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HWA

CONSOLIDATED FINANCIAL STATEMENT 19

Motor racing · Vehicles and components

CONTENT

EVENTS 2020

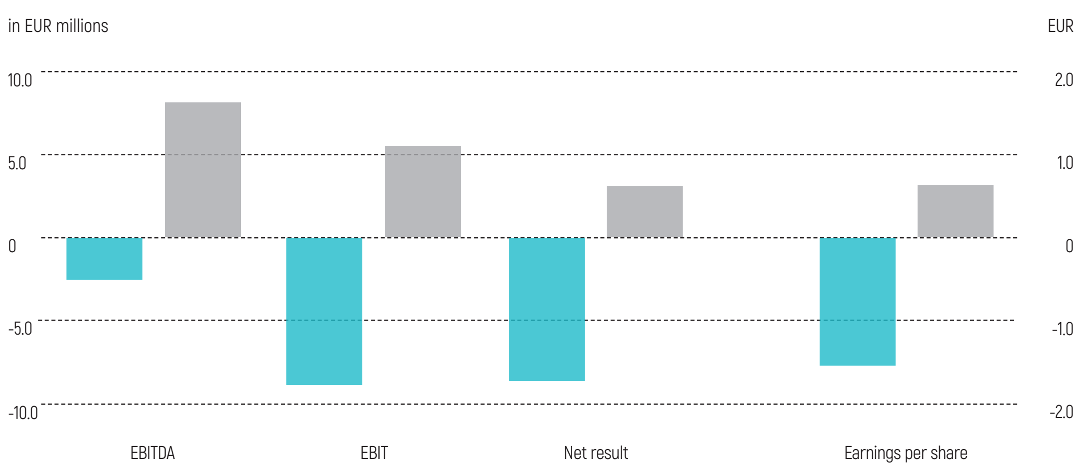
29 April 2020	Publication of the annual figures for the 2019 financial year
May 2020	Publication of the 2019 annual financial statements
28 July 2020	Annual General Meeting of HWA AG
27 October 2020	Publication of the 2020 half-year report

GROUP KEY FIGURES

in EUR millions	**2019**	2018*	2017	2016	2015	2014	2013	2012
Sales income	**113.6**	101.2	95.5	97.4	83.6	64.1	56.0	63.5
EBITDA	**-2.2**	7.5	5.7	3.2	8.1	3.7	7.9	7.7
EBITDA margin (in percent)	**-2.0**	7.4	5.8	3.3	9.6	5.8	14.1	12.2
EBIT	**-8.9**	5.3	2.8	0.2	5.1	1.4	5.7	5.6
EBIT margin (in percent)	**-7.8**	5.2	2.9	0.2	6.1	2.2	10.0	8.8
Net result	**-8.3**	3.4	1.4	-0.3	3.4	0.7	3.9	3.7
Earnings per share (in EUR)	**-1.47**	0.66	0.28	-0.06	0.66	0.13	0.75	0.73

*) from 2018 Group key figures

AT A GLANCE 2019 | 2018



REPORT OF THE SUPERVISORY BOARD

Dear HWA AG shareholders,
In the 2019 financial year, the Supervisory Board advised the Management Board comprehensively and performed all the duties incumbent upon it under the law and the company's articles of incorporation. During the past year, we advised the Management Board on the management of the Company's affairs on an ongoing basis and kept the management and performance of the Company under close review. The Supervisory Board was directly and promptly involved in all decisions of fundamental importance to the well-being of the Company, or wherever statutory provisions or the articles of incorporation called for such involvement. This is based on written and verbal reports of the Management Board to the Supervisory Board. Cooperation between the Boards was marked by detailed and open dialogue. The Management Board informed the Supervisory Board promptly, thoroughly and on a regular basis on all significant aspects for the company and events requiring approval.

The Chairman of the Supervisory Board was also in regular contact with the Management Board outside the regularly scheduled meetings. Other Supervisory Board members also maintained their contacts with the Management Board outside formal meetings, keeping themselves informed about ongoing business development and significant business events and providing support and advice where needed.

Meetings of the Supervisory Board
During financial year 2019, the Supervisory Board met four times in the performance of its duties. In these meetings, the current state of the Company's affairs was discussed with the Management Board and explained in detail. These Supervisory Board meetings were held on 26 March, 25 June, 25 September and 17 December 2019. One member of the Supervisory Board was absent at each of the meetings on 26 March, 25 September and 17 December 2019. The Supervisory Board's meetings were all held at the Company's headquarters in Affalterbach. The Supervisory Board's financial statements meeting also took place on 26 March 2019. The statutory auditor participated in the financial statements meeting.

The Management Board also provided the Supervisory Board with full information on urgent matters and matters of particular importance to the Company outside the regular meetings. All activities and transactions requiring the Supervisory Board's approval were discussed in detail in the Supervisory Board meetings. Urgent resolutions were also adopted by the Supervisory Board by way of circulation.

Major topics of discussion during last year included:
- The review of the planning, budget and investments for 2019
- Sporting developments in the various different racing series
- Entry in and development of Formula E from the 2018/2019 season onwards
- The strategic partnership with Daimler AG in Formula E from the 2019/2020 season onwards
- Monitoring of the liquidity situation, liquidity planning and risk and opportunity management
- The development of the newly established joint venture Vynamic GmbH with the partner AF Racing AG
- Development and construction of Aston Martin Vantage DTM vehicles and use of the vehicles under license from Aston Martin Lagonda Ltd. in the DTM racing series in collaboration with the joint venture Vynamic GmbH
- Consequences from DTM participation in 2019 and ending the collaboration with R-Motorsport
- Discussion regarding the future positioning of Vynamic GmbH and the ongoing collaboration with AF Racing AG
- The progress of the various projects in motor racing and vehicles/vehicle components, in particular the production of the Mercedes-AMG GT 4 and new projects with partners outside the Daimler Group
- Diversification of the customer structure
- Future development and the budget for 2020 and medium-term planning of HWA AG, as well as future financing of the Company
- Implementation of the capital increase without subscription rights in 2019
- Examination of further corporate actions

Membership of the Management and Supervisory Boards

There were changes to the Management Board at HWA AG in the 2019 reporting year.

With effect from 1 November 2019, Martin Marx (COO) was appointed by the Supervisory Board as a member of the Company's Management Board. He has been working at the Company for many years already.

Ulrich Fritz (CEO) is still the Chairman of the Management Board of HWA AG.

Under the Company's articles of incorporation the Supervisory Board consists of six members. As at the end of the 2019 reporting year, the Supervisory Board was made up of the following persons:
- Hans Werner Aufrecht, Chairman
- Willibald Dörflinger, Deputy Chairman
- Gert-Jan Bruggink
- Klemens Große-Vehne
- Hussain Ahmad Al Siddiqi

There was one change to the Supervisory Board in 2019. As at 30 September 2019, Rolf Krissler stepped down as a member of the Company's Supervisory Board. A new member is to be elected to the Supervisory Board of HWA AG at the Annual General Meeting in 2020.

Annual financial statements and audit

By resolution of the Annual General Meeting of 25 June 2019, Treuhand Südwest GmbH Wirtschaftsprüfungsgesellschaft und Steuerberatungsgesellschaft, Karlsruhe, was appointed as statutory auditor of the Company's annual and consolidated financial statements for the 2019 financial year. The statutory auditor audited the 2019 annual and consolidated financial statements and the combined management report prepared by the Management Board and issued an unqualified audit opinion.

The annual financial statements, the consolidated financial statements, the combined management report and the auditor's report were presented to all members of the Supervisory Board in due time. They were exhaustively discussed in the Supervisory Board's financial statements meeting. The statutory auditor participated in the meeting and reported on the major findings of his audit, and was available to answer further questions from the Supervisory Board. The Supervisory Board reviewed the statutory auditor's findings in detail and approved the auditor's opinion. On the basis of its review, the Supervisory Board had no grounds for objection to the annual and consolidated financial statements. It approved the annual and consolidated financial statements for the 2019 financial year on 17 March 2020. The annual financial statements for 2019 were thereby formally adopted.

The Supervisory Board endorses the Management Board's proposal for the appropriation of HWA AG's net retained profits. Due to the net loss in 2019, HWA AG will not propose a dividend to the Annual General Meeting in 2020, but instead will propose that the net retained profits be carried forward to new account.

Supervisory Board's thanks

The Supervisory Board would like to thank all employees for their work, their personal efforts and their continued strong commitment. Although HWA AG recorded a considerable loss in 2019, the Supervisory Board would also specifically like to express its recognition and appreciation to the Management Board and the entire management team for their work in 2019.

