

CONSOLIDATED FINANCIAL STATEMENT

21

Motor racing • Vehicles and components



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EVENTS 2022

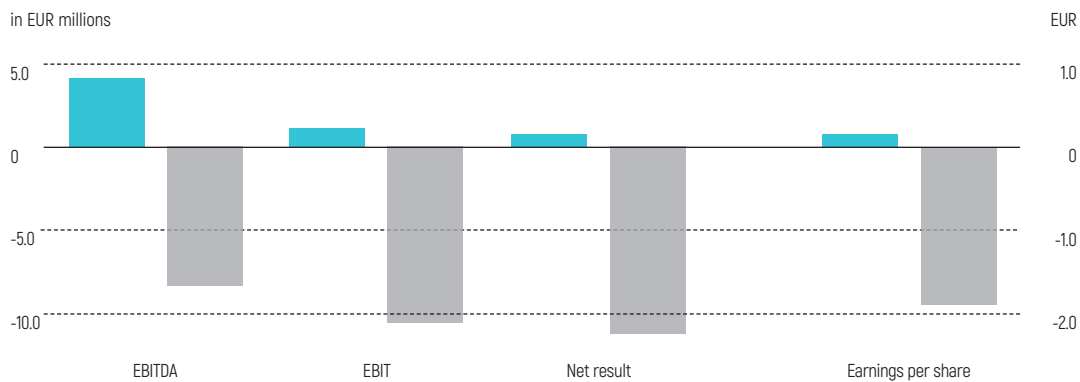
20 April 2022	Publication of the annual figures for the 2021 financial year
May 2022	Publication of the 2021 annual financial statements
6 July 2022	Virtual general meeting
27 October 2022	Publication of the 2022 half-year report

GROUP KEY FIGURES

in EUR millions	2021	2020	2019	2018*	2017	2016	2015	2014
Sales income	85.8	65.6	113.6	101.2	95.5	97.4	83.6	64.1
EBITDA	4.1	-7.6	-2.2	7.5	5.7	3.2	8.1	3.7
EBITDA margin (in percent)	4.8	-11.6	-2.0	7.4	5.8	3.3	9.6	5.8
EBIT	1.2	-10.6	-8.9	5.3	2.8	0.2	5.1	1.4
EBIT margin (in percent)	1.5	-16.2	-7.8	5.2	2.9	0.2	6.1	2.2
Net result	0.6	-11.4	-8.3	3.4	1.4	-0.3	3.4	0.7
Earnings per share (in EUR)	0.10	-1.90	-1.47	0.66	0.28	-0.06	0.66	0.13

*) from 2018 Group key figures

AT A GLANCE 2021 | 2020



REPORT OF THE SUPERVISORY BOARD



Hans Werner Aufrecht
Chairman of the Supervisory Board

Sehr geehrte Aktionäre der HWA AG!

In the 2021 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 the 2021 financial year, the Supervisory Board held four ordinary meetings to perform 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 10 March, 23 June, 22 September and 15 December 2021. At each of the Supervisory Board meetings, one member was not present. The Supervisory Board's meetings were all held at the Company's headquarters in Affalterbach, and members of the Supervisory Board had the option to dial in to the meetings by video. The accounts meeting together with the auditor was held on 17 March 2021.

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 further development of the coronavirus pandemic in 2021 and its effects on operating business, as well as the development of supply chains
- Continuous monitoring of the liquidity situation, liquidity planning and risk and opportunity management
- The review of the planning, budget and investments for 2021
- Sporting developments in the various different racing series
- The partnership with Daimler AG in Formula E and its expiry in 2021
- The legal steps from the joint venture Vynamic GmbH and AF Racing AG/R-Motorsport
- The progress of the various projects in motor racing and vehicles/vehicle components, in particular the close collaboration and partnership with Mercedes-AMG and the production of vehicles with this partner
- The development of after-sales business in the Vehicles/Vehicle Components segment
- Diversification of the customer structure and the implementation of further customer projects
- Future development and the budget for 2022 and medium-term planning of HWA AG, as well as future financing of the Company and its transformation
- The hydrogen project HYRAZE and new technologies
- The establishment of PACETEQ GmbH
- The discussion of the future financing of HWA AG
- The extension of Management Board member Martin Marx's contract

Membership of the Management and Supervisory Boards

There were no changes to the Management Board at HWA AG in the 2021 reporting year.

Martin Marx was the sole member of the Company's Management Board throughout the entire year 2021.

Under the Company's articles of incorporation, the Supervisory Board consists of six members. As at the end of the 2021 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
- Simone Stegmaier

Annual financial statements and audit

By resolution of the Annual General Meeting of 23 June 2021, Treuhand Südwest GmbH Wirtschaftsprüfungsgesellschaft und Steuerberatungsgesellschaft, Karlsruhe, was appointed as statutory auditor of the Company's annual and consolidated financial statements for the 2021 financial year. The statutory auditor audited the 2021 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 provided to all Supervisory Board members in good time. These were discussed in depth at the Supervisory Board's accounts meeting. This meeting was also attended by the auditor, which reported on the key findings of its audit and was available to answer additional questions from the Supervisory Board. After conducting a thorough review of its own, the Supervisory Board approved the audit findings. On the basis of its review, the Supervisory Board had no grounds for objection to the annual financial statements and the consolidated financial statements. It approved the annual financial statements and the consolidated financial statements for the 2021 financial year on 17 March 2022. The annual financial statements for 2021 were thereby formally adopted.

The Supervisory Board endorses the Management Board's proposal for the appropriation of HWA AG's net retained profits. HWA AG will not propose a dividend to the Annual General Meeting in 2022, 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 express its thanks and appreciation to the Management Board and all employees of the Company for their personal commitment and the work they have performed in a continued challenging environment. It would also like to thank the shareholders of HWA AG for the trust they have placed in it and in the Company as a whole.

For the Supervisory Board

A handwritten signature in black ink, appearing to read 'H. W. Aufrecht', with a stylized flourish at the end.

Hans Werner Aufrecht
Chairman of the Supervisory Board

Affalterbach, May 2022

COMBINED MANAGEMENT REPORT ON CONSOLIDATED FINANCIAL STATEMENT

1. Basic information on the Group

Legal and economic position of the company in 2021

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 on 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%)
- HYRAZE GmbH, Affalterbach, Germany (100%)

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

In the future, HYRAZE GmbH is to operate in the field of the development of manned and unmanned hydrogen-powered vehicles (particularly racing vehicles) and the development, marketing and implementation of manned and unmanned, real and virtual racing series and events.

