HWA

ENGINEERING SPEED

HALF-YEAR REPORT

2022

INTERIM MANAGEMENT REPORT

DEAR SHAREHOLDERS,

For HWA AG, as for many other companies, the first half of 2022 was dominated by the fact that a certain degree of normality has returned with regard to COVID-19, but there are now other challenges that must be faced. These particularly include the shortage of raw materials and the disrupted supply chains resulting from the Russia/Ukraine war. In particular, there have been effects in relation to the supply of materials to HWA AG and consequently also on HWA AG's vehicle production and the supply of corresponding components to customer and racing teams.

Since the beginning of the year, all customer sports activities have been taking place almost without restriction. The exception here is China. This has resulted in a further recovery of sales revenues in this area and contributed significantly to a further recovery in earnings in the first six months.

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 and software as well as general consulting support.

HWA AG has planned positive EBIT in the low single-digit millions for 2022 as a whole. 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 supply of materials.

For HWA AG, the first half of 2022 was dominated by activities in relation to M-AMG customer sports. Spare parts and service business for the M-AMG GT racing vehicles developed as expected in the first six months of 2022. The US market was particularly noteworthy here. Vehicle production has repeatedly been temporarily hampered by missing parts. Unfortunately, the start of some planned development projects, particularly in the area of M-AMG customer sports, could not be implemented as planned in the first half of the year, but these will now begin bindingly in the second half of 2022.

Capacity in HWA AG's vehicle production will also be fully utilised in the second half of the year, particularly due to the production of the M-AMG Track Series vehicles.
The drivetrains developed by HWA AG for the customer Pagani will also now be produced and delivered in 2022.

The same continues to apply to the APOLLO IE vehicles for the customer Apollo.

HWA AG still has the goal of starting and acquiring new development projects in the second half of 2022, and has so far succeeded in this with projects in M-AMG customer sports, among others. It thereby intends to achieve the earnings target for 2022.

In summary, we therefore currently still consider it realistic that we will achieve the sales revenue and earnings targets set for 2022 from our operating activities.

1. BACKGROUND INFORMATION ON THE GROUP

LEGAL AND ECONOMIC POSITION OF THE COMPANY IN 2022

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 and support 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. However, these activities are currently on hold.

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.

In the Motor Racing segment, operations in the first half of 2022 mainly related to providing services for MBFE’s Formula E activities.

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.

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

There are no special aspects at present with regard to the HWA joint venture VYNAMIC.

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 in order to open up new business areas and opportunities, also outside motor sports, so 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. The prototype for this was presented to the public in Stuttgart on 28 September 2022 in the presence of the Baden-Württemberg Minister for Economic Affairs, and is intended to form the basis for further developments, possibly through to readiness for series production.

2. ECONOMIC REPORT

GENERAL ECONOMIC CONDITIONS

A tentative recovery in 2021 was followed by an increasingly gloomy development of the world economy in the first half of 2022. For example, global production contracted in the first half of this year due to declines in China and Russia, while consumer spending in the US fell short of expectations. The global economy, already weakened by the pandemic, was hit by several shocks: unexpectedly high worldwide inflation – particularly in the United States and the major European economies – caused the financial conditions to worsen.

In addition, the availability of semiconductors and other important industrial intermediate products, as well as the further development of the COVID-19 pandemic worldwide, including the effects of the zero-COVID strategy in China, are still contributing to a high level of uncertainty when it comes to assessing the risk and opportunity situation for 2022. The various effects of the Russia/Ukraine war (such as a potential freeze of gas supplies by Russia) also play a key role here.

AUTOMOTIVE MARKET AND OTHER RELEVANT MARKETS

There was a mixed picture overall on the international automotive markets in the first half of 2022. Disrupted value chains and logistics chains are still negatively impacting markets and production, with the semiconductor shortage in particular proving to be a limiting factor. The war in Ukraine is continuing to cause uncertainty. In addition, high price momentum in the US and Europe are also negatively impacting the markets.

In Europe, around 4.6 million new vehicles were registered from January to June, compared to the previous year’s figure of around 5.4 million vehicles. The German market posted a year-on-year decline of around 11%. A total of 1.24 million new vehicles were registered in Germany.

The US market for passenger cars, for example, was around 18% lower than the level from the first half of 2021.

In China, approximately 10.2 million passenger cars were sold, corresponding to a year-on-year increase of around 4%.

The Mercedes-Benz Cars & Vans brand sold 1,162,700 units in total in the first half of 2022, which is around 7% fewer than in the same period of the previous year. Mercedes-Benz Cars sold 301,252 vehicles (previous year: 321,113), including 97,608 in Germany. In China, the largest individual market, 350,698 units were sold as compared to 407,270 units in the previous year.