For the Supervisory Board

Affalterbach, March 2020

Hans Werner Aufrecht
Chairman of the Supervisory Board

COMBINED MANAGEMENT REPORT ON CONSOLIDATED FINANCIAL STATEMENT

1. Basic information on the Group
Legal and economic position of the company in 2019

HWA AG was founded in 1998 under the name H.W.A. GmbH. It became a stock corporation (AG) under German law in 2006. The shares of HWA AG have been traded in the Open Market segment of the Frankfurt Stock Exchange since 19 April 2007. The company operates in Germany as an individual entity.

As the parent company, HWA AG, Affalterbach, holds the majority of the voting rights in and exercises joint management over the following legal entities:

- HWA US Inc., Wilmington, Delaware, USA (100%)
- HWA AUS Pty Ltd., Mornington, Victoria, Australia (100%)

The two above-mentioned legal entities serve as sales companies for the respective local markets.

The consolidated financial statements include the parent company, the US company HWA US Inc. and the company HWA Pty Ltd. in Australia.

In the two segments in which it operates – Motor Racing and Vehicles/Vehicle Components – HWA AG develops, builds and produces high-performance technological products and performs extensive services.

In 2019, activities in the Motor Racing segment focused on participation in the Deutsche Tourenwagen Masters (DTM) motor racing series as a development, testing and racing team for R-Motorsport with four Aston Martin Vantage DTM racing vehicles, as well as entry in the FIA Formula 3 championship under the name HWA RACELAB and participation in the fifth and sixth seasons of the ABB FIA Formula E championship.

On behalf of VYNAMIC GMBH, the joint venture between HWA AG and R-Motorsport, HWA AG handled the full development, design, construction and use of the racing vehicles in the 2019 DTM season.

There were also appearances as a racing team in Formula 3 and Formula E. Since the end of 2019, HWA AG has been participating in the sixth season of the ABB FIA Formula E championship as a racing team for the Mercedes-Benz EQ Formula E team.

The second segment, Vehicles/Vehicle Components, focuses on development, production and other services for the automotive industry and other customer groups. As a highly specialised service provider, HWA AG applies its specific racing expertise to carry out development and production orders for a variety of customers. It also provides spare parts and other services at the Affalterbach location and on-site around the world.

Research and development

Across all its activities and business areas, HWA AG has comprehensive resources at its disposal that it requires for the competitive development of racing vehicles, customer sports vehicles and small-scale series vehicles, as well as vehicle assemblies and components. For example, the use of cutting-edge IT solutions in simulation and design work ensures that all developments are state-of-the-art. The company also possesses comprehensive expertise and a wide range of resources for developing electrics and electronics in racing and small-scale series vehicles and vehicle components – specifically, independently and individually tailored to the intended application. This includes both creating and programming corresponding control electronics in addition to their simulation and analysis.

To be able to guarantee a suitable level of service for its global customers in the customer sports area, HWA AG has built up an excellent infrastructure that has worked superbly over the years and allows the thorough testing and maintenance of vehicles on the race track, in-house or directly on-site.

HWA AG will dedicate special attention to research and development in future so as to open up new business areas and opportunities and be able to uphold the high standard of all current and future products and the competitive edge this bestows. Good planning and targeted investment in this area will ensure the appropriate support for this approach.

The focus will remain on customer-specific developments, but these will be supplemented by specific in-house developments such as the R4T engine in 2019 to generate future income.

2. Economic report
General economic conditions

According to the International Monetary Fund (IMF), global economic growth cooled off in 2019, falling to 2.9% after 3.6% in the previous year. The IMF is therefore lowering the forecast from its World Economic Outlook (WEO) from October 2019 by 0.1% due to weaker performance in some economies, particularly in emerging economies such as India, Mexico and South Africa.

The slight slowdown in growth due to increased geopolitical tensions between the US and Iran and differences between the US and its trading partners in the trade dispute had already been taken into account. In the first six months of 2019, global growth had already lost momentum and stabilised at a slow pace. Nonetheless, the global economy is expected to grow more slowly than was expected last October in both 2020 and 2021 (3.3% and 3.4% respectively). This further adjustment reflects the significantly reduced growth forecast for some emerging economies, particularly India. This does not take account of the effects of coronavirus on global trade.

The International Monetary Fund lowered its euro area forecasts for 2019 as a whole to 1.2% (corresponding to the forecast from October 2019) following an unexpectedly sluggish first half of the year. Reduced global trade and a lower level of industrial production resulted in slower export growth, negatively impacting the economic development in the euro area. GDP growth in euro area countries had amounted to 1.9% in 2018. The IMF is anticipating growth to continue to decline by 1.3% in 2020 (0.1 percentage point lower than in autumn 2019) and by 1.4% in 2021. At 1.2%, inflation in the single currency area in 2019 was down on the previous year's figure of 1.8%.

According to the German Federal Statistical Office (Destatis), the German economy grew by 0.6% in 2019, marking the tenth year in a row, although it continued to lose momentum. The domestic economy generated significant growth momentum in 2019 and made bigger gains than in the previous two years. Growth rates for German exports slackened in comparison to previous years. This decline was particularly driven by the development in industry, where added value decreased for several consecutive quarters. At 1.4%, average annual inflation in Germany in 2019 moved further from the European monetary policy target of just under 2%. In 2018, inflation had been at 1.9%. The Kiel Institute for the World Economy expects to see economic growth of 1.1% for Germany in the 2020 financial year.

Growth in the US economy slowed in 2019 as a result of the uncertainties that arose with regard to tariff and trade agreements, with private sector activity still being propped up by significant fiscal stimuli. According to the IMF, the US economy grew by 2.3% in 2019, a somewhat lower rate than forecast in the autumn and weaker than the previous year's 2.9%. The IMF's forecast for the US was revised downwards. Growth is set to slow to 2.0% in 2020 and again to 1.7% in 2021 when fiscal stimuli come to an end.

According to IMF forecasts, economic output in the People's Republic of China rose by 6.1% in 2019 after 6.6% in the previous year. Growth was thus outside the Chinese government's targeted range of 6.5% to 7.0%. Regardless of the trade deal agreed with the US ("Phase One"), the withdrawal of recently imposed US tariffs and the halt in the introduction of new US tariffs, the IMF anticipates a slowdown in the Chinese economy. This will also be driven by tighter banking regulation from financial supervisory authorities in the country. The International Monetary Fund expects to see Chinese economic output fall to 6.0% in 2020 and 5.8% in 2021. This does not take account of the effects of coronavirus.

Automotive market and other relevant markets

Global demand for passenger cars remained very high in the reporting year, although it did fall by around 4% year-on-year. Traditional sales markets in western Europe and the US have now made up for the substantial downturn in volume from the financial crisis in full and recently have been moving sideways only. The Chinese market faltered noticeably over the course of the year, declining significantly overall.

In Europe, passenger car sales increased by 1.2% year-on-year. Demand in western Europe was also up 0.7% on the previous year's level.

The German market saw a 5% upturn in comparison to the previous year, while demand in France rose by around 2%. The UK market, on the other hand, declined by approximately 2%.

The US passenger car and light commercial vehicle market remained strong with around 17 million units sold. However, the market volume was 1.4% lower than in the previous year.

The Chinese passenger car market recorded an extremely sharp drop in sales. This firstly reflected China's weaker overall economic growth, which had a particularly negative impact on demand. Secondly, the pending trade dispute with the US – despite the "Phase One" deal – created uncertainty and caution on the part of car buyers. Due to these factors, the market contracted by around 10% in the year as a whole. In Japan, demand for passenger cars was 2% lower. The Indian market was not able to continue its run of growth from the last few years, instead falling by 12.7%. In Brazil, the recovery in passenger car demand continued. Starting from a low level still, the market recorded growth of 7.7%.

A total of 3.6 million new passenger cars were registered in Germany last year, equivalent to a 5.0% year-on-year increase according to the Federal Motor Transport Authority. Electric passenger cars accounted for 1.8% of the overall market (previous year: around 1.0%).

The Mercedes-Benz Cars brand sold a total of 2.39 million vehicles in 2019, thus slightly exceeding the previous year's record level again. In Europe, Mercedes-Benz Cars sold a total of 992,215 vehicles (previous year: 982,674), including 335,064 in Germany. In China, the largest individual market, the Mercedes-Benz Cars business unit continued its run of success, with sales climbing moderately by 2% to 694,181 vehicles.

The market for electric mobility in Germany is continuing to grow. Approximately 41,000 electric cars were registered here in 2019, representing an increase of around 50%.

Registration figures for electric vehicles worldwide varied significantly in 2019. On the US and Chinese markets, there was a downward trend here in 2019.

Overall, however, substantial growth is expected in the field of electric mobility from 2020 onwards, particularly in Europe.

Business performance and results of operations

a. Business development and forecast performance of the company

In economic terms, the company unfortunately did not achieve the targets it had set itself for the 2019 financial year. Non-compensated costs incurred when implementing the 2019 DTM season resulted in a significant loss of EUR -8.3 million for the Group. Although gross revenue increased again year-on-year, this did not have the hoped-for positive effect on earnings.