As at the reporting date, there is a 20% stake in the following legal entity, which is included in the consolidated statements using the equity method:

- PACETEQ GmbH, Affalterbach (20%)

PACETEQ GmbH operates in the fields of software development and strategy services.

The parent company, the company HWA US Inc., the company HWA Pty Ltd. in Australia and HYRAZE GmbH are fully consolidated in the consolidated financial statements.

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

The core business of Motor Racing in 2021 consisted of participation in the ABB FIA Formula E championship, Season 7, as operations and development team for the Mercedes-Benz EQ Formula E Team, as well as deployment as a Formula 2 and Formula 3 racing team under the name of HWA RACELAB.

Season 7 of the ABB FIA Formula E championship ended with the manufacturer and driver world champion titles.

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.

For example, it developed an electric caravan together with the company KNAUS Tabbert AG, which was successfully presented at the Caravan Salon in Düsseldorf in July 2021.

Spare parts and services continue to be provided at the Affalterbach location and worldwide on a localised basis.

Research and development

Across all its activities and business areas, HWA AG has comprehensive resources at its disposal which 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 GT customer sports business, HWA AG has built up an excellent infrastructure which has worked superbly over the years and allows the thorough testing and maintenance of vehicles on the race track, inhouse or directly on site.

HWA AG will be dedicating special attention to research and development in the future so as to open up new business areas and opportunities, also outside motor sports, as well as to be able to uphold the high standard of all current and future products and the competitive edge this bestows.

One specific example of this is a research project together with the DLR to develop a drive axle with zero emissions and zero particulate matter.

2. Economic report

General economic conditions

After the worst recession since the end of the Second World War in the previous year, the global economy enjoyed a strong recovery in 2021. According to the International Monetary Fund (IMF), global economic output rose by 5.9% year-on-year in 2021 (after decline of 3.1% in 2020).

Global economic performance continues to be dominated by the COVID-19 pandemic. New virus variants required further measures to be taken to contain the pandemic, which continued to have a negative impact on the world economy, curbing growth. In addition, global supply bottlenecks for commodities, intermediate products and manufactured goods slowed global economic growth and triggered relatively high global inflation.

Nonetheless, the global economy is expected to see slightly weaker growth than was expected last October in both 2022 and 2023 (4.4% and 3.8% respectively). This new change also reflects the expectation that supply bottlenecks will remain an issue and that the impact of the pandemic will be manageable thanks to higher vaccination rates and better treatment options worldwide. The effects of the war between Russia and Ukraine on the global economy have not yet been taken into consideration here.

The International Monetary Fund has raised its forecast for the eurozone's economic development in 2021 by 0.2% compared to October 2021 to 5.2%. After economic activity picked up in the summer period of 2021, growth was then hampered significantly by increased bottlenecks in the supply of commodities, intermediate products and manufactured goods, as well as by the new Omicron variant of the coronavirus. The sharp slump in global trade and the associated lower level of industrial production in 2020 was offset relatively quickly in 2021. Nevertheless, the rapid recovery of demand for goods resulted in supply constraints that ultimately slowed growth. In 2020, GDP in euro area countries decreased by 6.3%. The IMF is anticipating growth in economic output in the eurozone of just 2.1% in 2022 and 2.5% in 2023. At 5.0%, inflation in the single currency area in 2021 was far higher than the previous year's figure of -0.3%.

According to the German Federal Statistical Office (Destatis), the German economy grew by 2.9% in 2021, a solid recovery after negative growth in 2020 on account of the pandemic. The domestic economy continued to be hit hard by the measures taken to combat the coronavirus pandemic and accounted for lower-than-average share of the economic recovery in 2021. German exports climbed by a substantial 9.9% year on year in 2021. At 3.1%, average annual inflation in Germany in 2021 considerably exceeded the European monetary policy target of just under 2%. In 2020, inflation had been at 0.5%. The IMF anticipates economic growth of 3.8% for Germany in the 2022 financial year, and this is expected to continue at a lower level in 2023 (+2.5%).

According to the IMF, the US economy picked up by 5.6% in 2021 and thus developed significantly better than in the previous year (-3.4%). Somewhat slower growth is forecast for 2022 (+4.0%), which is expected to continue at a lower level in 2023 (+2.6%).

According to IMF forecasts, economic output in the People's Republic of China rose by 8.1% in 2021 after 2.3% in the previous year. Although it thus fell short of the range of 6.5% to 7.0% targeted by the Chinese government, growth was muted by difficulties in the property sector, which also has a significant impact on forecast growth rates for subsequent years. The International Monetary Fund expects to see Chinese economic output increase to 4.8% in 2022 and 5.2% in 2023.

Automotive market and other relevant markets

The development of global demand for passenger cars was dominated by turbulence in the reporting year. While some areas enjoyed a considerable upturn in the first half of the year in view of the low prior year starting point and catchup effects, the picture was extremely gloomy in the second half of the year. In particular, the semiconductor shortage strained global supply chains. In addition, shortages of other intermediate products and commodities, as well as rising energy and logistics prices, are causing problems in industry. Overall, however, sales volumes rose slightly by 4%. Of the three largest sales regions, only Europe experienced a downturn in 2021 as a whole. By contrast, sales picked up slightly in the US and China.

In Europe, passenger car sales fell by 1.5% year-on-year. Demand in western Europe was also down significantly on the previous year's level by 1.9%.

The German market posted a year-on-year decline in sales volumes of 10%, while demand had a positive impact on sales volumes in France (+1%), Italy (+6%) and Spain (+1%). The UK market also posted low growth of approximately 1%.

The US passenger car and light commercial vehicle market is on the road to recovery, with around 14.9 million units sold. Compared to the previous year, the market volume was up 3.1%.

The Chinese passenger car market recorded a comparatively sharp rise in sales. China's relatively strong economic growth bolstered demand and so the market climbed by 6.6% in the year as a whole. In Japan, demand for passenger cars was 3.5% lower.

A total of 2.6 million new passenger cars were registered in Germany last year, equivalent to a 10.1% year-on-year decline according to the Federal Motor Transport Authority. The share of the overall market attributable to electric passenger cars increased substantially to 13.8% (previous year: around 6.7%).

