HWA
ENGINEERING SPEED

HALF-YEAR REPORT

2021

INTERIM MANAGEMENT REPORT

DEAR SHAREHOLDERS,

For HWA AG, as for many other companies, the first half of 2021 was dominated by the fact that the hard lockdown and the associated restrictions, including in HWA AG's fields of activity, could be lifted. Activities that were significantly restricted in the previous year due to COVID-19 and had a major impact on HWA AG's economic situation, such as GT customer sports, have been taking place almost without restriction since the beginning of the year. This has resulted in a recovery of sales revenues in these areas and played a key role in allowing the previous year's high monthly losses to be brought to a stop. In addition, HWA AG's general cost-cutting programme is continuing at full steam, and its effects are also clearly visible. The savings here relate, for example, to optimizations in the IT infrastructure, general consulting services and also personnel.

HWA AG has forecast a return to profitability for 2021 as a whole and has planned slightly positive EBIT in the low single-digit millions. We are pursuing this goal as a top priority and consider ourselves to be well on track – while of course keeping a necessary sharp eye on developments relating to the pandemic.

In the year to date, i.e. also including July and August, the Formula 2 and Formula 3 racing series and the ABB FIA Formula E championship were held. They did not take place entirely as originally planned, but also by no means with the same restrictions as in the previous year. Spare parts and service business and production for the Mercedes-AMG GT racing vehicles saw a satisfactory development in the first six months of 2021. Unfortunately, the start of some planned development projects, particularly in the area of Mercedes-AMG customer sports, could not be implemented as planned in the first half of the year. As a result, the use of short-time work as a tool was increased again and applied to a greater extent than anticipated at the start of the year.

HWA AG still has the goal of starting new development projects in the second half of 2021, and has so far succeeded in this with projects in Mercedes-AMG customer sports, among others. It thereby intends to achieve the earnings target for 2021. This has the follow-up goal of being stable and more broadly positioned in the years ahead, too. We see the discontinuation of the Formula E project and the rapidly changing market requirements as both an opportunity and a risk.

In summary, we therefore currently still consider it realistic that we will achieve the sales revenue and earnings targets set for 2021 from our operating activities.

1. BACKGROUND 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.

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 50% stake in the following legal entity, which is included in the consolidated statements using the equity method:

- PACETEQ GmbH, Affalterbach (50%)

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

The parent company, the US 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 the first half of 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.

HWA ended Season 7 of the ABB FIA Formula E championship 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 (KNAUS E.POWER DRIVE) together with the company KNAUS Tabbert, which was successfully presented at the Caravan Salon in Düsseldorf in August 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, in-house 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 and the state of Baden-Württemberg to develop a drive axle with zero emissions and zero particulate matter.

2. ECONOMIC REPORT

GENERAL ECONOMIC CONDITIONS

In the first half of 2021, the global economy was characterised by recovery effects in comparison to 2020, the peak year of COVID-19 to date. Although the economic effects of the COVID-19 pandemic can still be felt, they are far less severe than in the previous year.

This recovery is taking place in both the industrial sector and the service sector.

Industrial production and also global demand for passenger cars have recovered worldwide, but are still characterised by a high level of uncertainty due to the pandemic.

The impact of the pandemic on the global economy currently still varies considerably from region to region. As a result, global economic interdependencies are also influenced to varying degrees. This can be seen in the example of China. In the first half of 2021, almost no racing events were held in China, which in turn affected HWA AG's operations.

Unprecedented measures to support the economy were implemented in many countries to counteract the steep economic downturn, which has prevented the pandemic from incurring an even more drastic impact.

AUTOMOTIVE MARKET AND OTHER RELEVANT MARKETS

Global demand for passenger cars recovered significantly year-on-year in the reporting period, posting a double-digit increase in comparison to the previous year's level.

In Europe, around 5.4 million new vehicles were registered from January to June, compared to the previous year's figure of around 4.3 million vehicles. The German market posted a year-on-year increase of around 14.9%. A total of 1.39 million new vehicles were registered in Germany.

The US market for passenger cars, for example, was around 50% higher than the weak level from the second quarter of 2020.

In China, approximately 9.8 million passenger cars were sold, corresponding to a year-on-year increase of around 27%.