HWA AG had forecast an increase in the Group's gross revenue overall and a significantly positive EBIT margin in 2019. HWA AG's separate financial statements projected a rise in sales and a significant improvement to earnings before interest and taxes (EBIT).

With gross revenue of EUR 113.4 million, HWA AG did not quite achieve this target. Consolidated gross revenue amounted to EUR 113.8 million with EBIT for the Group of EUR -8.9 million. HWA AG therefore fell considerably short of its Group margin target in absolute terms.

In sporting terms, entering the 2019 DTM season at short notice with a newly developed vehicle was ambitious, but the company managed to implement it. HWA AG wanted to continue its past successes in the DTM on a long-term basis with a new partner.

In Formula 3, it achieved its first podium positions and won one race.

Cooperation with Mercedes-AMG GmbH in its customer sports activities is still ongoing and is developing very positively, as in previous years.

HWA AG successfully made its Formula E debut in the fifth season (2018/2019) in preparation for Daimler AG entering Formula E as a works outfit in the sixth season (2019/2020). HWA AG ended the season as the most successful rookie team in Formula E history.

HWA AG had forecast an increase in gross revenue for 2019. The company had budgeted a positive sales development in the Motor Racing segment, but this was not achieved due to the lack of sales from the DTM.

The company had forecast further growth in Vehicles/Vehicle Components, which also materialised. The high expectations for Mercedes-AMG GT4 sales volumes have not yet materialised in full, but after-sales business developed positively, as did other customer projects.

b. Results of operations

Given the significance of the parent company HWA AG to the consolidated financial statements, the separate financial statements of HWA AG are presented below. Information specific to the consolidated financial statements can be found under the relevant items.

HWA AG's sales revenue amounted to EUR 113.4 million in 2019, higher than the previous year's level of EUR 103.5 million as forecast. EUR 56.7 million (previous year: EUR 82.9 million) of this relates to Germany and EUR 56.7 million (previous year: EUR 20.8 million) to other countries. HWA US generated sales of USD 4.2 million as against USD 3.1 million in the previous year, while HWA AUS achieved sales of AUD 1.0 million. Consolidated sales revenue amounts to EUR 113.6 million after consolidation.

HWA AG's other operating income amounted to EUR 1.0 million and essentially comprised EUR 0.15 million in foreign exchange gains, EUR 0.25 million in income from non-cash benefits, EUR 0.24 million in income from compensation for damages, and other income.

In total, HWA AG's gross revenue for 2019 amounts to EUR 113.4 million as against EUR 114.7 million in the previous year.

The cost of materials increased from EUR 62.0 million in the previous year to EUR 64.2 million. Key factors influencing the cost of materials included input costs for DTM, the production of the Mercedes-AMG GT3 and GT4, the provision of spare parts for AMG customer sports teams and other customer projects. The cost of materials as a percentage of gross revenue increased to 56.6% (previous year: 54.0%), partly due to the lack of gross revenue invoiced for DTM participation in 2019.

Other operating expenses were up from EUR 17.9 million in the previous year to EUR 23.1 million in the reporting period. The increase is essentially due to project-related expenses.

Currency gains and losses primarily resulted from exchange rate fluctuations triggered by the risk of the UK's upcoming disorderly exit from the European Union and exchange rate fluctuations in the US dollar.

HWA AG generated EBIT of EUR -8.4 million in 2019 after EUR 6.5 million in the previous year. The EBIT margin in relation to gross revenue was thus negative. Consolidated EBIT amounted to EUR -8.9 million in 2019. Intercompany profits arising from sales of goods within the Group were eliminated on consolidation. The EBIT contribution by HWA US was EUR 0.1 million. The EBIT contribution by HWA AUS was EUR -0.2 million.

In October 2019 most recently, HWA AG had communicated a slightly positive EBIT margin, but it fell considerably short of this due to one-off effects from its DTM participation in 2019. The Group's EBIT margin in 2019 was significantly negative.

The main reason for the negative consolidated EBIT was the costs incurred in 2019 for DTM participation, which were not passed on. These costs include expenses for the construction, use and development of the four racing vehicles, as well as the write-down on the equity interest in VYNAMIC.

HWA AG uses EBIT as its operating result and performance indicator. EBIT is calculated as follows:

Income statement

in EUR million (rounded)	**2019**	2018
Sales revenue	**113.4**	**103.5**
Changes in inventories/own work capitalised	-1.0	10.0
Other operating income	1.0	1.2
Gross revenue for the period	**113.4**	**114.7**
Cost of materials	64.2	62.0
Personnel expenses	28.0	26.1
Depreciation, amortisation and write-downs	6.7	2.2
Other operating expenses	23.1	17.9
EBIT	**-8.4**	**6.5**
EBIT in %	-7.4	5.7

At EUR -0.72 million, HWA AG's negative financial result for the 2019 financial year was almost the same as the previous year's figure of EUR -0.68 million.

Overall, HWA AG's net loss for 2019 amounted to EUR -7.9 million as against net profit of EUR 4.2 million in 2018.

The consolidated net result thus declined significantly. The net loss for 2019 amounted to EUR -8.3 million after net profit of EUR 3.4 million in the previous year.

c. Net assets and financial position

HWA AG's fixed assets increased from EUR 18.6 million to EUR 21.9 million in the 2019 financial year. This increase was chiefly due to the EUR 4.1 million rise in intangible assets. Consolidated fixed assets amount to EUR 21.7 million.

Current assets increased from EUR 58.8 million in the previous year to EUR 59.6 million.

Trade receivables declined, mainly due to customer payments received in December 2019. Receivables from affiliated companies rose by EUR 1.5 million as a result of the delivery of spare parts by the parent company HWA AG to the subsidiaries. HWA AG's inventories decreased slightly by EUR 1.3 million. This was due to a decline in work in progress and advance payments received. Consolidated current assets amount to EUR 57.2 million.

HWA AG's provisions fell from EUR 5.6 million to EUR 5.2 million in the 2019 financial year as a result of the decrease in the provision for outstanding invoices. The Group's provisions amount to EUR 5.3 million.

Liabilities increased from EUR 41.2 million in 2018 to EUR 48.4 million. The largest item under liabilities was bank loans, which amounted to EUR 34.7 million at the end of December 2019 as against EUR 25.7 million in the previous year. There is also the existing shareholder's loan taken out in 2017. This loan of EUR 3.5 million is reported under liabilities to shareholders. Trade payables fell from EUR 9.9 million to EUR 9.1 million. The Group's liabilities amount to EUR 48.4 million.

HWA AG's total assets saw an upturn from EUR 78.0 million in the previous year to EUR 83.6 million. The share of fixed assets rose from 23.8% to 26.2% due to the increase in intangible assets. By contrast, the share of current assets in total assets decreased from 75.3% to 71.3%. HWA AG's equity ratio fell from 40.1% to 34.0% as at 31 December 2019. Equity in absolute terms fell from EUR 31.3 million to EUR 28.4 million in 2019. The implemented capital increase had a positive impact on equity, while the net loss had a negative impact here. The Group's equity amounts to EUR 26.3 million.

HWA AG had cash and cash equivalents of EUR -2.5 million at the end of the 2019 financial year as against EUR -4.0 million in the previous year. The operating cash flow was negative at EUR -4.1 million in 2019. This was chiefly due to the consolidated net loss. Cash flow from investing activities was also negative at EUR -5.4 million. Payments for investments essentially relate to technical equipment and machinery, operating and office equipment and additions to internally generated intangible assets. Cash flow from financing activities was positive at EUR 11.1 million. Inflows from borrowing in the amount of EUR 10.0 million and capital increases of EUR 7.1 million were offset primarily by expenses for repayments of EUR 3.2 million and dividend payments of EUR 2.1 million.

Liquidity management ensures that HWA AG and its subsidiaries can satisfy their payment obligations at all times. To this end, the Group incorporates the cash flows from its operating and financing activities into rolling planning. The financing requirements resulting from this are covered using suitable liquidity management instruments.

To strengthen equity, the Management Board decided in December 2018 to implement a capital increase of up to 10% of the share capital. This capital increase was completed in April 2019. A total of 511,500 new shares were placed at a price of EUR 13.87 per share. The issue generated proceeds of almost EUR 7.1 million.

d. Capital expenditure

Gross investment amounted to EUR 6,034 thousand in the past financial year. (previous year: EUR 1,384 thousand). The breakdown of investment is shown in the following table:

Gross investments	EUR thousand
1. Intangible assets	4,713
2. Land and buildings	114
3. Technical equipment and machinery	333
4. Other equipment, operating and office equipment	870
5. Payments on account of fixed asset	4
	6,034

Investments relate to new purchases and replacements for technical equipment and machinery as well as operating and office equipment, in particular with regard to participation in the Formula racing series. Investments in intangible assets predominantly related to engine development (R4T) and licenses.