The Mercedes-Benz Cars brand sold a total of 1.94 million vehicles in 2021 (previous year: 2.09 million) and thus fell short of the previous year's level, partly the result of the new strategic focus (focus on top-end and electric vehicles). Mercedes-Benz Cars sold 662,288 vehicles (previous year: 783,843), including 218,366 in Germany. In China, the largest individual market, the Mercedes-Benz Cars business unit continued its run of success, although sales did decline by a relatively minor 3% to 734,658 vehicles.

The market for electric mobility in Germany is continuing to grow. Approximately 356,000 electric cars were registered here in 2021, representing an increase of around 83%.

Registration figures for electric vehicles (including plug-in hybrids) increased significantly worldwide (+113% year-on-year). There was strong growth in Europe (+65% year-on-year). Developments remained very positive on US and Chinese markets in 2021.

Overall, substantial growth is still expected in the field of electric mobility.

Business performance and results of operations

a. Business development and forecast performance of the company

The company almost achieved the business targets it had set in the 2021 financial year. COVID-19 had only a minor impact on the company and on business operations, with M-AMG customer sport, in particular, returning to pre-pandemic levels. New projects were awarded. Some firmly scheduled projects were postponed. All in all, the 2021 financial year can be viewed as a success, including and especially in the context of the two prior years and the ongoing pandemic.

HWA AG had forecast a decline in the Group's gross revenue overall in 2021 but a significant recovery in the EBIT margin compared to 2020 and 2019. This was also the case for HWA AG's separate financial statements, including a significant improvement to earnings before interest and taxes (EBIT).

With gross revenue of EUR 85.8 million, HWA AG easily achieved this target. This was thanks to high sales revenues in both of HWA's segments, chiefly the result of additional project business and the pandemic having less of an impact than expected. Consolidated gross revenue amounted to EUR 90.1 million with EBIT for the Group of EUR 1.2 million. HWA AG therefore met its Group margin target in absolute terms.

With regard to sports, the company's deployment as the racing team for the Mercedes-EQ Formula E team in the ABB FIA Formula E championship brought success. HWA ended Season 7 of the ABB FIA Formula E championship with the manufacturer and driver world champion titles. As planned, HWA's deployment as the Mercedes-EQ Formula E team ended after the 2020/2021 season. Services will still be performed, but only on a small scale.

In FIA Formula 2 and FIA Formula 3, podium positions were achieved in some individual races. HWA suspended its activities in these two racing series at the end of 2021 and so HWA will no longer be represented here in the future.

Cooperation with Mercedes-AMG GmbH in its customer sports activities is still ongoing and COVID-19 had little impact here in 2021. With the exception of the Asia region, most racing events across the world took place and so aftersales in connection with the racing season enjoyed a considerable upturn after 2020.

Various development projects also went ahead successfully in 2021, including in new business areas for HWA AG such as electrification.

It developed an electric caravan (KNAUS E.POWER DRIVE) together with the company KNAUS Tabbert AG, which was successfully presented at the Caravan Salon in Düsseldorf in August 2021.

HWA AG had forecast a decline in gross revenue for 2021 but a significant recovery in earnings before interest and taxes (EBIT).

The company had anticipated a recovery in Vehicles/Vehicle Components, and this materialised.

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 82.9 million in 2021, considerably higher than the previous year's level of EUR 65.0 million. EUR 44.3 million (previous year: EUR 27.6 million) of this relates to Germany and EUR 38.6 million (previous year: EUR 37.4 million) to other countries. HWA US generated sales of USD 6.2 million as against USD 3.2 million in the previous year, while HWA AUS achieved sales of AUD 0.9 million. Consolidated sales revenue amounts to EUR 85.8 million after consolidation.

HWA AG's other operating income amounted to EUR 3.0 million and essentially comprised EUR 1.1 million in gains from asset disposals, EUR 0.5 million in proceeds from the disposal of financial assets, EUR 0.4 million in income from the reversal of provisions, EUR 0.2 million from rental income and other income.

In total, HWA AG's gross revenue for 2021 amounts to EUR 85.8 million as against EUR 66.1 million in the previous year.

The cost of materials increased from EUR 35.8 million in the previous year to EUR 46.6 million. Key factors influencing the cost of materials included 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 and purchased services as a percentage of gross revenue is virtually identical to the previous year's level at 54.3% (previous year: 54.2%).

Other operating expenses declined from EUR 15.9 million in the previous year to EUR 14.1 million in the reporting period. This decrease was mainly attributable to lower project-related costs, as well as an effective cost and efficiency program implemented in 2021.

Currency gains and losses primarily resulted from exchange rate fluctuations in the US dollar.

HWA AG generated EBIT of EUR 0.8 million in 2021 after EUR -9.7 million in the previous year. The EBIT margin in relation to gross revenue was thus positive again for the first time in two years. Consolidated EBIT amounted to EUR 1.2 million in 2021. Intercompany profits arising from sales of goods within the Group were eliminated on consolidation. The EBIT contribution by HWA US was EUR 0.6 million. The EBIT contribution by HWA AUS was EUR -0.2 million.

HWA AG uses EBIT (earnings before interest and taxes) as its operating result and performance indicator. EBIT is calculated as follows:

Income statement

in EUR million (rounded)	2021	2020
Sales revenue	82.9	65.0
Changes in inventories/own work capitalised	-0.1	0.25
Other operating income	3.0	0.8
Gross revenue for the period	85.8	66.1
Cost of materials	46.6	35.8
Personnel expenses	21.4	21.1
Depreciation, amortisation and write-downs	2.9	3.0
Other operating expenses	14.1	15.9
EBIT	0.8	-9.7
EBIT in %	0.9%	-14.7%

At EUR -0.8 million, HWA AG's negative financial result for the 2021 financial year declined slightly as against the previous year's figure of EUR -1.0 million.

Overall, HWA AG's net income for 2021 amounted to EUR 0.3 million as against EUR -10.6 million in 2020.

Consolidated net income also picked up substantially compared to the previous year.

At Group level, the net income for 2021 amounted to EUR 0.6 million after a net loss of EUR -11.4 million in the previous year.

c. Net assets and financial position

HWA AG's fixed assets decreased from EUR 19.6 million in the previous year to EUR 16.6 million in the 2021 financial year. The reduction mainly resulted from ongoing ordinary depreciation and amortisation, which exceeded investment. Another factor here was the disposal of fixed assets in connection with the withdrawal from Formula 2 and Formula 3. Consolidated fixed assets amount to EUR 16.5 million.

