposits and use of borrowing. This means that the 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 cash and liquidity that is 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 borrowing. As of the reporting date, this facility has been exclusively drawn down by € 1.1 million through guarantees. For further information on the maturities of liabilities, please refer to our comments under Note 10 "Liabilities".

Interest and currency risk

The SHW 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 SHW 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 in euros which is 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

A land charge of € 2,000 thousand was entered in favour of Kreissparkasse Ostalb by means of a notarised agreement on 19 December 2012. This land charge served as collateral for two loans of € 4,758 thousand, which were valued at € 2,486 thousand as at 31 December 2015.

(23) Other financial obligations

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

K EUR	**31.12.2015**	31.12.2014
Obligations from rent and lease agreements	5,241	4,756
Future minimum payments for finance leases	1,192	0
Total other financial obligations	**6,433**	**4,756**
Of which due within one year	1,634	1,319
Of which due in one to five years	4,034	2,664
Of which due in more than five years	765	773

SHW Automotive GmbH leases cars under a vehicle leasing arrangement and also leases four warehouses, telephone equipment, computer hardware and machinery. SHW do Brasil Ltda., SHW Automotive Pumps (Kunshan) Co., Ltd. and SHW Pumps & Engine Components Inc. each leases one warehouse. Expenses for other machinery amounted to € 245 thousand (previous year € 384 thousand). Expenses for rent and tenancy agreements amounted to € 534 thousand in the 2015 fiscal year (previous year € 442 thousand).

The obligations from finance leasing relate to 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 10 years. 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 2015 K EUR	Minimum lease payments	Interest included in lease payments	**Liabilities from finance leasing**
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	**2015**	2014
Auditing services	162	166
– Of which for previous years	10	15
– Of which other audit services	8	8
Other assurance services	2	2
Tax consultancy services	0	0
Other services	48	16

Tax advisory services were not provided by the auditor. Other expenses occurring in fiscal year 2015 amounted to € 21 thousand (€ 16 thousand thereof are attributable to previous years).

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

K EUR	2015	2014
Benefits due in the short term (remuneration)	992	883
Benefits due in the long term (remuneration)	216	270
Benefits upon termination of the employment relationship	0	0

Remuneration of former members of the Management Board amounted to € 168 thousand (previous year € 56 thousand). A total of € 72 thousand (previous year € 79 thousand) has been recognised as provisions for pension obligations to former members of the Management Board. Provisions of € 58 thousand were established for other long-term and termination benefits.

The remuneration of former members of the management of predecessor companies and their surviving dependants amounted to € 251 thousand (previous year € 251 thousand). The corresponding pension obligations for these persons were covered with accruals of € 3,196 thousand (previous year € 3,269 thousand).

The total remuneration of the Supervisory Board amounted to € 273 thousand during the fiscal year (excluding the reimbursement of expenses, previous year € 216 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, there were investments of € 2.0 million in tangible assets 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 € 2.3 million. Furthermore, there were no cash outflows from the capitalisation of tangible assets within the scope of the € 1.1 million finance leasing.

There was a cash outflow of € 9.0 million in the fiscal year 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 in February 2017 at the latest and is included in the other non-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. The Group did not have any overdrafts as of the reporting date (previous year € 10,972 thousand).

(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 the 2015 fiscal year.

In fiscal year 2015, the Management Board of SHW AG was comprised of the following members:

Dr Frank Boshoff, Wetter (from 1 July 2015)

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

Dr Thomas Buchholz, Leimen (until 30 June 2015)

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

Sascha Rosengart, Aalen (until 29 Februar 2016)

- Chief Financial Officer and Managing Director of SHW Automotive GmbH, responsible for administration

Andreas Rydzewski, Lauffen am Neckar

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

The Supervisory Board members in fiscal year 2015 were:

Georg Wolf, Dietzenbach, Chairman

- Previously Chairman of the Management Board of ixetic GmbH, Bad Homburg v.d. Höhe (now: Magna Powertrain GmbH)