Investments of EUR 6.0 million include project-related investments totalling EUR 1.3 million. Total investments of just under EUR 2.0 million are planned for 2020.

e. Employees

Including the Management Board, there were 321 employees on average in the 2019 financial year (previous year: 297):

- 189 Salaried staff
- 132 Non-salaried employees
- 1 Trainees/interns

3. Forecast, risk and opportunity report

The management report contains forward-looking statements that are based on the Management Board’s current assessments with regard to future developments. These assessments and statements should not be understood as guarantees that these developments will actually materialise in the future. The future development of HWA AG depends on a number of risks and uncertainties that involve various factors beyond the influence of HWA AG. These are described in the following risk and opportunity report, but are not limited solely to the risks described therein. For this reason, the actual results and successes of HWA AG may differ significantly from the forward-looking statements made.

Forecast

According to Daimler AG, global demand for passenger cars is likely to stabilise at the previous year's level or possibly decrease slightly in 2020. For Daimler AG, the current financial year 2020 will be dominated by cost reduction programmes and the realignment of the group. Environmental protection and alternative, environmentally friendly drive concepts, as well as the general development of individual mobility, will be very important for the further development of the automotive market worldwide.

In Motor Racing, HWA AG expects sales revenue in 2020 to be considerably lower than in 2019 due to the discontinuation of DTM business. This decline in sales revenue will be only partly compensated by Formula E and by Formula 2 and Formula 3.

The company anticipates a year-on-year increase in sales revenue in Vehicles/Vehicle Components. Production of the Mercedes-AMG GT4 is to continue in 2020, along with production of the new Mercedes-AMG GT3 MY 2020. Moreover, the company is also working on additional projects moving away from Daimler AG that will contribute to sales revenue as well. The spare parts and service business will grow as a result of the large number of vehicles now on the market, similarly contributing to higher sales revenue.

HWA AG is forecasting a significant decline in the Group's gross revenue overall in 2020. This is attributable to the significant decline in gross revenue in the Motor Racing segment due to the discontinuation of DTM business. By contrast, the Vehicles/Vehicle Components segment is continuing to develop positively, particularly due to after-sales business in customer sports. This also forms the basis for the sales revenues of the subsidiaries in the US and Australia. While the US is still developing positively as a market, Australia is stagnating. There is also positive growth momentum in this area on the Asian market, although the effects of SARS-CoV-2, better known as coronavirus, on 2020 are not yet foreseeable. Irrespective of this, the overall risks from SARS-CoV-2 for the global economy and the consequences for HWA AG cannot yet be specifically determined at present.

The sales revenues planned by VYNAMIC for 2020 and the subsequent years will not be achieved.

Compared to 2019, consolidated EBIT will recover significantly in 2020 and amount to approximately EUR 5 million. This is largely because low-margin projects will not be continued and profitability will be increased by means of cost optimisation and cost-saving measures.

The Management Board considers the prospects for HWA AG in 2020 good, despite challenges in the automotive industry. Uncertainties in the global political environment are unlikely to deteriorate further.

A significant decline in sales revenue is expected in the separate financial statements of HWA AG due to the discontinuation of DTM business. However, the EBIT margin should improve significantly compared to the previous year and return to positive territory.

Risks and opportunities

According to its economic forecast from December 2019, the ifo Institute expects the German economy to pick up significant momentum again in 2020. The Munich-based institute is forecasting growth of 1.1% for 2020, although German industry will make a negative contribution to this growth.

Like most economic research institutes, HWA AG also expects the global economy to continue its upswing in 2020, albeit at a far slower pace than in previous years and with an uncertain development due to the spread of SARS-CoV-2. The large number of infections in Germany and other key European countries means that a significant slowdown in growth can be expected in the first half of 2020. However, this cannot yet be estimated.

The global environment improved somewhat at the beginning of 2020, meaning that the world economy could display slightly stronger growth than in the previous year. Most economic indicators signal moderate growth momentum at the previous year's level for the eurozone economies in 2020. In light of ongoing robust domestic demand, a recovering but lower contribution from foreign trade is likely to result in growth of around 1.1%. Leading economic indicators in the US suggest that growth is likely to be somewhat more sluggish than in the previous year as the positive momentum provided by tax cuts comes to an end. Private consumer spending will be boosted by the continued very sound development on the job market and will compensate for sluggish foreign trade and declining investment activity. All told, economic growth is likely to settle around the 2.0% mark. In China, the gradual slowdown in economic growth that has set in over the last few years is expected to continue this year and possibly even intensify. On the one hand, the trade conflict with the US has eased somewhat as a result of concluding the "Phase One" deal. But on the other hand, the effects of the respiratory disease SARS-CoV-2 lead to a decrease in the growth forecast. Overall, GDP is still expected to see solid growth of around 5.5%. Overall, the global economy is likely to expand at a similar rate as in the previous year in 2020, with growth of a little over 3%.

The framework data for key world economies have a significant influence on HWA AG's sales markets and, above all, the automotive market – where HWA AG's greatest risks and opportunities lie. Global demand for passenger cars is likely to remain stable year-on-year in 2020. The European market is expected to be on par with the previous year, with Germany, the largest individual market, enjoying stable performance in line with the previous year. A moderate decline is anticipated in the US passenger car market on account of the high level. After the previous year's very weak result, the Chinese passenger car market should stabilise at a low level in 2020, although the effects of SARS-CoV-2 on the sales markets are difficult to estimate. Stable development of the global automotive markets makes a significant contribution to the success of HWA AG's motor racing activities.

To be able to identify, analyse and assess potential risks as promptly as possible, HWA AG uses an integrated information system that enables management to initiate effective strategies and measures early on.

Daimler AG, and in particular its subsidiary Mercedes-AMG GmbH, remain HWA AG's most important clients in 2020. The Daimler Group anticipates a significant increase in consolidated EBIT in 2020 as against 2019, which represents an important basis for HWA AG's ongoing collaboration with Daimler AG and Mercedes-AMG GmbH in the Vehicles/Vehicle Components segment's activities. The Electrification business segment at Daimler AG is continuing its strong growth, partly due to the construction of new battery production sites and the launch of new hybrid and all-electric vehicles. Among other factors, the development of this segment was driven by Daimler AG's entry in the ABB FIA Formula E championship, which in turn had a positive impact on HWA AG's activities as a racing team in this area.

Entry in the ABB FIA Formula E championship in 2018/2019 as a customer team of VENTURI in the fifth season (2018/2019) is now being continued and further expanded for the future from the sixth season (2019/2020) onwards with Daimler AG. In this cooperation, HWA AG acts as a racing and development partner for Daimler AG. Daimler AG supports participation in the ABB FIA Formula E championship in the expansion of the abovementioned Electrification segment. In addition to the FIA Formula 3 championship, HWA AG will also enter the FIA Formula 3 championship in 2020 with its own racing team with the name BWT HWA RACELAB. This brings together experienced specialists for top-level motor racing engineering and related services so that they can be successfully deployed in motorsports and in promoting young talent. This involvement will open up new sources of income for HWA in the future.

In Vehicles/Vehicle Components, HWA AG operates within an intense and keenly contested competitive environment in the context of its involvement in the GT segment at large. HWA AG has so far been very successful in this environment. Together with Mercedes-AMG GmbH, the company has positioned itself as a firm fixture in the GT segment as a whole, and at the end of 2019 they launched the new Mercedes-AMG GT3 MY 2020. Mercedes-AMG GmbH is a strong partner for HWA AG, which means that HWA AG has corresponding opportunities to further increase its business volume.

With the Mercedes-AMG GT3 and GT4 models, there are now many vehicles on the market that are serviced by HWA AG technically and in terms of after-sales services.

Parts and service business for the entire product range will continue to develop well thanks to the large number of racing vehicles on the market. On the US and Asian markets in particular, which are served by HWA AG's sales companies or partners, spare parts and service business is expected to grow on account of the larger number of vehicles. The sales companies HWA US and HWA AUS are therefore also expected to perform well. The impact of SARS-CoV-2 at the start of 2020 on the Asian market remains to be seen, as do the effects on the markets in Europe and the US.

In the context of Daimler AG's withdrawal from the DTM, the Management Board aimed to make up for the loss of sales revenue as quickly as possible. In July 2018, HWA AG announced that it had signed a declaration of intent with AF Racing AG, Niederwil (Switzerland), with both companies agreeing to begin talks on a joint venture enterprise. The focus of the joint venture was the development of a strategic innovation partnership for development projects in motor racing and in the automotive sector in general. The strengths of AF Racing AG and HWA AG were to be combined in a newly established company. HWA AG specialises in the development and production of race cars and small-scale series production, alongside associated support and after sales services. The target market is benchmark products in motorsports and small-scale series production.