Current assets fell from EUR 48.6 million in the previous year to EUR 42.6 million.

HWA AG's inventories, which are mainly held to ensure a continuous supply for customers, especially in customer sports, decreased by EUR 6.2 million. This is due to higher advance payments received and permanent portfolio optimisation in the areas of spare parts provision and production.

Trade receivables declined, mainly due to customer payments received in December 2021. Receivables from affiliated companies declined by EUR 0.8 million. The repayment terms for the subsidiaries were extended with interest. Consolidated current assets amount to EUR 39.8 million.

HWA AG's provisions came to EUR 2.3 million in the 2021 financial year, similar to the previous year's figure of EUR 2.4 million. The Group's provisions amount to EUR 2.5 million.

Liabilities decreased from EUR 42.6 million in 2020 to EUR 33.8 million in 2021. The largest item under liabilities was bank loans, which amounted to EUR 22.8 million at the end of December 2021 as against EUR 28.5 million in the previous year. There is also the existing shareholder's loan taken out in 2017. This loan now totalling EUR 3.6 million is reported under liabilities to shareholders. Trade payables fell from EUR 7.5 million to EUR 5.6 million. The Group's liabilities amount to EUR 33.9 million.

HWA AG's total assets declined from EUR 70.2 million in the previous year to EUR 61.5 million. The share of fixed assets decreased slightly from 27.9% to 27.0% in 2021. There was little change to current assets' share of total assets in 2021, increasing from 69.2% to 69.3%.

HWA AG's equity ratio increased from 30.6% to 35.4% as at 31 December 2021. Equity in absolute terms picked up slightly from EUR 21.5 million to EUR 21.8 million in 2021. Net income for the year had a positive effect on equity in 2021. The Group's equity amounts to EUR 19.1 million.

HWA AG had cash and cash equivalents of EUR -4.3 million at the end of the 2021 financial year as against EUR -4.7 million in the previous year. The operating cash flow was positive at EUR 7.0 million in

2021. This was chiefly due to the decrease in inventories. Cash flow from investing activities was also positive at EUR 1.6 million, the result of proceeds from disposals of tangible assets. Cash flow from financing activities was negative at EUR -8.2 million, essentially attributable to expenses for payments of principal and interest for bank loans.

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

d. Capital expenditure

Gross investment amounted to EUR 682 thousand in the past financial year. (Previous year: EUR 785 thousand). The breakdown of investment is shown in the following table:

Gross investments	EUR thousand
1. Intangible assets	0
2. Land and buildings	0
3. Technical equipment and machinery	409
4. Other equipment, operating and office equipment	172
5. Payments on account of fixed asset	1
6. Financial assets	100
	682

Investments relate to new purchases and replacements for technical equipment and machinery as well as operating and office equipment, in particular for maintaining and further developing business operations, including the infrastructure in place. Investments in 2021 focused on a new battery simulator, which means that HWA AG can now test electric drivetrains at its own test facilities.

Total investments of less than EUR 1.0 million are planned for 2022.

e. Employees

Including the Management Board, there were 269 employees on average in the 2021 financial year (previous year: 306).

The subsidiaries in the US and Australia each had a maximum of one employee as a temporary measure.

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 forwardlooking statements made.

Forecast

According to Mercedes-Benz Group AG, global demand for passenger cars is likely to recover further and continue to increase in 2022. The Mercedes-Benz Group expects sales volumes to be slightly higher than in 2021.

Environmental protection and alternative, environmentally friendly and sustainable drive concepts, as well as the general development of individual mobility, will be very important for the further development of automotive markets worldwide.

In Motor Racing, HWA AG expects sales revenue in 2022 to be considerably lower than in 2021 due to the definitive discontinuation of Formula E, Formula 2 and Formula 3 business. It is not currently expected to be possible to compensate for the decline in sales revenue in this area, and for this reason structural adjustments are taking place here, including in the form of shifts and reallocations of resources.

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 2022, along with production of the Mercedes-AMG GT3 MY 2020. Moreover, the company is also working on additional projects moving away from Mercedes-Benz Group AG that will contribute to sales revenue as well. Parts and service business will likely remain on par with the previous year, thereby playing a considerable role in total revenue.

HWA AG expects the Group's gross revenue overall in 2022 to be similar to that in 2021. The same also applies for HWA AG. However, the breakdown will be different to in the past. The significant decline in gross revenue in the Motor Racing segment due to the discontinuation of Formula activities is offset by an increase in gross revenue in Vehicles/Vehicle Components. This rise is the result of ongoing projects here. Specifically, these primarily include production of drivetrains for the PAGANI customer, as well as extensive development work for M-AMG, as well as customers outside Mercedes-Benz Group AG.

Sales revenue performance at the subsidiaries in the US and Australia varied. While the US market continued to perform well, Australia stagnated and HWA AG believes that it will no longer play a major role in HWA's strategic focus in the future.

Separate to this, the overall risks for the global economy posed by COVID-19 and the war in Ukraine and the consequences for HWA AG still cannot be fully predicted at present. Nevertheless, we do not currently expect these to significantly affect business operations.

Consolidated EBIT is expected to continue to recover in 2022 compared to 2021 levels, potentially coming to about EUR 2.0 million, with the figure for HWA AG standing at about EUR 1.5 million. This is largely because a COVID-19 effect like in previous years is no longer expected, the order book is already well filled in terms of booked business and profitability will be increased further by means of cost optimisation and cost-saving measures.

Technological change and HWA AG's new focus on sustainability projects will also contribute to this, including by continuing projects that are already underway in this area. Examples here include projects to electrify caravans and the research project together with the DLR and the state of Baden-Württemberg to develop a drive axle with zero emissions and zero particulate matter.

The Management Board still considers the prospects for HWA AG in 2022 fairly good, despite ongoing challenges in the automotive industry. Uncertainties in the global political environment are unlikely to deteriorate further.

Uncertainty regarding the availability of commodities and supply chains could also exert a significant influence on HWA AG here if, for example, the components needed for production are not available at the required time or in the required quantities. Of course, this is also true of the potential impact of the current situation in Ukraine and Russia.

Risks and opportunities

The ifo Institute's economic forecast from December 2021 expects the COVID-19 pandemic to remain a major factor determining the trajectory of the global economy and anticipates direct or indirect consequences of this such as a commodities shortage and supply bottlenecks, which could impact the German economy too.