The Mercedes-Benz Cars & Vans brand sold 1,246,845 units in total in the first half of 2021, which is 21% more than in the same period of the previous year. Mercedes-Benz Cars sold 355,620 vehicles (previous year: 302,559), including 109,501 in Germany. In China, the largest individual market, 407,270 units were sold as compared to 327,739 units in the previous year.

Overall, the figures indicate a recovery in this area of the global economy.

The market for electric mobility in Germany is continuing to grow. More than 312,000 electric cars and plug-in hybrids were registered here in the first half of 2021, representing one in four or five cars overall.

BUSINESS PERFORMANCE AND RESULTS OF OPERATIONS

a. Business development and forecast performance of the company

HWA AG's business has generally recovered significantly in comparison to the previous year, which was dominated by COVID-19. In economic terms, most business areas are developing as expected. The development areas were the only areas where the development of orders was not yet satisfactory in the first half of the year.

All in all, having generated gross revenue of EUR 43.0 million in the first half of the year compared to EUR 30.8 million in the same period of the previous year, the HWA Group was able to fulfil the original expectations here.

b. Results of operations

In the first half of 2021, HWA's revenues came in at EUR 41.0 million compared with EUR 29.0 million in the same period of the previous year.

Gross revenue increased from EUR 30.8 million at mid-year 2020 to EUR 43.0 million at mid-year 2021.

The cost of materials stood at EUR 23.2 million at the end of the first half of 2021 compared with EUR 14.0 million in the first six months of 2020 as a result of the increase in gross revenue.

Other operating expenses rose from EUR 7.2 million in the previous year to EUR 7.7 million in the reporting period, particularly due to exchange rate effects. The offsetting item is in other operating income. Increased variable expenses such as travel expenses also contributed to this. By contrast, selling expenses decreased.

Although EBIT was still negative at EUR -0.7 million, it had recovered significantly as against the previous year's figure of EUR -3.3 million as a result of increased gross revenue and efficiency.

After interest and taxes, the loss amounted to EUR -1.4 million as against EUR -3.7 million in 2020.

The fact that HWA's earnings were still negative is primarily due to the lack of projects in HWA's development areas in the reporting period.

HYRAZE GmbH did not make any contribution to earnings in the reporting period, while PACETEQ GmbH was included in the Group with a slight positive earnings contribution.

c. Net assets and financial position

The Group's total assets decreased slightly from EUR 69.3 million as of 31 December 2020 to EUR 68.9 million in the reporting period.

On the assets side, a decrease in fixed assets from EUR 19.4 million to EUR 18.1 million was offset by an increase in current assets from EUR 47.1 million to EUR 48.1 million.

On the liabilities side, this was accompanied by a reduction in equity to EUR 17.1 million and in liabilities to EUR 43.4 million and an increase in provisions and deferred income.

Liabilities to banks decreased from EUR 28.5 million to EUR 28.0 million, while supplier liabilities rose from EUR 8.2 million to EUR 10.4 million.

In absolute terms, equity was down EUR 1.0 million compared with 31 December 2020, particularly due to the loss in the first half of the year.

Cash flow from operating activities was positive at EUR 2.7 million. Cash and cash equivalents were negative overall at EUR 4.6 million as at the reporting date.

Liquidity management ensures that HWA AG and its subsidiaries can satisfy their payment obligations as far as possible. To this end, the Group incorporates the cash flows from its operating and financing activities into rolling planning.

d. Capital expenditure

Capital expenditure was reduced to the absolute minimum as of 30 June 2021. Over the period up until 30 June, around EUR 0.1 million was invested.

In particular, HWA acquired a powerful battery simulator that will ensure the future viability of HWA's own engine and drivetrain testing facilities and will be implemented in the second half of 2021.

e. Employees

As of 30 June 2021, 283 members of staff (30 June 2020: 306) were employed at HWA AG.

3. FORECAST, OPPORTUNITY AND RISK 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

The year 2020 showed on a global basis that planning, estimates and forecasts can relatively swiftly become a mere paper exercise due to facts outside the sphere of influence, namely a global pandemic in this instance.

The first half of 2021 showed in turn that even complex global economic systems can recover relatively quickly and adapt to new conditions.

Particularly in Europe and the US, racing events in GT customer sports were held almost normally again in the first half of 2021, leading to a recovery in HWA AG's spare parts and service business. Australia and the Asian region are still lagging considerably here.

