



# HALF-YEAR REPORT 2019

**HWA**  
ENGINEERING SPEED

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## HIGHLIGHTS AND KEY FIGURES

### HIGHLIGHTS OF H1 2019

- Dynamic sales growth in H1 2019
- Sales growth exceeds expectations
- EBIT below target
- Ambitious targets set for 2019
- Motor racing: Successful end to first season in Formula E
- Vehicles and vehicle components: development of Mercedes-AMG GT3 Evo
- Dividend payment of 37 cents per share for 2018
- Successful capital increase of EUR 7.1 million

<b>Key consolidated balance sheet figures (HGB)</b>	30 June 2019 EUR thousand	31 Dec. 2018 EUR thousand
Cash funds	722	2,989
Equity	33,009	29,466
Total assets	80,847	76,511
Equity ratio	40.8%	38.5%

<b>Key consolidated earnings figures (HGB)</b>	1 Jan. 2019 - 30 June 2019 EUR thousand	1 Jan. 2018 - 30 June 2018 EUR thousand
Sales revenue	67,868	55,078
EBIT	-286	2,176
Net profit/loss for the financial year	-1,591	1,460
Earnings per share in EUR	-0.28	0.29
Employees as at balance sheet date	327	296

This half-year report has been prepared in accordance with the Group accounting standards of the German Commercial Code (HGB).

## INTERIM MANAGEMENT REPORT

### DEAR SHAREHOLDERS,

2019 marks "year 1" as a result of a fundamental change to our structure in the area of motor racing. After more than 30 years of very successful collaboration with Daimler AG in the DTM, Mercedes-Benz's DTM era with HWA AG came to an end at the close of the financial year. Daimler AG did not continue its motorsports activities in the DTM racing series after 2018. For HWA AG, this means the loss of a key source of revenue in 2019 and we are devoting major efforts towards compensating this loss. Participating in the ABB FIA Formula E championship for the first time marked a major step here. HWA's season began in Formula E in Riyadh, Saudi Arabia in December 2018 and ended in July 2019 in New York. Starting in the 2019/2020 season, we will once again work together with Daimler AG in Formula E.

We are also represented in the FIA Formula 3 championship as part of a partnership in the FIA Formula 2 championship and with our own team, HWA RACELAB. In addition, we took part in the DTM in 2019, where we work together with our partner AF Racing AG for the R-Motorsport & Aston Martin team through the joint venture Vynamic GmbH.

Growth at HWA AG is still driven by the vehicles/vehicle components business unit. Collaboration with Daimler AG and Mercedes-AMG GmbH in this business unit remains positive. Together with Mercedes-AMG GmbH, HWA AG has positioned itself as a firm fixture in the GT segment as a whole. The first few months of 2019 were shaped by the delivery of the Mercedes-AMG GT3 project and the Mercedes-AMG GT4. We also received another project from Mercedes-AMG GmbH relating to the Mercedes-AMG GT3 Evo.

Parts and service business for the entire product range continued to develop well thanks to the large number of racing vehicles on the market. Our aim is to diversify the customer structure in this segment. Since the

summer of 2018, we have been working with Apollo Automobil and implementing the race car project Apollo IE. At Vynamic GmbH, we also work on vehicle projects, with one project in the advanced planning stage.

Business in the first half of 2019 exceeded expectations in terms of sales but earnings were lower than we planned. Group sales rose to almost EUR 68 million after EUR 55 million in the previous year. Gross revenue came to EUR 73 million in the same period. Growth is extremely dynamic. Nonetheless, earnings in the first six months of the year fell slightly short of expectations. EBIT was minus EUR 0.3 million and the company reported net losses of EUR 1.6 million.

HWA AG previously projected an increase in gross revenue for 2019. As things stand at present, gross revenue will remain on par with the previous year. Based on current information from HWA AG, the newly founded joint venture Vynamic GmbH is not consolidated and so it also makes no contribution to sales. The joint venture is not currently performing in line with Management Board expectations. Consolidated EBIT will fall well short of the previous year's figure. HWA AG generated gross revenue of EUR 112.9 million and EBIT of EUR 5.3 million in 2018.