While real gross domestic product is expected to rise by 3.0% in 2022, this will be combined with continued increases in consumer prices and inflation.

Like most economic research institutes, HWA AG also expects the global economy to recover from the declines due to COVID-19 in previous years in 2022, but believes that the system as a whole will remain dominated by uncertainty.

The fifth wave of the pandemic and ongoing supply bottlenecks continue to affect Germany at present and this is slowing economic momentum, especially at the start of 2022. The situation is not expected to begin to return to normal until the start of the summer. Accordingly, macroeconomic performance will likely wane in the first quarter of 2022 compared to the final quarter of 2021. At the start of the summer and as things return to normal, macroeconomic performance will likely pick up again noticeably from Q3 2022 onwards.

According to the ifo, the indicators for 2022 continue to seem optimistic for the global environment, too. Advanced economies are expected to see GDP rise by 4.1% in 2022. The outlook for the US is growth of 4.4%, while for China it comes to 5.1%. The eurozone will grow by 3.9% and thus to a lesser extent than the

countries above. It can generally be assumed that the strength of economic output may vary significantly from country to country, depending on local infection rates combined with access to vaccines and vaccination rates, as well as the effectiveness of the respective political and economic measures.

As things currently stand, private consumer spending is expected to start recovering again in the second quarter of 2022 and rise by 4.5% before continuing to expand at a weaker growth rate in 2022. HWA currently assumes that all economic indicators will continue to improve in 2022, but does not expect this to begin until the second or third quarter of 2022.

The framework data for key world economies still have a significant influence on HWA AG's sales markets and the success of its business model, especially on the automotive market, where there are major risks and opportunities for HWA AG.

Demand forecasts for western and central Europe put year-on-year growth at 7.8%.

The market in Germany will also experience a slight upturn.

The US automotive market is expected to grow by 2.6% compared to the previous year, with the Chinese market set to decline slightly by 1%.

In both countries, as well as at a global level, actual developments will be highly dependent on the impact of COVID-19 variants, the availability of commodities and functioning supply chains.

Stable development of the global automotive markets makes a significant contribution to the success of HWA AG's customer sport 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.

Mercedes-Benz Group AG, and in particular its subsidiary Mercedes-AMG GmbH, remains HWA AG's most important client in 2022. Mercedes-Benz Group AG expects sales and sales revenues to increase slightly in 2022 compared to 2021 and, in turn, EBIT to be on par with the previous year, which represents an important basis for HWA AG's ongoing collaboration with Mercedes-AMG GmbH in the Vehicles/Vehicle Components segment's activities. Mercedes-Benz Cars will continue to pursue the electrification strategy in 2022, also focusing on vehicle software, the luxury segment and costs.

The Motor Racing business will be far less important in economic terms in 2022. In light of the discontinuation of the ABB FIA Formula E championship for HWA AG and the withdrawal from Formula 3 und Formula 2 activities, almost no services will be provided here in 2022.

In Vehicles/Vehicle Components, HWA AG continues to operate within an intense and keenly contested competitive environment in the context of its involvement in the GT segment at large. HWA AG operates very successfully in this environment and sets benchmarks for the competition. Mercedes-AMG GmbH is HWA AG's strong partner here, which means that HWA AG has corresponding opportunities to further

increase its business volume in the field of GT customer sports. This is done comprehensively in line with HWA's 360-degree service approach in the areas of engineering, production and after-sales. In addition, it should be mentioned that this partnership is also being expanded further in other areas, for example with HWA AG support services for Mercedes-AMG GmbH in relation to its series production vehicle business.

The production and sales of Mercedes-AMG GT3 and GT4 racing vehicles are expected to be high in 2022.

With the Mercedes-AMG GT3 and GT4 models, there are many racing 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 develop positively in 2022 thanks to the large number of racing vehicles on national and international markets. On the US market in particular, which is served by HWA AG's local sales company, spare parts and service business is expected to grow on account of the larger number of vehicles. The HWA US sales company is therefore expected to perform well.

COVID-19 continued to have a major impact on HWA AUS in 2021 and the Management Board decided to shift the focus of local market development in Australia and pass on after sales business to a local partner to reduce sales and sales revenue risk for HWA AG.

HWA will continue to seek to implement sustainability projects relating to alternative, zero-emission drive systems in this segment, too.

These also include the above-mentioned cooperation with the DLR and the state of Baden-Württemberg, which HWA AG hopes will bring future opportunities for income generation.

HWA AG will further broaden its strategic focus in relation to drive technologies in the future.

In addition to the above-mentioned drive systems, particularly hydrogen and electric drives, there will also be a continued focus on efficient, powerful combustion engines, such as the straight four-cylinder turbo engine developed by HWA AG. HWA AG sees wide-ranging fields of application for this engine and derivatives resulting from expertise here in the future, which will open up new income opportunities.

On the basis of this, HWA AG is currently developing a highly efficient, powerful racing engine as part of a customer order to be used in races in 2023.

Large quantities of the 12-cylinder racing engine developed in house for PAGANI will also be produced in 2022.

Another component for generating new income opportunities is software development at HWA AG. HWA AG established PACETEQ GmbH for this purpose. This company will sustainably bundle HWA AG's activities with regard to software development for different application purposes in terms of methods and time. Interests in the company have since been successfully sold on the market, which has no impact on new income opportunities for HWA.

The HWA AG Management Board believes there are generally high risks with regard to employees. Higher wages and competition for qualified staff, especially in the Stuttgart and Ludwigsburg regions, could push up costs and create a labour shortage.

A similar picture emerges for energy costs and general price rises. The hike in energy prices and sustained inflation are leading to higher production and purchase costs that cannot be fully offset by improving efficiency. This means that these cost increases must be passed on to customers.

HWA AG's share capital was increased by 10% in March 2022 to strengthen the equity base. This results in proceeds of EUR 4.55 million for HWA AG.

The new shares were subscribed by Aufrecht GmbH and Dörflinger Management & Beteiligungs GmbH ("DMB") as part of a private placement without a prospectus.

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 as at the end of the reporting date. 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 pound 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 2021.

HWA AG's opportunity/risk profile is changing from that of a one/two-project company to a multi-project organisation. 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 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
- develop products that satisfy customer requirements, including in the future
- sustainably increase customer benefit with its products and services, and 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 in the competitive arena in the future.

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 in place which was developed in line with the 9001:2015 standard and successfully audited by DEKRA Certification GmbH.