The Motor Racing business has now almost normalised following the lockdown in 2020. Although the ABB FIA Formula E Season 7 was implemented with fewer events overall than originally planned, the effects of this are manageable. The Formula 2 and Formula 3 Season 2021 will continue to run longer and well into the second half of 2021. Due to the loss of a driver in Formula 2, it is likely there will be declines in sales revenue here.

In the Vehicles/Vehicle Component business, the year 2021 has not yet met the original expectations, particularly in the development area, as firmly scheduled development projects could not be started as budgeted.

HWA anticipates a substantial increase in sales revenue in the second half of 2021, particularly in the development area, as several development projects have since been commissioned and begun.

From the current perspective, both the sales revenue target announced for 2021 of well above the previous year's level and the EBIT target in the slightly positive range can still be achieved.

OPPORTUNITIES AND RISKS

Based on the continuing global recovery and normalisation of the economy and the associated positive effects for HWA AG, the Management Board anticipates a significant recovery in HWA AG's earnings situation in 2021, particularly in comparison to the previous year.

Parts of HWA AG's business model are still dependent on the implementation of racing events in GT customer sports.

Sales revenues from Formula 2 and Formula 3 activities depend on cooperative behaviour by contractual partners.

These specific identified risks must continue to be minimised on an ongoing basis and HWA AG's business model must be built on a strong, volatility-proof foundation.

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.

In the Vehicles/Vehicle Component business, HWA AG depends on stable capacity utilisation, particularly in the development areas.

The same applies to the production of GT racing vehicles. The partly pandemic-related situation in the area of suppliers and raw materials, which may lead to bottlenecks, should also be noted here.

However, the current development project situation for the second half of 2021 and for 2022 bodes well here. Initiated projects are being continued and new ones are being added, thus filling HWA

AG's order books. This applies both in the traditional environment of conventional combustion engines and also in the field of new technologies and in sustainability and electrification.

In the Motor Racing business, the cooperation with Daimler AG in the area of the ABB FIA Formula E championship Season 7 ended after September 2021 as planned. As expected, this entails a significant decline in sales revenue. With regard to costs, HWA AG has taken countermeasures in this area, with the effect that there are no further negative effects on earnings here.

The Formula 2 and Formula 3 season will also end in the second half of 2021. HWA has decided to divest this business area and will no longer operate here in 2022. The effects on the company are moderate.

The consequences of the prosecution from the joint venture VYNAMIC have yet to be determined in ongoing proceedings. The same applies to the claims in the US relating to sponsorship from the HWA RACELAB Formula E season and an HWA Formula 3 deployment in Macau.

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 the first half of 2021. 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 pound sterling as of 30 June.

HWA AG's opportunity/risk profile is changing from that of a one/two-project company to a multiproject 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, 18 October 2021

Martin Marx

Martin Marx (sole Management Board member)

HWA AG – FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDING 30 JUNE 2021 (CONSOLIDATED BALANCE SHEET)

ASSETS	EUR	30 June 2021 EUR	31 December 20 EUR
A. FIXED ASSETS			
I. Intangible assets			
Internally generated industrial rights	750,462		948,031
Purchased concessions, industrial and similar rights and assets, and licenses to such rights and assets	2,075,207		2,430,957
		2,825,669	
II. tangible assets			
1. Land and buildings	10,229,831		10,619,339
2. Technical equipment and machinery	1,529,172		1,413,858
3. Other equipment, operating and office equipment	1,316,373		1,480,276
4. Prepayments and assets under construction	2,084,181		2,498,553
		15,159,557	16,012,026
III. Financial assets			
1. Equity interests	85,264		
		85,264	
		18,070,490	19,391,014
B. CURRENT ASSETS			
I. Inventories			
1. Raw materials, consumables	29,256,514		29,399,194
2. Work in progress and finished goods	12,302,437		12,154,032
3. Advance payments	554,055		532,539
4. Advance payment received on inventories	-2,197,175		-2,252,175
		39,915,831	39,833,590
II. Receivables and other assets			
1. Trade receivables	4,553,578		3,672,361
2. Other assets	1,460,670		3,032,758
		6,014,248	6,705,119
III. Cash in hand and at banks		2,142,805	574,528
		48,072,884	47,113,237
C. PREPAID EXPENSES AND DEFERRED INCOME		401,207	249,939
D. DEFERRED TAX ASSETS		2,329,882	2,533,334
		68,874,463	69,287,524