Further mandates:
- Weber-Hydraulik GmbH, Deputy Chairman of the Advisory Board

Christian Brand, Karlsruhe, Deputy Chairman

Further mandates:
- Landesbank Baden-Württemberg, Chairman of the Supervisory Board
- Wüstenrot & Württembergische AG, Member of the Supervisory Board
- Wüstenrot Holding AG, Deputy Chairman of the Supervisory Board

Kirstin Hegner-Cordes, Munich

- Independent consultant

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

Frank-Michael Meißner, Tuttlingen

- Member of the Works Committee at SHW Automotive GmbH, Tuttlingen facility

The members of the Supervisory Board of the SHW AG have also been at the same time members of the Supervisory Board of the SHW Automotive GmbH in 2015.

(28) German Corporate Governance Code

The Management Board and the Supervisory Board have submitted the Declaration of Conformity pursuant to § 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

No particularly significant events occurred after the reporting date which had a material impact on the Group's results of operations, net assets and financial position.

SCHEDULE OF SHAREHOLDINGS

as of 31 December 2014 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	4,3198	-564	-824
SHW Pumps & Engine Components Inc., Brampton / Ontario, Canada	100	CAD	1,5128	-256	-137
SHW Automotive Pumps (Kunshan) Co., Ltd., Kunshan / Shanghai, China (previously: SHW Automotive Pumps (Shanghai) Co., Ltd.)	100	RMB	7,0804	2,687	-5,212
SHW Longji Brake Discs (LongKou) Co., Ltd., LongKou, China	51	RMB	7,0804	171,909	5,884

* After profit transfer

Aalen, 29 February 2016

Dr Frank Boshoff	Sascha Rosengart	Andreas Rydzewski
Chief Executive Officer	Chief Financial Officer	Member of the Management Board

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by SHW AG, Aalen, comprising the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement, and the notes to the consolidated financial statements, including the Group management report, which is combined with the management report of the Company for the fiscal year from 1 January to 31 December 2015. 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, 29 February 2016

Ebner Stolz GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Christoph Brauchle
Auditor

Christoph Lehmann
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, 29 February 2016

Management Board of SHW AG

Dr.-Ing. Frank Boshoff	***Sascha Rosengart***	***Andreas Rydzewski***
Chief Executive Officer	*Chief Financial Officer*	*Member of the Management Board*

GLOSSARY

Aluminum pot

The brake disk pot forms the very middle of the brake disc and is used for mounting the disc to the hub and the wheel of the car. Composite discs have an aluminum pot instead of an iron pot.

Aluminium die-cast casing

Oil pump casing made of aluminium manufactured using a high-pressure die-cast process.

Auxiliaries

Auxiliaries are devices powered by the engine such as the alternator, power steering servo pumps, vacuum pump for the brakes, air conditioner compressor, secondary air pump for exhaust treatment, fan and sometimes also the oil and coolant pumps.

Balancer shaft unit

Three, four and five-cylinder inline engines and V-six engines vibrate more powerfully and run more unevenly than engines with higher numbers of cylinders. Engine running can be improved through the use of balancer shafts which are installed directly inside the engine and which rotate in the opposite direction to the engine’s crankshaft.

Camshaft phaser

The camshaft is part of the engine’s valve train. Its job is to operate the valves at the right moment and in the right sequence, thereby controlling the gas exchange. With the aid of camshaft phasers, the timing of the intake valves or exhaust valves can be adapted to the respective load status of the engine. This improves the engine’s performance and torque curve, and also saves fuel.

Composite disc

The composite discs made by SHW consist of a grey cast iron friction ring and an aluminum pot. Both parts are linked together by means of steel pins, where the friction ring can freely glide on those pins in radial direction. Thus, it is guaranteed that the friction ring can expand independently from the pot while heated under force. Heat tensions of the disc and the risk of cracks can be minimised. In this way, the composite disc combines extreme durability with the highest level of safety. In addition, a composite disc has a lower weight than conventional brake discs made from iron. By use of aluminum, a possible weight reduction of up to 8 kg per vehicle can be reached.