In addition, HWA confirms its commitment to environmental management by earning and maintaining DIN ISO EN 14001 and the FIA Sustainability Accreditation Standard.

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, 17 March 2022

A handwritten signature in black ink, reading "Martin Marx". The signature is written in a cursive, flowing style.

Martin Marx (COO)

CONSOLIDATED FINANCIAL STATEMENT 2021

Balance sheet as at 31 December 2021

ASSETS	31/12/2021			31/12/2020	
	EUR	EUR	EUR	EUR thousand	EUR thousand
A. Assets					
I. Intangible assets					
1. Internally generated industrial property rights and similar rights and assets	1,719,457			2,431	
2. Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets	135,304			948	
		1,854,761			3,379
II. Tangible assets					
1. Land and buildings	9,762,933			10,619	
2. Technical equipment and machinery	1,680,561			1,414	
3. Other equipment, operating and office equipment	1,009,191			1,480	
4. Prepayments and assets under construction	1,954,074			2,499	
		14,406,759			16,012
II. Financial assets					
Shares in associates		279,710		0	0
		16,541,230			19,391
B. Current assets					
I. Inventories					
1. Raw materials, consumables	29,500,873			33,648	
2. Work in progress	7,708,389			7,905	
3. Advance payments	205,522			533	
4. Payments received on account of orders	-4,225,493			-2,252	
		33,189,291			39,834
II. Receivables and other assets					
1. Trade receivables	2,865,476			3,672	
2. Other assets	866,465			3,033	
		3,731,941			6,705
III. Cash in hand and at banks		2,839,669			575
		39,760,901			47,114
C. Prepaid expenses and deferred income		224,442			250
D. Deferred tax assets		2,528,390			2,533
		59,054,963			69,288

EQUITY AND LIABILITIES	31/12/2021			31/12/2020	
	EUR	EUR	EUR	EUR thousand	EUR thousand
A. Equity					
I. Subscribed capital		5,991,914			5,991
II. Capital reserves		9,871,731			9,872
III. Revenue reserves					
1. Legal reserves	511,500			512	
2. Other revenue reserves	1,310,000			1,310	
		1,821,500			1,822
IV. Difference in equity from currency translation		-40,135			-401
V. Retained profits/accumulated losses brought forward		843,580			12,205
VI. Net income for the year (PY: net loss for the year)		620,464			-11,361
		19,109,054			18,128
B. Provisions					
1. Tax provisions		72,859		46	
2. Other provisions		2,379,356		2,450	
		2,452,215			2,496
C. Liabilities					
1. Liabilities to banks		22,826,709		28,515	
2. Loan liabilities to shareholders		3,644,375		3,693	
3. Trade payables		5,498,993		8,233	
4. Other liabilities		1,951,134		4,564	
- of which from taxes					
EUR 1,429,595					
(PY: EUR 2,864 thousand)					
- of which as part of social security					
EUR 2,462					
(PY: EUR 62 thousand)					
		33,921,211			45,005
D. Prepaid expenses and deferred income		3,572,483			3,6595
		59,054,963			69,288

Consolidated income statement 2021

	EUR	31/12/2021 EUR	Previous year EUR thousand
1. Sales revenue	85,843,495		65,567
2. Decrease/increase in finished goods inventories and work in progress	-23,673		246
3. Other own work capitalised	63,224		0
4. Other operating income	4,169,042		848
		90,052,088	66,661
5. Cost of materials			
a) Cost of raw materials, consumables and supplies and of purchased merchandise	38,839,059		26,594
b) Cost of purchased services	10,234,248		9,575
6. Personnel expenses			
a) Wages and salaries	18,304,025		18,047
b) Social security and post-employment costs - thereof for old-age pensions EUR 63,363 (PY: EUR 78 thousand)	3,241,218		3,172
7. Depreciation, amortisation and write-downs of intangible fixed assets and tangible fixed assets	2,891,447		3,037
8. Other operating expenses	15,293,804		16,859
		88,803,801	77,284
9. Profit before interest and tax (EBIT)		1,248,287	-10,623
10. Income from long-term equity investments in associates		217,210	0
11. Other interest and similar income	3,750		0
12. Interest and similar expenses	900,729		988
		-896,979	-988
13. Income taxes - thereof income from change in recognised deferred taxes EUR 117,200 (PY: EUR 364 thousand)		-89,281	-288
14. Earnings after taxes		657,799	-11,323
15. Other taxes		37,335	38
16. Net income for the year (PY: net loss for the year)		620,464	-11,361
17. Retained profits brought forward		843,580	12,205
18. Net retained profits		1,464,044	844

Cash flow statement 2021

	2021	2020
	EUR thousand	EUR thousand
Net profit/loss for the financial year	+620	-11,361
+ Depreciation and amortisation of non-current assets and current assets	+2,891	+3,037
- Decrease in other provisions	-71	+1,084
+/- Adjustment of equity interests in associates	-217	0
Other non-cash expenses	+152	+15
- Changes related to exchange rates	+78	+16
- Increase in inventories, trade receivables and other assets not related to investing or financing activities	+10,178	+3,050
+ Increase in trade payables and other liabilities not related to investing or financing activities	-5,638	+1,317
- Gain on the disposal of fixed assets	-1,622	0
+ Interest expenses	+701	+972
+ Income tax expense	-89	-288
- Income tax payment	-9	-366
Cash flow from operating activities	+6,974	-2,524
+ Proceeds from the disposal of intangible and tangible fixed assets	+1,803	+8
- Purchase of intangible fixed assets	0	-20
- Purchase of tangible fixed assets	-582	-765
+ Proceeds from the disposal of long-term investments	+500	0
- Payments for the acquisition of long-term investments	-75	0
Cash flow from investing activities	+1,646	-777
Proceeds from additions to equity by shareholders of the parent company	0	+3,655
Proceeds from bank borrowings	0	+3,000
Repayment of bank borrowings	-7,479	-4,732
Changes in cash from other capital	-8	-7
Interest paid	-701	-771
Cash flow from financing activities	-8,188	+1,145
Net change in cash funds	+432	-2,156
Change in cash funds due to exchange rate effects	+33	-28
Cash funds at beginning of period	-4,236	-2,052
Cash funds at end of period	-3,771	-4,236

Cash funds break down as follows:

	Reporting year	Previous year
	EUR thousand	EUR thousand
Cash funds	2,815	575
Liabilities to banks	-6,586	-4,811
Total	-3,771	-4,236

Statement of changes in fixed assets 2021

	1/1/2021 EUR	Acquisition/production cost			
		Additions EUR	Reclassi- fications EUR	Disposals EUR	Currency translation EUR
I. Intangible assets					
1. Internally generated industrial property rights and similar rights and assets	3,557,498	0	0	0	0
2. Purchased concessions, industrial and similar rights and assets, and licenses to such rights and assets	5,675,541	0	0	802,051	0
	9,233,039	0	0	802,051	0
II. Tangible assets					
1. Land and buildings	27,024,157	0	50,907	26,483	0
2. Technical equipment and machinery	9,915,241	408,702	341,477	1,498	1,845
3. Other equipment, operating and office equipment	10,900,039	172,120	0	361,630	0
4. Prepayments and assets under construction	2,498,553	1,488	-392,384	153,583	0
	50,337,990	582,310	0	543,194	1,845
III. Financial assets					
Shares in associates	0	327,500	0	47,790	0
	59,571,029	909,810	0	1,393,035	1,845

Cumulative depreciation and amortisation					Carrying amounts		
31/12/2021 EUR	1/1/2021 EUR	Additions EUR	Disposals EUR	Currency translation EUR	31/12/2021 EUR	31/12/2021 EUR	31/12/2020 EUR thousand
3,557,498	1,126,541	711,500	0	0	1,838,041	1,719,457	2,431
4,873,490	4,727,510	344,864	334,188	0	4,738,186	135,304	948
8,430,988	5,854,051	1,056,364	334,188	0	6,576,227	1,854,761	3,379
27,048,581	16,404,818	880,830	0	0	17,285,648	9,762,933	10,619
10,665,767	8,501,383	483,373	359	809	8,985,206	1,680,561	1,414
10,710,529	9,419,763	470,880	189,305	0	9,701,338	1,009,191	1,480
1,954,074	0	0	0	0	0	1,954,074	2,499
50,378,951	34,325,964	1,835,083	189,664	809	35,972,192	14,406,759	16,012
279,710	0	0	0	0	0	279,710	0
59,089,649	40,180,015	2,891,447	523,852	809	42,548,419	16,541,230	19,391

Statement of changes in equity in 2021

	Subscribed capital	Capital reserves	Legal reserves
	EUR	EUR	EUR
1 January 2020	5,626,500	6,583,005	511,500
Equity increases/decreases	365,414	3,288,726	0
Other changes	0	0	0
Consolidated net loss for the year	0	0	0
31 December 2020	5,991,914	9,871,731	511,500
Equity increases/decreases	0	0	0
Other changes	0	0	0
Consolidated net loss for the year	0	0	0
31 December 2021	5,991,914	9,871,731	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	EUR
	1,310,000	1,821,500	46,391	20,493,782	-8,288,792	26,282,386
	0	0	0	0	0	3,654,140
	0	0	0	-8,288,792	8,288,792	0
	0	0	-447,027	0	-11,361,410	-11,808,437
	1,310,000	1,821,500	-400,636	12,204,990	-11,361,410	18,128,089
	0	0	0	0	0	0
	0	0	0	-11,361,410	11,361,410	0
	0	0	360,501	0	620,464	980,965
	1,310,000	1,821,500	-40,135	843,580	620,464	19,109,054

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2021

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 "of which" 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 2021 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. of the German Civil Code (HGB). The notes to the consolidated interim financial statements have been drawn up 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 has been entered into the commercial register of Stuttgart Local Court under 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 accordance with the principles of full consolidation/equity consolidation unless they were not consolidated due to their immateriality. They were included in accordance with Section 290 (2) HGB and Section 311 (1) HGB.

As well as the parent company, the following companies were included in the consolidated financial statements of HWA AG:

Company	Domicile	Equity interest	Consolidation
HWA US Inc,	Wilmington. USA	100.0%	Full consolidation
HWA AUS Pty Ltd	Mornington. Australien	100.0%	Full consolidation
Hyraze GmbH	Affalterbach	100.0%	Full consolidation
Paceteq GmbH	Affalterbach	20.0%	Equity consolidation

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 which 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.

The equity investment in associates is measured using the book value method pursuant to Section 312 (1) sentence 1 HGB.

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 their 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.

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

Finished goods inventories and work in progress are valued at cost of production, including direct material, labour and other costs, as well as 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.

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, material 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 cost of acquisition or at fair value, whichever is lower.

Prepaid expenses comprise costs that are paid before the reporting date but represent expenses for a certain period after that date.

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 account of anticipated future price and cost increases. In accordance with Section 253 (2) sentence 1 HGB, material 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 on the transaction date. Assets and liabilities with remaining terms of one year or less are generally measured using the mean spot rate as of the balance sheet date. Assets and liabilities with a remaining term of more than one year are recognised at the mean spot rate as of the balance sheet date, taking account of the realisation and imparity principle.

Deferred income comprises proceeds that are received before the reporting date but represent income for a certain period after that date.

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

Derivative financial instruments are used at HWA AG 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 as of 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

Assets

The development of the individual items of fixed assets is presented along with the related depreciation 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 of EUR 3,557 thousand for the R4T engine 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 considers the prospects for future sources of income to be good.

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.

In the 2020 financial year, HWA AG established the subsidiary Hyraze GmbH with share capital of EUR 25,000. The company was fully consolidated in the consolidated financial statements.

In the 2020 financial year, the subsidiary Paceteq GmbH was established with share capital of EUR 25,000, 50% of which was sold to a business partner in the financial year. There was also a capital increase in 2021, in which HWA did not participate. This reduces the share to 20%. This company was consolidated as an associate using the equity method in the consolidated financial statements. The difference between the carrying amount and the pro rata equity is EUR 0.--.

Inventories

In addition to customary reservations of title, there are the following additional charges on inventories: a blanket assignment and collateral assignment of HWA's inventories to the principal banks to secure the working capital facilities and the KfW loan received in the amount of EUR 3,000 thousand. The US warehouse was also assigned as collateral to the Dörflinger management company.

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

Receivables and other assets

EUR 0 thousand (previous year: EUR 0 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. HWA AG's Management Board decided to write off the equity interest in full in 2019 and sell the interests where applicable. In the first quarter of 2020, a claim for damages was filed against the partner for a breach of contractual obligations. Proceedings are still ongoing.