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

The market for electric mobility in Germany contracted by a comparatively moderate 2%. More than 306,000 electric cars and plug-in hybrids were registered here in the first half of 2022, representing one in four cars overall.

BUSINESS PERFORMANCE AND RESULTS OF OPERATIONS

a. Business development and forecast performance of the company

HWA AG’s business has generally recovered further and stabilized in comparison to the previous year. 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 46.0 million in the first half of the year compared to EUR 43.0 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 2022, HWA’s revenues came in at EUR 41.4 million compared with EUR 41.0 million in the same period of the previous year.

Gross revenue increased from EUR 43.0 million at mid-year 2021 to EUR 46.0 million at mid-year 2022.

The cost of materials stood at EUR 27.6 million at the end of the first half of 2022 compared with EUR 23.2 million in the first six months of 2021 as a result of the increase in gross revenue. The relative increase in the cost of materials is attributable to a relatively high share of production volumes in relation to gross revenue.

Other operating expense decreased significantly from EUR 7.7 million in the previous year to EUR 5.8 million in the reporting period, due firstly to the discontinuation of the ABB FIA Formula E business and secondly to the effectiveness of the cost and efficiency programme. Exchange rate effects also played a relevant role here.

As a result of increased gross revenue and efficiency, EBIT was in positive territory at EUR 0.7 million as against the previous year's figure of EUR -0.7 million.

After interest and taxes, earnings amounted to EUR 0.3 million as against EUR -1.4 million in 2021.

The two foreign subsidiaries and the parent company all generated positive earnings.

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

c. Net assets and financial position

The Group's total assets increased from EUR 59.1 million as of 31 December 2021 to EUR 64.2 million in the reporting period.

On the assets side, a decrease in fixed assets from EUR 16.5 million to EUR 15.5 million was offset by an increase in current assets from EUR 39.8 million to EUR 45.7 million. This increase was chiefly due to growth in inventories.

On the liabilities side, this was accompanied by an increase in equity to EUR 24.4 million and a rise in provisions to EUR 3.4 million. The increase in equity resulted firstly from the positive earnings and secondly from the capital increase implemented, in which the share capital was increased by EUR 599,191.

Liabilities to banks decreased from EUR 22.8 million to EUR 20.4 million, while supplier liabilities rose from EUR 5.5 million to EUR 7.7 million.

Cash flow from operating activities was negative at EUR -1.9 million, mainly due to the temporary build-up of inventories. Cash and cash equivalents were also negative overall at EUR 4.2 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 2022, too. Over the period up until 30 June, around EUR 0.3 million was invested.

Investments chiefly relate to technical equipment and machinery and to operating equipment.

e. Employees

As of 30 June 2022, 260 members of staff (30 June 2021: 283) 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 recent past has shown 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, such as pandemics and wars.

For HWA AG, the first half of 2022 showed that even complex global economic systems can recover relatively quickly and adapt to new conditions, but also that new problems can arise relatively quickly. In summary, significantly increased uncertainty can be observed.

The Ukraine war and the directly or indirectly associated disruptions in the global supply chain system and the global supply and availability of raw materials, as well as significant price increases across all levels, horizontal and vertical, are also impacting HWA AG.

Racing events in GT customer sports were held normally in the first half of 2022, particularly in Europe and the US, meaning that the sales revenues anticipated here could actually be achieved. However, disruptions in the provision of spare parts for customers or in vehicle production are increasingly occurring over the course of the year. These must be managed actively over the remaining months of the year.

The Motor Racing segment has only minor significance for HWA AG in 2022. HWA AG is not carrying out its own racing activities in 2022. Only services relating to Formula E are performed here.

In the Vehicles/Vehicle Component business, the year 2022 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 2022, particularly in the development area, as several development projects have since been commissioned and begun. This also applies to vehicle production, as the M-AMG GT Track Series vehicles ordered by M-AMG will be produced and delivered in the second half of 2022.

From the current perspective, both the sales revenue target announced for 2022 and the EBIT target of approximately EUR 2 million can still be achieved.

OPPORTUNITIES AND RISKS

As mentioned above, the Management Board of HWA AG currently considers it realistic to be able to achieve the economic targets set for 2022.

The risks for HWA AG partly depend on the global risks described above, with a high degree of uncertainty as to additional negative influences on the company. Rising prices, including procurement costs, energy costs and gas supply, should be mentioned in this context, as well as the actual availability of materials.

Other specific risks chiefly relate to the order situation in the development areas and to the customer portfolio and customer diversification.