EQUITY AND LIABILITIES		EUR	30 June 2021 EUR	31 December 20 EUR
A.	EQUITY			
I.	Subscribed capital		5,991,914	5,991,914
II.	Capital reserves		9,871,731	9,871,731
III.	Revenue reserves			
	1. Legal reserve	511,500		511,500
	2. Other revenue reserves	1,310,000		1,310,000
			1,821,500	1,821,500
IV.	Difference in equity from currency translation		-65,509	-400,636
V.	Retained profits/accumulated losses brought forward		843,557	12,204,990
VI.	Net loss		-1,372,386	-11,361,410
	Net retained profits/equity		17,090,807	18,128,089
B.	PROVISIONS			
	1. Tax provisions	42,406		46,777
	2. Other provisions	3,007,152		2,449,800
			3,049,558	2,496,577
C.	LIABILITIES			
	1. Liabilities to banks	27,987,953		28,514,504
	2. Trade payables	10,370,768		8,233,167
	3. Loan liabilities to shareholders	3,644,375		3,692,500
	4. Other liabilities of which from taxes EUR 510,507 (PY: EUR 2,864 thousand) of which as part of social security EUR 817 (PY: EUR 62 thousand)	1,371,757		4,564,170
			43,374,853	45,004,341
D.	PREPAID EXPENSES AND DEFERRED INCOME		5,359,245	3,658,517
			68,874,463	69,287,524

CONSOLIDATED INCOME STATEMENT

		1 January to 30 June 2021	1 January to 30 June 2020
	EUR	EUR	EUR
1. Sales revenue	41,042,123		29,030,560
2. Change in finished goods inventories and work in progress	222,690		570,548
3. Other own work capitalised	-		-
4. Other operating income of which income from currency translation EUR 347,620 (PY: EUR 97 thousand)	1,722,320		1,192,690
		42,987,133	**30,793,798**
5. Cost of materials			
a) Cost of raw materials, consumables and supplies	18,186,482		9,221,884
b) Cost of purchased services	4,982,927		4,736,716
6. Personnel expenses			
a) Wages and salaries	9,531,150		9,711,300
b) Social security and post-employment costs thereof for old-age pensions EUR 32,128 (PY: EUR 40 thousand)	1,745,692		1,675,488
7. Depreciation, amortisation and write-downs			
of intangible fixed assets and tangible fixed assets	1,507,101		1,533,100
8. Other operating expenses of which expenses from currency translation EUR 1,044 (PY: EUR 87 thousand)	7,727,611		7,201,650
		43,680,963	**34,080,138**
9. Earnings before interest and tax (EBIT)	-	**-693,830**	**-3,286,340**
10. Other interest and similar income	22,764		4
11. Interest and similar expenses	-427,719		-486,039
12. Income taxes of which income (PY: expenses) from change in recognised deferred taxes EUR 205,884 (PY: EUR -107 thousand)	-222,882		96,657
13. Earnings after taxes		**-1,321,667**	**-3,675,718**
14. Other taxes	-50,719		-28,046
15. Net loss for the year		**-1,372,386**	**-3,703,764**
16. Retained profits brought forward		**843,557**	**12,204,990**
17. Net retained profits		**-528,829**	**8,501,226**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 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 30 June 2021 and cover the period from 1 January to 30 June.

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 unless they were not consolidated due to their immateriality. They were included in accordance with Section 290 (2) HGB. One company is included using the equity method.

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	Tullamarine, Australia	100.0%	Full consolidation
Hyraze GmbH	Affalterbach	100.0%	Full consolidation
Paceteq GmbH	Affalterbach	50.0%	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.

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.

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 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.

The changed framework conditions in motorsports in the financial year 2020 were taken into account and the methodology of applying valuation discounts brought in line with the market. 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.

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.

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 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

FIXED 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, the subsidiary Hyraze GmbH was established with share capital of EUR 50,000. 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. This company was consolidated as an associate using the equity method in the consolidated financial statements.

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. 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 in 2019. In the first quarter of 2020, a claim for damages was filed against the partner for a breach of contractual obligations. The Heilbronn District Court has scheduled an oral hearing on this in the fourth quarter of 2021.