Deferred taxes

Deferred taxes result from the following items:

	31 December 2021		31 December 2020	
EUR thousand	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
from fixed assets				
- internally generated intangible assets		468		657
- tangible assets	2			3
- financial assets		68		
from inventories	807		822	
from other assets			14	
from prepaid expenses and deferred income	32			
from loss carry-forwards	2,149		2,161	
from other provisions	209		81	
from unrealised gains		135	115	
Without netting	3,199	671	3,193	660
Of which current	306	4	132	
Netting	-671	-671	-660	-660
Carrying amount	2,528	0	2,533	0

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

Equity and authorised capital

Share capital is divided into 5,991,914 no par value bearer shares with a pro rata amount of the share capital of EUR 1.00.

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 no-par value 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). This was not utilised in the 2021 financial year. Please see Events after the balance sheet date.

Provisions

The other provisions were recognised mainly for outstanding invoices, expected losses from onerous contracts, holiday entitlements, anniversary benefits and other personnel obligations

Liabilities

Of the liabilities to banks, EUR 14,090 thousand (previous year: EUR 12,319 thousand) have remaining maturities of up to one year and EUR 8,737 thousand (previous year: EUR 16,195 thousand) have remaining maturities of more than one year. EUR 881 thousand (previous year: EUR 2,267 thousand) of the latter category have remaining maturities of more than five years. An amount of EUR 8,468 thousand has been secured by charges on real property. There is a collateral agreement in place for a loan of EUR 12 thousand (previous year: EUR 20 thousand).

The liabilities to shareholders exist in the form of a loan with a remaining term of up to 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 5,806 thousand in 2022. The agreements come to an end between 2022 and 2026. The lessor or landlord bears all risks. The purchase commitment stands at EUR 4,979 thousand.

To safeguard loans granted by banks, shareholders and other third parties, inventories and selected items of fixed assets have been assigned to creditors as collateral.

Derivative financial instruments

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

Distribution restriction

EUR 1,719 thousand is subject to a distribution restriction in accordance with Section 248 (2) HGB due to the capitalisation of internally generated intangible assets, and another EUR 2,037 thousand due to the capitalisation of deferred taxes.

Consolidated income statement disclosures

Sales revenue

Sales revenue breaks down as follows:

	2021
	EUR thousand
Sales revenues by region	
Domestic	44,663
Outside Germany	41,180
	85,843

Other operating income

Other operating income primarily relates to non-cash benefits of private car use (EUR 220 thousand), prior-period income (EUR 80 thousand), the reversal of provisions (EUR 359 thousand) and currency effects (EUR 1,537 thousand) (previous year: EUR 64 thousand).

Other operating expenses

Other operating expenses mainly consist of operating expenses (EUR 4,019 thousand), sales and administrative expenses (EUR 8,756 thousand), other personnel expenses (EUR 765 thousand) and miscellaneous other expenses (EUR 1,754 thousand). Miscellaneous other expenses mainly comprise valuation allowances on receivables (EUR 313 thousand) and exchange losses including currency valuations (EUR 1,211 thousand (previous year: EUR 836 thousand)).

Income from long-term equity investments in associates

Income comprises an increase in equity in connection with the capital increase of EUR 252 thousand and a capital reduction due to the pro rata net loss for the year of EUR 35 thousand.

Interest expenses

Interest expenses include expenses of EUR 5 thousand (previous year: EUR 9 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 mainly relate to the results of ordinary business activity.

Income taxes contributed to Group income of EUR 620 thousand. Taxes on income include income from deferred taxes amounting to EUR 117 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	531	
Relevant tax rate		27.0%
Expected tax expense	143	
Deviation from tax base		
Tax-free income	-132	-24.8%
Tax allowances and benefits	7	1.2%
Non-deductible expenses	41	7.7%
Difference tax carrying amounts	-115	-21.7%
Changes in tax rates		
Local trade taxes	61	11.5%
Foreign tax rates	-9	-1.7%
Recognition and measurement of deferred tax assets		
Impairment of deferred taxes on loss carry-forwards	-242	-45.5%
Not recognised	151	24.8%
Other	6	1.1%
Current tax expense	-89	
Effective tax rate		-16.8%

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
- Simone Stegmaier, tax consultant

The remuneration of the Supervisory Board for the purposes of Section 113 of the German Stock Corporation Act (AktG) amounted to EUR 186 thousand.

Management Board

- Martin Marx, COO, sole Management Board member

The disclosure of the total remuneration of the Management Board pursuant to Section 285 no. 9 letters a and b HGB was waived in accordance with Section 286 (4) HGB.

Events after the balance sheet date

Our economic position is still affected by COVID-19. In addition, it is still uncertain how exactly the war in Ukraine will affect economic conditions and any supply bottlenecks.

HWA AG's Management Board decided to utilise Authorised Capital 2020 to increase the company's share capital by 10% against cash contributions. The company's share capital is thus to be increased by a nominal amount of EUR 599,191 from EUR 5,991,914 to EUR 6,591,105 by issuing a total of 599,191 new bearer shares, excluding shareholders' subscription rights. The issue proceeds generated from the capital increase are intended to strengthen HWA AG's equity.

Auditor remuneration

The table below provides an aggregate overview of the fees payable for the services of the auditor, Treuhand Südwest GmbH, Wirtschaftsprüfungsgesellschaft und Steuerberatungsgesellschaft, Karlsruhe, for the 2021 financial year.

	EUR thousand
Audits of financial statements	67,4
Other assurance services	0,0
Other services	0,0
	67,4

Employees

Average number of employees during the financial year:

Non-salaried staff	165
Salaried staff	105
	270
Trainees	0
	270

Two people were employed outside Germany.

Affalterbach, 17 March 2022

The Management Board



Martin Marx (sole 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 2021, the income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the financial year from 1 January 2021 to 31 December 2021, 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 2021 to 31 December 2021.

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 2021, and of its results of operations for the financial year from 1 January 2021 to 31 December 2021, 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 companies 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 and of the Supervisory Board 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.

The Supervisory Board is responsible for monitoring the Group's accounting process for preparing the consolidated financial statements and the Group management report, which is combined with the management report of the parent company.

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 companies' 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, 18 March 2022

TREUHAND SÜDWEST GMBH
Wirtschaftsprüfungsgesellschaft
und Steuerberatungsgesellschaft

Schülj
German public auditor

Retzbach
German public auditor



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