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 current development project situation for the second half of 2022 currently looks considerably better here than in the first six months. 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. It is not yet clear at present whether this trend will continue in 2023.

As mentioned above, the Motor Racing segment does not currently have any major significance for HWA AG. This is also expected to be the case in the second half of 2022 and in 2023.

Any consequences from the prosecution from the joint venture VYNAMIC currently have yet to be determined.

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 2022.

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 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, 19 October 2022

Martin Marx

Martin Marx (sole Management Board member)

HWA AG – FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDING 30 JUNE 2022

Consolidated balance sheet

		30 June 2022	31 December 2021
ASSETS	EUR	EUR	EUR
A. FIXED ASSETS			
I. Intangible assets			
1. Internally generated industrial rights	1,363,708		1,719,457
2. Purchased concessions, industrial and similar rights and assets, and licenses to such rights and assets	107,751		135,304
		1,471,459	**1,854,761**
II. Tangible assets			
1. Land and buildings	9,322,518		9,762,933
2. Technical equipment and machinery	1,513,014		1,680,561
3. Other equipment, operating and office equipment	1,094,713		1,009,191
4. Prepayments and assets under construction	1,954,074		1,954,074
		13,884,319	**14,406,759**
III. Financial assets			
Shares in associates	133,256		
		133,256	**279,710**
		15,489,034	**16,541,230**
B. CURRENT ASSETS			
I. Inventories			
1. Raw materials, consumables	26,247,827		29,500,873
2. Work in progress and finished goods	15,194,348		7,708,389
3. Advance payments	125,866		205,522
4. Advance payment received on inventories	-4,055,389		- 4,225,493
		37,512,652	**33,189,291**
II. Receivables and other assets			
1. Trade receivables	4,639,847		2,865,476
2. Other assets	1,111,270		866,465
		5,751,117	**3,731,941**
III. Cash in hand and at banks		**2,443,323**	**2,839,669**
		45,707,092	**39,760,901**
C. PREPAID EXPENSES AND DEFERRED INCOME		**413,305**	**224,442**
D. DEFERRED TAX ASSETS		**2,635,392**	**2,528,390**
		64,244,823	**59,054,963**

EQUITY AND LIABILITIES		EUR	30 June 2022 EUR	31 December 2021 EUR
A.	**EQUITY**			
I.	**Subscribed capital**		**6,591,105**	**5,991,914**
II.	**Capital reserves**		**13,826,392**	**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**		**429,756**	**-40,031**
V.	**Retained profits/accumulated losses brought forward**		**1,464,044**	**843,476**
VI.	**Net loss**		**305,157**	**620,464**
			24,437,954	**19,109,054**
B.	**PROVISIONS**			
	1. Tax provisions	80,143		72,859
	2. Other provisions	3,325,353		2,379,356
			3,405,496	**2,452,215**
C.	**LIABILITIES**			
	1. Liabilities to banks	20,401,376		22,826,709
	2. Trade payables	7,657,822		5,498,993
	3. Loan liabilities to shareholders	3,644,375		3,644,375
	4. Other liabilities of which from taxes EUR 449,707 (PY: EUR 1,430 thousand) of which as part of social security EUR 1,406 (PY: EUR 2 thousand)	2,431,547		1,951,134
			34,135,120	**33,921,211**
D.	**PREPAID EXPENSES AND DEFERRED INCOME**		**2,266,253**	**3,572,483**
E.	**Deferred tax liabilities**			**-**
			64,244,823	**59,054,963**

Consolidated income statement

	EUR	1 January to 30 June 2022 EUR	1 January to 30 June 2021 EUR
1. Sales revenue	41,364,357		41,042,123
2. Change in finished goods inventories and work in progress	3,703,871		222,690
3. Other operating income of which income from currency translation EUR 252,765 (PY: EUR 348 thousand)	950,976		1,722,320
		46,019,204	**42,987,133**
4. Cost of materials			
a) Cost of raw materials, consumables and supplies	22,723,998		18,186,482
b) Cost of purchased services	4,858,223		4,982,927
5. Personnel expenses			
a) Wages and salaries	9,050,361		9,531,150
b) Social security and post-employment costs thereof for old-age pensions EUR 28,370 (PY: EUR 32 thousand)	1,554,703		1,745,692
6. Depreciation, amortisation and write-downs			
of intangible fixed assets and tangible fixed assets	1,245,082		1,507,101
7. Other operating expenses of which expenses from currency translation EUR 0 (PY: EUR 1 thousand)	5,847,780		7,727,611
		45,280,147	**43,680,963**
8. Earnings before interest and tax (EBIT)	-	**739,057**	**-693,830**
9. Income/loss from long-term equity investments in associates	-146,454		22,764
10. Interest and similar expenses	349,968		-427,719
11. Income taxes of which income (PY: expenses) from change in recognised deferred taxes EUR 104,081 (PY: EUR -205 thousand)	-82,117		-222,882
12. Earnings after taxes		**324,752**	**-1,321,667**
13. Other taxes	19,595		50,719
14. Net income for the year (PY: net loss for the year)		**305,157**	**-1,372,386**

Notes to the consolidated financial statements as at 30 June 2022

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 2022 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/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.
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	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.