The joint venture was established in January 2019 under the name VYNAMIC GmbH. HWA AG holds a 49% share in the company. The remaining shares are held by AF Racing AG.

However, VYNAMIC failed to meet the high expectations of HWA AG's Management Board, which is why the equity interest was written off in full. In connection with the joint venture and HWA AG's activities for the DTM project in 2019, HWA AG incurred corresponding costs, which currently have not been compensated by its partners in the DTM. The loss incurred at HWA AG for the DTM project is thus borne by HWA AG alone and accounts for a total amount in the low tens of millions. The Management Board of HWA AG is asserting claims for damages against its partners in DTM participation.

Brexit will not have any direct impact on HWA AG in 2020, as possible changes in trading conditions between the EU and the UK are not yet known at present.

Risk report on the use of financial instruments

In addition to risks concerning sales and sales revenue, financial risks must also be taken into account. Specific loan loss allowances have been established for some of the trade receivables reported in the company's balance sheet and classified as a risk at the end of 2019. Changes that could result from interest rates or market prices constitute a negligible to low potential risk as the majority of business is transacted in euro.

HWA AG uses derivative financial instruments exclusively to hedge the risks of underlying transactions. Exchange rate risks essentially relate to procurement activities in pounds sterling. The development of this exchange rate is monitored at all times in order to be able to react to any price fluctuations and, if necessary, to hedge the risks with derivative financial instruments. There are no exchange rate hedges in place for procurement activities in pounds sterling as at 31 December 2019.

The company uses derivative financial instruments, specifically interest rate swaps, to hedge interest rates. This does not constitute an accounting risk as the swap is used to hedge the Euribor loan.

The opportunity/risk profile changed in 2019 as compared to the previous year as a result of the discontinuation of DTM activities. However, the information system implemented is still capable of identifying potential risks reliably so that countermeasures can be initiated early on.

Non-financial performance indicators

In addition to its financial performance indicators, HWA AG's enterprise value is largely defined by non-financial performance indicators. These concern the company's relationships with its customers and employees in addition to its technology position. Taken together, this information allows us to draw conclusions as to the extent to which HWA AG is able

- to retain skilled and motivated employees as an attractive and responsible employer,
- to develop products that satisfy customer requirements, including in the future,
- to sustainably increase customer benefit with its products and services, and to design production processes so as to conserve resources.

HWA AG is convinced that these aspects represent the essential building blocks needed to successfully position itself amongst the competition in future.

In terms of employee development and health care management, HWA AG has introduced and implemented various measures to promote the health of its employees and help them effectively achieve their full potential. These measures include annual feedback sessions between managers and employees and various sporting activities that are offered at in-house fitness areas and outdoors.

In accordance with the legal requirements, the company has a health and safety specialist who trains employees on occupational health and safety each year, as well as a corresponding fire safety specialist.

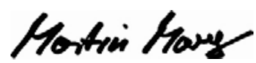
HWA AG has an integrated quality management system that was development in line with the standard 9001:2015 and successfully audited by DEKRA Certification GmbH.

HWA AG confirms its continued compliance with this standard in annual audits. Over the course of 2020, it also plans to obtain ISO 14001 Environmental Management with the necessary systemic adjustments.

At an operational level, HWA AG also calculates non-financial performance indicators in relation to personnel and quality, which are additionally used to manage the company.

Affalterbach, 16 March 2020

Ulrich Fritz (CEO)



Martin Marx (COO)

CONSOLIDATED FINANCIAL STATEMENT 2019

Balance sheet as at 31 December 2019

		31.12.19		31.12.2018	
ASSETS	EUR	EUR	EUR	TEUR	TEUR
A. Fixed assets					
I. Intangible assets					
1. Internally generated industrial property rights and similar rights and assets	3,142,457			0	
2. Purchased concessions, industrial and similar rights and assets, and licences in such rights and asset	1,333,452			403	
		4,475,909			403
II. Tangible assets					
1. Land and buildings	11,406,782			12,159	
2. Technical equipment and machinery	1,842,367			2,035	
3. Other equipment, operating and office equipment	1,972,792			1,715	
4. Prepayments and assets under construction	1,968,674			2,039	
		17,190,615			17,948
			21,666,524		**18,351**
B. Current assets					
I. Inventories					
1. Raw materials, consumables and supplies	28,659,622			30,166	
2. Work in progress	12,058,264			15,030	
3. Prepayments	561,090			633	
4. Advance payments received on inventories	-488,250			-4,576	
		40,790,726			41,253
II. Receivables and other assets					
1. Trade receivables	7,526,430			11,205	
2. Other assets	1,714,616			1,497	
		9,241,046			12,702
III. Cash in hand and at banks		7,204,817			2,989
			57,236,589		**56,944**
C. Prepaid expenses and deferred income			**490,319**		**311**
D. Deferred tax assets			**2,183,400**		**905**
			81,576,832		**76,511**

EQUITY AND LIABILITIES	EUR	31.12.19 EUR	EUR	31.12.2018 TEUR	TEUR
A. Equity					
I. Subscribed capital		5,626,500			5,115
II. Capital reserves		6,583,005			0
III. Revenue reserves					
1. Legal reserve	511,500			512	
2. Other revenue reserves	1,310,000			1,310	
		1,821,500			1,822
IV. Difference in equity from currency translation		46,391			-46
V. Retained profits/accumulated losses brought forward		20,493,782			19,183
VI. Net loss (PY: net profit)		-8,288,792			3,392
			26,282,386		**29,466**
B. Provisions					
1. Tax provisions		1,563,665		1,520	
2. Other provisions		3,711,613		4,187	
			5,275,278		**5,707**
C. Liabilities					
1. Liabilities to banks		34,698,725		25,695	
2. Loan liabilities to shareholders		3,500,000		3,500	
3. Trade payables		9,013,376		10,083	
4. Other liabilities - thereof from taxes EUR 524,803 (PY: EUR 564 thousand) - thereof as part of social security EUR 2,493 (PY: EUR 2 thousand) - thereof to shareholders EUR 0 (PY: EUR 940 thousand)		1,214,088		2,060	
			48,426,189		**41,338**
D. Prepaid expenses and deferred income			**1,588,345**		**0**
E. Deferred tax liabilities			**4,634**		**0**
			81,576,832		**76,511**

Consolidated income statement for 2019

		EUR	31.12.2019 EUR	Previous year EUR thousand
1.	Sales revenue	113,623,406		101,236
2.	Decrease/increase in finished goods inventories and work in progress	-3,794,685		10,309
3.	Other own work capitalised	2,875,028		0
4.	Other operating income	1,078,442		1,387
			113,782,191	**112,932**
5.	Cost of materials			
	a) Cost of raw materials, consumables and supplies and of purchased merchandise	44,814,004		43,323
	b) Cost of purchased services	19,875,881		17,886
6.	Personnel expenses			
	a) Wages and salaries	24,107,109		22,795
	b) Social security and post-employment costs - thereof for old-age pensions EUR 67,817 (PY: EUR 22 thousand)	3,937,878		3,446
7.	Depreciation, amortisation and write-downs			
	a) of intangible fixed assets and tangible fixed assets	2,690,037		2,250
	b) of current assets, provided these exceed write-downs customary for the company	3,969,000		0
8.	Other operating expenses	23,277,807		17,972
			122,671,716	**107,672**
9.	Profit before interest and tax (EBIT)		-8,889,525	5,260
10.	Other interest and similar income	4,168		44
11.	Interest and similar expenses	723,860		683
			-719,692	**-639**
12.	Income taxes - thereof income from change in recognised deferred taxes EUR 1,272,842 (previous year: EUR 317 thousand)		-1,366,981	1,204
13.	Earnings after taxes		-8,242,236	3,417
14.	Other taxes		46,556	25
15.	Net loss/profit for the year		-8,288,792	3,392
16.	Retained profits brought forward		20,493,782	19,184
17.	**Net retained profits**		**12,204,990**	**22,576**