Dual-clutch

Dual-clutch transmissions comprise two independent transmission units. As they move through the gears, the dual-clutch mechanism allows the engine to engage with each of the two transmissions in turn via two drive shafts. The dual-clutch transmission permits an automatic gear change with no interruption in power flow. The transmission is controlled via a mechatronics module, which houses the electronic control unit, various sensors as well as the hydraulic control elements in a single compact unit.

Electric auxiliary pump for hybrids / start-stop system

The electric auxiliary pumps maintains the hydraulic pressure level in auxiliaries after the combustion engine has been switched off.

External gear pump

Specification of a variable oil pump.

Friction ring

The friction ring is the part of the brake disc on which the brake pads are pressed, in order to apply the brake force. Friction rings can either be flat, with perforation holes (cross-drills) or grooves.

Fuel pump

In a modern fuel-injection systems, the fuel pump supplies the right amount of fuel, i.e. diesel or petrol, to the injection valves or injection pump at the right pressure.

Light vehicles

Passenger cars and light trucks with a permissible total weight of up to 6 tons.

Lightweight brake disc

See composite discs.

Map-controlled oil pump

A map-controlled oil pump is a special type of variable oil pump, equipped with an electromagnetic control valve. In a data map, target values for certain engine parameters are stored. Networking with the engine control device on the vehicle enables a map-controlled pump to be controlled as needed, dependent on the operating status of the engine. The volume of oil delivered by the pump is regulated by the electromagnetic control valve.

Micro, mild or plug-in hybrid

Name for different hybrid vehicle variants. Micro hybrids have a conventional internal combustion engine with start-stop system that switches it off at traffic lights. In a mild hybrid, the combustion engine gives the electric motor an assist for starting and accelerating, while electrical energy is recovered by means such as brake energy recovery. A plug-in hybrid has a battery that can be charged with grid power.

Oil / vacuum pump

In engines with direct injection, the vacuum pump generates the vacuum needed for boosting brake performance, a vacuum which is also required for controlling servo systems and exhaust gas recirculation. It can also be combined with an oil pump.

Powder metallurgy

In the powder metallurgy production process, different powdered metals are mixed and then pressed into a mould under pressure. During the subsequent heat treatment (sinter) the granules of powder are firmly attached to their contact surfaces via diffusion of the atoms in the metal.

Sinter metal parts

Pump cogwheels and other pump components (e.g. rotors and adjustment rings), components for the engine drive (belt and chain wheels), components for camshaft phasers (chain wheel, rotor, stator and signal transmitter disc) and camshafts, camshaft drive wheels, synchroniser hubs and cogwheels made of steel or aluminum powder.

Industry applications

Pumps and engine components for trucks, agricultural and construction vehicles, stationary engines and wind power stations.

Vane pump

Specification of a variable oil pump.

Variable oil pump

A variable oil pump supplies the amount of oil needed for different engine operating states, dependent on oil pressure.

Variable water pump

The main distinctive feature of a variable water pump is that it only works at a reduced rate during the warming up phase of the engine and ensures that the cooling water inside the cooling ducts of the engine block warms up especially quickly.

Ventilated brake disc

Ventilated brake discs are not made from solid metal but contain internal air channels in order to cool the disc down more quickly.

Wave-design / wave-disc

Wave discs or brake discs with a wave design are composite discs which offer a further weight reduction as their outer diameter features a wave profile. The additional weight reduction can reach up to 1.5 kg per vehicle, depending on the size of the discs.

FINANCIAL CALENDAR

24 March 2016	Annual report 2015
3 May 2016	Interim report for the 1st quarter of 2016
10 May 2016	Annual general meeting 2016 (Congress Centrum Heidenheim)
29 July 2016	Interim report for the 2nd quarter of 2016
28 October 2016	Interim report for the 3rd quarter of 2016

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