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

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.

DEVELOPMENT WORK

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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 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. HWA holds a 20% equity interest in this company. 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 70,756.--.

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

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.

DEFERRED TAXES

Deferred taxes result from the following items:

	30 June 2022		31 December 2021	
	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		371		468
- tangible assets	2		2	
- financial assets	80			68
from inventories	851		807	
from receivables	1			
from prepaid expenses and deferred income	39			
from loss carry-forwards	2,073		2,149	
from other provisions	59	40	209	
from unrealised gains		59		136
Without netting	3,105	470	3,199	671
Of which current	321	3	306	4

Netting	-470	-470	-671	-671
Carrying amount	2,635	0	2,528	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). Based on the resolution of the Annual General Meeting of 25 July 2018, a total of 599,191 new, no-par-value bearer shares were issued, with the effect that the share capital has increased by EUR 599,191 and is now divided into 6,591,105 bearer shares with a pro rata amount of the share capital of EUR 1.00. Based on the subscription price of EUR 7.60 per share, EUR 3,955 thousand was allocated to the capital reserves.

PROVISIONS

The other provisions were recognised mainly for outstanding invoices, holiday entitlements, anniversary benefits and other personnel expenses.

LIABILITIES

Of the liabilities to banks, EUR 13,779 thousand (previous year: EUR 13,549 thousand) have remaining maturities of up to one year and EUR 6,622 thousand (previous year: EUR 13,735 thousand) have remaining maturities of more than one year. EUR 576 thousand (previous year: EUR 1,471 thousand) of the latter category have remaining maturities of more than five years. An amount of EUR 8,469 thousand has been secured by charges on real property.

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 are collateral agreements in place for loans of EUR 6,787 thousand (previous year: EUR 6,787 thousand).

CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

There are payment obligations under rental and leasing agreements in the amount of EUR 4,106. The agreements come to an end between 2022 and 2026. The lessor or landlord bears all risks. The purchase commitment stands at EUR 6,256 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 993 thousand is subject to a distribution restriction in accordance with Section 268 (8) HGB due to the capitalisation of internally generated intangible assets, and another EUR 2,359 thousand due to the capitalisation of deferred taxes.

CONSOLIDATED INCOME STATEMENT DISCLOSURES
SALES REVENUE

Sales revenue breaks down as follows:

	H1 2022 EUR thousand
Sales revenues by region	
Domestic	26,754

Outside Germany	14,610
	41,364

OTHER OPERATING INCOME

Other operating income primarily relates to non-cash benefits of private car use (EUR 99 thousand), rental income (EUR 205 thousand), prior-period income (EUR 30 thousand) and currency effects (EUR 253 thousand).

OTHER OPERATING EXPENSES

Other operating expenses mainly consist of operating expenses (EUR 2,956 thousand), sales and administrative expenses (EUR 1,830 thousand), other personnel expenses (EUR 329 thousand) and miscellaneous other expenses (EUR 733 thousand). Miscellaneous other expenses mainly comprise valuation allowances on receivables (EUR 163 thousand), allocations to provisions (EUR 270 thousand) and exchange losses including currency valuations (EUR 296 thousand).

INTEREST EXPENSES

Interest expenses include expenses of EUR 0 thousand (previous year: EUR 0 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 income of EUR 305 thousand was improved by income taxes. Taxes on income include income from deferred taxes amounting to EUR 104 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	223	
Relevant tax rate		27.0%
Expected tax expense	60	
Deviation from tax base		
Tax allowances and benefits		

Non-deductible expenses	13	5.7%
Difference tax carrying amounts	-3	-1.3%
Changes in tax rates		
Trade taxes	-2	-1.1%
Foreign tax rates	-6	-2.4%
Recognition and measurement of deferred tax assets		
Impairment of deferred taxes on loss carry-forwards	-145	-65.0%
Not recognised		
Other	1	0.3%
Current tax expense	-82	
Effective tax rate		-36.8%

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 93 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	150
	260
Trainees	0
	260

Two people were employed outside Germany.

Affalterbach, 19 October 2022

The Management Board

Martin Marx (sole Management Board member)

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