Cash flow statement for 2019

		2019	2018
		EUR thousand	EUR thousand
	Net profit/loss for the financial year	-8,289	+3,392
+	Depreciation and amortisation of non-current assets and current assets	+6,659	+2,250
-	Decrease in other provisions	+232	+773
	Other non-cash expenses	+118	+409
-	Changes related to exchange rates	-5	-96
-	Increase in inventories, trade receivables and other assets not related to investing or financing activities	-1,130	-7,821
+	Increase in trade payables and other liabilities not related to investing or financing activities	-820	+352
-	Gain on disposal of fixed assets	0	-99
+	Interest expenses	+720	+639
+	Income tax expenses	-1,367	+1,204
-	Income tax payment	+138	-1
	Cash flow from operating activities	**-3,744**	**+1,002**
+	Proceeds from disposals of tangible fixed assets	0	+117
-	Purchase of intangible fixed assets	-4,031	-98
-	Purchase of tangible fixed assets	-1,321	-1,285
	Cash flow from investing activities	**-5,352**	**-1,266**
	Proceeds from additions to equity by shareholders of the parent company	+7,095	0
	Dividends paid to the shareholders of the parent company	-2,082	0
	Proceeds from bank borrowings	+10,027	+3,000
	Repayment of bank borrowings	-3,216	-3,321
	Changes in cash from other capital	-65	0
	Interest paid	-705	-683
	Cash flow from financing activities	**+11,054**	**-1,004**
	Net change in cash funds	**+1,958**	**-1,268**
	Change in cash funds due to exchange rate effects	+1	0
	Change in cash funds due to changes in the consolidated group	0	+54
	Cash funds at beginning of period	-4,011	-2,797
	Cash funds at end of period	-2,052	-4,011

Cash funds break down as follows:

	2019	2018
	EUR thousand	EUR thousand
Cash funds	7,205	2,989
Liabilities to banks	-9,257	-7,000
Total	**-2,052**	**-4,011**

Statement of changes in fixed assets 2019

	Acquisition/production cost				
	1.1.2019 EUR	Additions EUR	Reclassi-fications EUR	Disposals EUR	Currency translation EUR
I. Intangible assets					
1. Internally generated industrial property rights and similar rights and assets	0	3,557,498	0	0	0
2. Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets	4,582,436	1,155,498	35,000	117,335	0
	4,582,436	**4,712,996**	**35,000**	**117,335**	**0**
II. Tangible assets					
1. Land and buildings	27,182,625	113,838	0	358,533	0
2. Technical equipment and machinery	11,424,644	333,349	20,160	515,440	80
3. Other equipment, operating and office equipment	11,673,376	870,141	13,944	979,823	0
4. Prepayments and assets under construction	2,039,462	3,600	-69,104	5,284	0
	52,320,107	**1,320,928**	**-35,000**	**1,859,080**	**80**
	56,902,543	**6,033,924**	**0**	**1,976,415**	**80**

		Cumulative depreciation and amortisation					Book values	
	31.12.2019 EUR	1.1.2019 EUR	Additions EUR	Disposals EUR	Currency translation EUR	31.12.2019 EUR	31.12.2019 EUR	31.12.2018 EUR thousand
	3,557,498	0	415,041	0	0	415,041	3,142,457	0
	5,655,599	4,179,741	259,741	117,335	0	4,322,147	1,333,452	403
	9,213,097	**4,179,741**	**674,782**	**117,335**	**0**	**4,737,188**	**4,475,909**	**403**
	26,937,930	15,024,072	865,609	358,533	0	15,531,148	11,406,782	12,159
	11,262,793	9,389,670	523,142	492,085	-301	9,420,426	1,842,367	2,035
	11,577,638	9,958,165	626,504	979,823	0	9,604,846	1,972,792	1,715
	1,968,674	0	0	0	0	0	1,968,674	2,039
	51,747,035	**34,371,907**	**2,015,255**	**1,830,441**	**-301**	**34,556,420**	**17,190,615**	**17,948**
	60,960,132	**38,551,648**	**2,690,037**	**1,947,776**	**-301**	**39,293,608**	**21,666,524**	**18,351**

Statement of changes in equity in 2019

	Subscribed capital	Capital reserves	Legal reserves
	EUR	EUR	EUR
1 January 2018	**5,115,000**	**0**	**511,500**
Equity increases/decreases	0	0	0
Appropriation to/withdrawals from reserves	0	0	0
Distribution	0	0	0
Currency translation	0	0	0
Other changes	0	0	0
Changes in the consolidated group	0	0	0
Consolidated net profit for the year	0	0	0
31 December 2018	**5,115,000**	**0**	**511,500**
Equity increases/decreases	511,500	0	0
Appropriation to/withdrawals from reserves	0	6,583,005	0
Distribution	0	0	0
Currency translation	0	0	0
Other changes	0	0	0
Changes in the consolidated group	0	0	0
Consolidated net loss for the year	0	0	0
31 December 2019	**5,626,500**	**6,583,005**	**511,500**

	Equity of parent company					
	Revenue reserve					
	Other revenue reserves	Total	Difference in equity from currency translation	Retained profits/ accumulated losses brought forward	Consolidated net profit/loss for the year attributable to the parent company	Equity in accordance with consolidated balance sheet
	EUR	EUR	EUR	EUR	EUR	
	1,310,000	**1,821,500**	**-29,610**	**18,703,864**	**536,818**	**26,147,572**
	0	0	0	0	0	0
	0	0	0	0	0	0
	0	0	0	0	0	0
	0	0	0	0	0	0
	0	0	0	536,818	-536,818	0
	0	0	8,152	-56,950	0	-48,798
	0	0	-24,581	0	3,391,855	3,367,274
	1,310,000	**1,821,500**	**-46,039**	**19,183,732**	**3,391,855**	**29,466,048**
	0	0	0	0	0	511,500
	0	0	0	0	0	6,583,005
	0	0	0	-2,081,805	0	-2,081,805
	0	0	0	0	0	0
	0	0	0	3,391,855	-3,391,855	0
	0	0	0	0	0	0
	0	0	92,430	0	-8,288,792	-8,196,362
	1,310,000	**1,821,500**	**46,391**	**20,493,782**	**-8,288,792**	**26,282,386**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

General information

The consolidated financial statements were prepared on the basis of the consolidation regulations under commercial law. In addition, the provisions of the German Stock Corporation Act (AktG) were required to be observed.

To improve the clarity of presentation in the consolidated financial statements, some of the "thereof" items are shown in the notes to the consolidated financial statements rather than in the consolidated balance sheet or the consolidated income statement.

The financial year of the Group and the consolidated companies corresponds to the calendar year. The consolidated financial statements were prepared as at 31 December 2019 and cover the period from 1 January to 31 December.

The consolidated balance sheet and the consolidated income statement are structured in accordance with sections 294 et seq. HGB. The notes to the consolidated interim financial statements have been created in line with the provisions of sections 313 and 314 HGB. The income statement was prepared using the total cost (nature of expense) method in accordance with section 275 (2) HGB.

Unless otherwise specified, amounts are reported in full euros.

Register information

The company is entered in the commercial register of Stuttgart Local Court with the name HWA AG, domiciled in Affalterbach, and the number HRB 721692.

Consolidated group

In these consolidated financial statements, the companies specified in the list of shareholdings were included in line with the principles of full consolidation except if they were not consolidated due to their immateriality. They were included in accordance with section 290 (2) HGB.

The consolidated financial statements include HWA AG and foreign subsidiaries in the United States (HWA US INC.) and Australia (HWA AUS Pty Ltd).

Principles of consolidation

The consolidated financial statements were prepared in accordance with the principles of commercial law.

Capital is consolidated in accordance with the revaluation method. All assets and liabilities of the subsidiary are then recognised at their fair value at the acquisition date or at the date when a controlling influence is obtained. Any positive difference that arises when the acquisition costs are offset against the revalued equity attributable to the parent company is reported as goodwill under intangible assets and is amortised over the respective useful life.

In addition, the carrying amount of goodwill is tested for impairment on an annual basis, as well as during the year if there are indications of possible impairment. If goodwill impairment is identified, an unscheduled write-down is performed.

Receivables and liabilities between affiliated companies in the consolidated Group are eliminated in full.

Income and expenses between affiliated companies in the consolidated Group are eliminated in full. If there is still purchased merchandise on hand as at the end of the reporting period, intercompany profits included in this are eliminated.

Accounting policies

The following accounting policies were the decisive factor in the preparation of the annual financial statements.

The annual financial statements of the companies included in the consolidated financial statements of HWA were prepared in line with uniform accounting policies.

Internally generated **intangible assets** are recognised at their production cost and amortised over their expected useful lives.

Purchased **intangible assets** are recognised at cost of acquisition and where appropriate are amortised on a straight-line basis over their expected useful lives of three or five years.

Tangible assets are recognised at cost of acquisition or construction and depreciated where appropriate.

Depreciation of property, plant and equipment is performed on a straight-line basis over its expected useful life. In accordance with the tax regulations, low-value assets with a value of up to EUR 800.00 are written off immediately and recognised as disposals in the year of addition. Additions to property, plant and equipment are depreciated pro rata temporis.

Shares in affiliated companies are recognised at cost or, in the case of expected permanent impairment, at their lower fair value. If the reasons for permanent impairment cease to exist, the impairment is reversed.

Inventories of **raw materials, consumables and supplies** are capitalised at the lower of average cost or net realisable values.

Work in progress and finished goods are valued at cost of production, including not only direct material, labour and other costs but also indirect material costs and production overheads. Interest expense and general administrative overheads were not capitalised.