DEFERRED TAXES

Deferred taxes result from the following items:

	30 June 2021		31 December 2020	
	Deferred tax assets EUR thousand	Deferred tax liabilities EUR thousand	Deferred tax assets EUR thousand	Deferred tax liabilities EUR thousand
From fixed assets				
- internally generated intangible assets	2	848		657
- tangible assets	20	3		3
from inventories	881		822	
from receivables				
from other assets		12	14	
from loss carry-forwards	2,249		2,161	
from other provisions	124		81	
from unrealised gains		83	115	
Without netting	3,276	946	3,193	660
Of which current	307	12	132	
Netting	-946	-946	-660	-660
Carrying amount	2,330	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

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).

PROVISIONS

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

In the US, a lawsuit has been filed against HWA AG with the District Court of Florida in connection with the matter relating to Vynamics. Due to the inclusion of additional defendants, the case will be delayed until at least the calendar year 2022.

LIABILITIES

Of the liabilities to banks, EUR 14,381 thousand (previous year: EUR 12,307 thousand) have remaining maturities of up to one year and EUR 13,606 thousand (previous year: EUR 16,208 thousand) have remaining maturities of more than one year. EUR 1,502 thousand (previous year: EUR 2,267 thousand) of the latter category have remaining maturities of more than five years. An amount of EUR 9,769 thousand has been secured by charges on real property. There is a collateral agreement in place for a loan of EUR 16 thousand (previous year: EUR 20 thousand)

The liabilities to shareholders 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. There is a collateral agreement in place for a liability.

In addition to customary reservations of title, there are the following additional charges: 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 3.0 million. The US warehouse was also assigned as collateral to the Dörflinger management company.

CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

There are payment obligations under rental and leasing agreements in the amount of EUR 5,742 thousand in 2021. The agreements come to an end between 2021 and 2028. The lessor or landlord bears all risks. The purchase commitment stands at EUR 13,417 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.
Following an unsuccessful lawsuit by third parties against HWA AG in Germany in relation to a project, another lawsuit has been filed in the US. As with the previous lawsuit, HWA AG considers this lawsuit's prospects of success to be low and therefore has not set aside any provisions.

The lawsuit filed for a case pending in Miami, Florida, will be delayed until 2022.

The Heilbronn District Court has scheduled a second oral hearing with regard to the contractual claims against Vynamic GmbH for 17 November 2021.

DERIVATIVE FINANCIAL INSTRUMENTS

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

Distribution restriction

EUR 2,075 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 1,773 thousand due to the capitalisation of deferred taxes.

CONSOLIDATED INCOME STATEMENT DISCLOSURES

SALES REVENUE

Sales revenue breaks down as follows:

	H1 2021
	EUR thousand
Sales revenues by region	
Domestic	22,430
Outside Germany	18,612
	41,042

OTHER OPERATING INCOME

Other operating income primarily relates to non-cash benefits of private car use (EUR 112 thousand), compensation for damages (EUR 277 thousand) and prior-period income (EUR 30 thousand).

OTHER OPERATING EXPENSES

Other operating expenses mainly consist of operating expenses (EUR 2,305 thousand), sales and administrative expenses (EUR 2,253 thousand), other personnel expenses (EUR 312 thousand) and miscellaneous other expenses (EUR 2,379 thousand). Miscellaneous other expenses mainly comprise valuation allowances on receivables (EUR 277 thousand).

INTEREST EXPENSES

Interest expenses include expenses of EUR 0 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.

The consolidated net loss of EUR -1,372 thousand was reduced by income taxes. Taxes on income include expense from deferred taxes amounting to EUR 206 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	
Earnings before tax	-1,150	
Relevant tax rate		27.0%
Expected tax expense	-311	
Deviation from tax base		
Tax allowances and benefits	23	-2.0%
Difference tax carrying amounts	-86	7.5%
Changes in tax rates		
Foreign tax rates	-22	1.9%
Recognition and measurement of deferred tax assets		
Impairment of deferred taxes on loss carry-forwards	-19	1.7%
Not recognised	621	-54.0%
Current tax expense	206	
Effective tax rate		-17.9%

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 87 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.

EMPLOYEES

Average number of employees during the financial year:

Non-salaried staff	110
Salaried staff	173
	283
Trainees	0
	283

Two people were employed outside Germany.

Affalterbach, 18 October 2021

The Management Board

Martin Marx (sole Management Board member)

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