All recognisable risks of holding **inventories** arising in connection with slow-moving stocks, reduced market values and lower replacement costs are reflected in appropriate write-downs.

With the exception of reservations of title customary in the trade, inventories are free of third-party rights.

Receivables and other assets are recognised at their nominal value. For risks attaching to individual items, specific provisions are made; general credit risk is the subject of general provisions. In accordance with section 253 (4) HGB, significant long-term receivables and other assets are discounted using the relevant average market interest rate for the past seven financial years in line with their remaining term.

Cash and cash equivalents are recognised at the lower of acquisition cost or fair value.

Other provisions take into account all uncertain liabilities and expected losses from onerous contracts. The amounts provided are the amounts deemed necessary in prudent commercial judgement, taking into account anticipated future price and cost increases. In accordance with section 253 (2) sentence 1 HGB, significant long-term provisions are discounted using the relevant average market interest rate for the past seven financial years in line with their remaining term.

Liabilities are recognised at the settlement amount.

Deferred taxes are calculated based on temporary differences (including those not likely to reverse in the foreseeable future) between the carrying amounts of assets, liabilities and accruals for the purposes of financial accounting and their carrying amounts for tax purposes, and on tax loss carry-forwards.The amounts of the resulting tax burden or tax relief are calculated using the rates of taxation expected to apply to the company at the time the differences are reversed, and are not discounted. The option under section 274 (1) sentence 2 HGB is exercised where permitted and any resulting overall tax relief is recognised as a deferred tax asset.

The acquisition cost of **assets and liabilities denominated in foreign currencies** is translated at the mean spot rate at the transaction date. Assets and liabilities with remaining terms of one year or less are generally measured using the mean spot rate at the balance sheet date. Assets and liabilities with a remaining term of more than one year are recognised at the mean spot rate at the balance sheet date, taking account of the realisation and imparity principle.

Where **valuation units** as defined in section 254 HGB are formed, the following accounting policies are applied:

At HWA AG, derivative financial instruments are concluded for hedging purposes only. Economic hedging relationships are accounted for by forming valuation units: the countervailing positive and negative changes in value are recognised gross in the income statement.

With the exception of equity (subscribed capital, reserves, retained profits/accumulated losses brought forward at historical exchange rates), the asset and liability items of the annual financial statements prepared in foreign currencies were translated into euros at the respective mean spot rate at the reporting date. The items of the income statement are translated into euros at the average exchange rate. The resulting currency translation difference is reported within Group equity after reserves in the item "Difference in equity from currency translation".

Consolidated balance sheet disclosures

Fixed assets

The development of the individual items of fixed assets is presented along with the related depreciation and write-downs in the financial year in the statement of changes in fixed assets.

Development work

HWA AG mainly performs development work as part of customer orders. In 2019, development costs for the R4T engine in the amount of EUR 3,557 thousand were capitalised under internally generated intangible assets for the first time. The company sees a wide range of opportunities to use this in-house development in motorsports in various different racing classes in the future, and therefore sees good prospects for future sources of income.

Other than this, no costs were incurred for in-house developments. Smaller development projects also are not recognised due to their lack of materiality. As such, all recognised development expenses were capitalised.

List of shareholdings

In the United States of America (headquarters: state of Delaware), the subsidiary ‚HWA US Inc.' was founded in 2016 with capital of EUR 239,900.20 (USD 250 thousand). HWA AG holds a 100% share in this subsidiary. The company was fully consolidated in the consolidated financial statements.

In Australia, the subsidiary ‚HWA AUS Pty Ltd.' was founded in 2017 with capital of EUR 10,047.56 (AUD 15,000). HWA AG holds a 100% share. The company was fully consolidated in the consolidated financial statements.

Inventories

Advance payments received are openly offset against inventories and have a remaining term of up to one year.

Receivables and other assets

EUR 1,284 thousand (previous year: EUR 684 thousand) of the trade receivables have an expected remaining term of more than one year.

The joint venture Vynamic was reported under other assets:

The joint venture Vynamic GmbH, based in Affalterbach, was established on 18 December 2018. It was entered in the Commercial Register on 28 January 2019 under HRB 768008. HWA holds a 49% share in Vynamic GmbH. The company's equity was increased to EUR 4,100,000.00 in 2019 and was fully paid in by both shareholders in the first quarter of 2019.

From HWA AG's perspective, the expectations associated with the joint venture have not been fulfilled. HWA AG's Management Board decided to write off the equity interest in full. It can therefore be assumed that there is no intention to hold it on a long-term basis.

Deferred taxes

Deferred taxes result from the following items:

	31 December 2019		**31 December 2018**	
EUR thousand	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
from fixed assets				
- internally generated intangible assets		848	3	
- tangible assets	20	3	47	3
from inventories	909		797	
from receivables		12		7
from loss carry-forwards	2,022		30	
from other provisions	100		55	
from unrealised gains		9		17
Without netting	**3,051**	**873**	**932**	**27**
thereof current	283	27		
Netting	-868	-868	-27	-27
Carrying amount	**2,183**	**5**	**905**	**0**

Deferred taxes were calculated at a tax rate of 27% in the financial year (previous year: 27%).

Equity and authorised capital

On the basis of the resolution at the Annual General Meeting on 25 July 2018, 511,500 new, no par value bearer shares were issued, hence the share capital increased by EUR 511,500 and is now divided into 5,626,500 no par value bearer shares with a pro rata amount of the share capital of EUR 1.00. Based on the subscription price of EUR 13.87 per share, EUR 6,583 thousand was allocated to capital reserves.

The Annual General Meeting resolved to conditionally increase the share capital by up to EUR 2,557,500.00 in order to implement convertible bonds and option bonds issued up to 24 July 2023. Shareholder subscription rights can be excluded.

In addition, the Annual General Meeting on 25 July 2018 resolved to authorise the Management Board, with the approval of the Supervisory Board, to issue - in one or more instalments - convertible or option bonds (bonds) as either registered or convertible bonds, dated or undated, up to a total of EUR 50,000,000 until 24 July 2023 and to grant the bearers or creditors of such bonds conversion or option rights to bearer shares of the company with a pro rata amount of share capital of up to EUR 2,557,500.00 in accordance with the more detailed conditions of the respective option or convertible bonds (bond conditions).

Provisions
The other provisions were recognised mainly for outstanding invoices, expected losses from onerous contracts, holiday entitlements, anniversary benefits and employee incentives.

Liabilities
Of the liabilities to banks, EUR 17,112 thousand (PY: EUR 10,171 thousand) have remaining maturities of up to one year and EUR 17,586 thousand (PY: EUR 15,524 thousand) have remaining maturities of more than one year. EUR 3,894 thousand (PY: EUR 5,743 thousand) of the latter category have remaining maturities of more than five years. EUR 8,834 thousand was secured by charges on real property. There is a collateral agreement in place for a loan of EUR 28 thousand (PY: EUR 0 thousand)

The liabilities to Supervisory Board members exist in the form of a loan with a remaining term of more than one year.

Trade payables and other liabilities have a remaining term of up to one year.

Collateral has been provided for these liabilities to the usual extent as customary in the industry and where required by law.

Contingent liabilities and other financial commitments
There are payment obligations under rental and leasing agreements in the amount of EUR 8,777 thousand in 2020. The agreements come to an end between 2020 and 2024. The lessor or landlord bears all risks. The purchase commitment is EUR 19,518 thousand.

Derivative financial instruments
There were no longer any derivative financial instruments as at the end of the reporting date.

Distribution restriction
Due to capitalising internally generated intangible assets, EUR 4,690 thousand is subject to a bar on distribution in accordance with section 248 (2) HGB.

Consolidated income statement disclosures

Sales revenue

Sales revenue breaks down as follows:

	2019
	EUR thousand
Sales revenues by region	
Germany	60,419
Outside Germany	53,204
	113,623

Other operating income

Prior-period income essentially relates to non-cash benefits of private car use, damages and currency effects (EUR 205 thousand).

Write-downs on current assets

The write-down on the equity interest in the joint venture Vynamic amounts to EUR 3,969 thousand.

Other operating expenses

Other operating expenses mainly consist of operating expenses (EUR 7,114 thousand), sales and administrative expenses (EUR 5,440 thousand), other personnel expenses (EUR 3,002 thousand) and miscellaneous other expenses (EUR 2,709 thousand). Miscellaneous other expenses mainly comprise valuation allowances on receivables (EUR 983 thousand) and exchange losses including currency valuations (EUR 155 thousand).

Interest expenses

Interest expenses include expenses of EUR 1 thousand (PY: EUR 0 thousand) from the discounting of a receivable and EUR 13 thousand from the discounting of provisions.

Income taxes

Deferred taxes are calculated using the balance sheet liability method if there are differences between assets, liabilities and accruals for the purposes of financial accounting and their carrying amounts for tax purposes, which will reverse again over time.

Deferred taxes result from differences between the carrying amounts of fixed assets, inventories, trade receivables and provisions for the purposes of financial accounting and those for tax purposes. Only temporary differences were recognised to calculate deferred taxes.

Taxes on income reduced consolidated net profit by EUR 1,367. Taxes on income include income from deferred taxes in the amount of EUR 1,272 thousand.

This also includes deferred taxes resulting from temporary differences between the amounts recognised in the tax accounts and in the commercial accounts. Deferred taxes are calculated based on the tax rates applicable in the individual countries.

Tax expenses included in the consolidated financial statements comprise the following:

	EUR thousand	Percent
Earnings before tax	**-9,609**	
Relevant tax rate		27.0%
Expected tax expense	-2,594	
Deviation from tax base		
Non-deductible expenses	80	-0.8%
Difference tax carrying amounts	-181	1.9%
Changes in tax rates		
Trade tax	-52	0.5%
Foreign tax rates	-4	0.1%
Recognition and measurement of deferred tax assets		
Not recognised	-65	-0.7%
Impairment of deferred taxes on loss carry-forwards	-17	0.2%
Reversal of impairment losses	1,178	-12.3%
Non-periodic effects		
Tax refunds due to loss carry-backs	154	-1.6%
Other	**6**	**-0.1%**
Current tax expense	**-1,367**	
Effective tax rate		**14.2%**

The Group has applied a full comparative analysis approach and reported a net balance sheet amount for each country.

Other disclosures

The Supervisory Board

- Hans Werner Aufrecht, businessman, Chairman
- Willibald Dörflinger, entrepreneur, Deputy Chairman
- Gert-Jan Bruggink, equestrian show jumper
- Hussain Ahmad Al-Siddiq, Deputy Chief Executive Officer
- Klemens Große-Vehne, entrepreneur
- Rolf Krissler, tax adviser (left on 30 September 2019)

The remuneration of the Supervisory Board for the purposes of section 113 of the German Stock Corporation Act (AktG) amounted to EUR 177 thousand.

Management Board

- Ulrich Fritz, CEO, Chairman of the Management Board
- Martin Marx, COO, Management Board member (from 1 November 2019)

In accordance with section 286 (4) HGB, the total remuneration of the Management Board was not disclosed as stipulated in section 285 no. 9 (a) and (b) HGB.

Employees

Average number of employees during the financial year:

Non-salaried staff	131
Salaried staff	190
	321
Auszubildende	1
	321

Two people were employed outside Germany.

Affalterbach, 16 March 2020

The Management Board

Ulrich Fritz (Management Board member)

Martin Marx (Management Board member)

AUDITOR'S REPORT

To HWA AG, Affalterbach
Report on the audit of the consolidated financial statements and the combined management report

Audit opinions
We have audited the consolidated financial statements of HWA AG, Affalterbach and its subsidiaries (the Group), comprising the consolidated balance sheet as at 31 December 2019, the income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the financial year from 1 January 2019 to 31 December 2019, and the notes to the consolidated financial statements, including the presentation of the accounting policies and valuation principles. In addition, we have audited the Group management report of HWA AG, Affalterbach, which is combined with the management report of the parent company, for the financial year from 1 January 2019 to 31 December 2019.

In our opinion, based on the findings of our audit,

- the attached consolidated financial statements comply in all material respects with the requirements of German commercial law and give a true and fair view of the Group's net assets and financial position as at 31 December 2019, and of its results of operations for the financial year from 1 January 2019 to 31 December 2019, in accordance with the German principles of proper accounting.

- the attached combined management report as a whole presents an accurate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal regulations and suitably presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the content of the parts of the Group management report listed in the annex.

Pursuant to section 322 (3) sentence 1 HGB, we state that our audit has not led to any reservations with regard to the compliance of the consolidated financial statements or the combined management report.

Basis for the audit opinions
We conducted our audit of the consolidated financial statements and the combined management report in accordance with section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors - IDW). Our responsibility according to these regulations and standards is described in further detail in the "Responsibility of the auditor for the audit of the consolidated financial statements and the combined management report" section of our auditor's report. We are independent of the Group company in compliance with the provisions of German commercial and professional law and have fulfilled our other German professional obligations in compliance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions regarding the consolidated financial statements and the combined management report.

Responsibility of the legal representatives for the consolidated financial statements and the combined management report

The legal representatives are responsible for preparing the consolidated financial statements, which in all material respects comply with the requirements of German commercial law, and for the consolidated financial statements giving a true and fair view of the net assets, financial position and results of operations of the Group in accordance with the German principles of proper accounting. Furthermore, the legal representatives are responsible for the internal controls that, in accordance with the German principles of proper accounting, they deemed necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

When preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's status as a going concern. In addition, they have a responsibility to disclose matters related to the status as a going concern, if relevant. They are also responsible for accounting on the basis of the going concern principle, unless prevented by actual or legal circumstances.

Moreover, the legal representatives are responsible for preparing the combined management report, which as a whole provides an accurate view of the Group's position and is consistent with the consolidated financial statements in all material respects, complies with German legal regulations and suitably presents the opportunities and risks of future development. The legal representatives are also responsible for the arrangements and measures (systems) that they considered necessary to enable the preparation of a combined management report in compliance with the applicable German legal regulations and to allow sufficient, suitable evidence to be provided for the statements in the combined management report.

Responsibility of the auditor for the audit of the consolidated financial statements and the combined management report

Our objective is to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an accurate view of the Group's position and is in all material respects consistent with the consolidated financial statements and with the findings of the audit, complies with German legal regulations and suitably presents the opportunities and risks of future development, and to issue an auditor's report containing our audit opinions regarding the consolidated financial statements and the combined management report.

Reasonable assurance is a high level of assurance but not a guarantee that an audit carried out in compliance with section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) will always uncover a material misstatement. Misstatements can result from transgressions or inaccuracies and are deemed material if it could be reasonably expected that they would individually or together influence the financial decisions made by users on the basis of the consolidated financial statements and combined management report.

We exercise due discretion during the audit and maintain a critical attitude. In addition,

- we identify and evaluate the risk of material misstatements, whether due to fraud or error, in the consolidated financial statements and the combined management report, plan and implement audit procedures in response to these risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk that material misstatements are not uncovered is higher in the case of transgressions than in the case of inaccuracies, as transgressions can entail fraudulent collaboration, falsifications, deliberate omissions, misleading depictions or the suspension of internal controls.

- the attached combined management report as a whole presents an accurate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal regulations and suitably presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the content of the parts of the combined management report listed in the annex.

- we gain an understanding of the internal control system relevant for the audit of the consolidated financial statements and of the arrangements and measures relevant for the audit of the combined management report in order to plan audit procedures that are appropriate given the circumstances, but not with the aim of providing an audit opinion regarding the effectiveness of these systems.

- we evaluate the appropriateness of the accounting policies used by the legal representatives and the reasonableness of the estimated values presented by the legal representatives and the associated disclosures.

- we draw conclusions about the appropriateness of the going concern principle applied by the legal representatives and, on the basis of the audit evidence obtained, whether there is material uncertainty regarding events or circumstances that could cause significant doubt about the Group's ability to continue as a going concern. If we come to the conclusion that there is material uncertainty, we are obliged to call attention to the associated disclosures in the consolidated financial statements and in the combined management report in the auditor's report or, if these disclosures are inappropriate, to modify our respective audit opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our auditor's report. However, future events or circumstances may mean that the Group is no longer a going concern.

- we evaluate the overall presentation, the structure and the content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events such that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with the German principles of proper accounting.

- we gather sufficient and reasonable evidence for the company's accounting information or operating activities within the Group in order to issue an audit opinion on the consolidated financial statements and combined management report. We are responsible for leading, supervising and carrying out the audit of the consolidated financial statements. We accept sole responsibility for our audit opinion.

- we evaluate the consistency of the combined management report with the consolidated financial statements, its legality and the view it gives of the position of the Group.

- we conduct audit procedures regarding the forward-looking disclosures made by the legal representatives in the combined management report. On the basis of sufficient appropriate audit evidence, we examine the significant assumptions underlying the legal representatives' forward-looking disclosures in particular and evaluate the appropriateness of the derivation of the forward-looking disclosures from these assumptions. We do not provide a separate audit opinion regarding the forward-looking disclosures or the underlying assumptions. There is a considerable, unavoidable risk that future events will differ significantly from the forward-looking disclosures.

Topics for discussion with those responsible for monitoring include the planned scope and scheduling of the audit as well as significant audit findings, including any deficiencies in the internal control system that we find during our audit.

Karlsruhe, 17 March 2020

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Wirtschaftsprüfungsgesellschaft
und Steuerberatungsgesellschaft

Schülj
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Retzbach
German public auditor

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