### SALES AND EARNINGS

In the first six months of 2019, HWA AG generated consolidated sales of EUR 67.9 million, up on EUR 55.1 million in the previous year. Gross revenue improved from EUR 58.5 million to EUR 73.2 million. Performance in the vehicles and vehicle components segment remains a significant driver of sales. Gross profit rose from EUR 23.1 million to EUR 30.9 million. EBITDA improved from EUR 3.3 million to EUR 4.9 million. Depreciation and amortisation of tangible and intangible non-current assets amounted to EUR 1.2 million, up on EUR 1.1 million previously. Earnings before interest and taxes (EBIT) was EUR -0.3 million, down on a profit of EUR 2.2 million in the previous year. As in the previous year, net finance costs came to EUR 0.3 million. Losses before tax in the first half of 2019 came to EUR 0.6 million, after a profit before tax of EUR 1.9 million in the previous year. Net losses

of EUR 1.6 million were reported after net income of EUR 1.5 million in the previous year.

## FINANCIAL POSITION

Total assets amounted to EUR 80.8 million as at 30 June 2019, up on EUR 76.5 million as at 31 December 2018. Total assets are driven by inventories based on the production and provision of spare parts for the Mercedes-AMG GT3 and the Mercedes-AMG GT4 and the internally generated costs of developing the R4T engine. Equity came to EUR 33.0 million as at the reporting date at the end of June, up on EUR 29.5 million previously. The equity ratio rose from 38.5% to 40.8% accordingly.

As expected, the operating cash flow was negative in H1 2019 at over EUR 1.7 million. Investments amounted to EUR 5.1 million in the first half of 2019. Overall free cash flow was well into negative territory in the first six months of this year. The cash flow from financing activities was positive in H1 2019 at around EUR 1.4 million. Given that working capital remains high, HWA AG anticipates negative cash flow for the year as a whole although does expect this to improve against the first half of the year.

## NET ASSETS

Trade receivables increased from EUR 11.2 million as at 31 December 2018 to EUR 13.1 million in the reporting period. Trade payables declined from EUR 10.1 million as at 31 December 2018 to EUR 7.3 million. Inventories totalled EUR 42.7 million, an increase from EUR 41.3 million as at 31 December 2018. Liquidity was EUR 0.7 million as at the end of June 2019. Liabilities to banks rose from EUR 25.7 million as at 31 December 2018 to EUR 27.4 million. There is also a shareholder loan of EUR 1.5 million, which has decreased by EUR 2.0 million against the reporting date as at 31 December 2018.

## BUSINESS UNITS

HWA AG is organised as two business units. Motor racing and vehicles and vehicle components. The motor racing business unit was dominated by participation in the German Touring Car Masters (DTM) racing series on behalf of Mercedes-AMG Motorsport until the end of 2018. The focus of the motor racing business unit shifted significantly in 2019 due to ending this collaboration with Mercedes-AMG Motorsport.

The end of Daimler AG's participation in the DTM entailed the loss of what was previously a constant source of sales revenue in the Motor Racing segment. HWA AG aims to offset this by new activities in the Formula E, Formula 2 and Formula 3 racing series and by new participation in the DTM with a new partner.

In its vehicles and vehicle components segment, HWA AG focuses on highly specialised development contracts for customers from the automobile industry. With its expertise from decades of motor racing experience, HWA AG is a much sought-after partner for premium suppliers in the automotive industry. In the past, HWA AG has developed and produced top-class sports cars for series production such as the Mercedes-Benz CLK-GTR, the CLK DTM AMG and the SL 65 AMG Black series. In close cooperation with Mercedes-AMG GmbH, HWA AG developed and produced the Mercedes-Benz SLS AMG GT3, the Mercedes AMG GT3 and the Mercedes AMG GT4 over the past eight years. The successful cooperation with Mercedes-AMG GmbH was continued with a new development contract for the Mercedes-AMG GT3.

## MOTOR RACING

HWA AG expects sales in the motor racing business unit to decline slightly year-on-year in 2019. The company is generating the first significant sales in the motor racing business unit thanks to participating in the Formula E racing series in 2019. The first season in Formula E as a rookie team was a success for HWA AG. The Group's highlights from the 13 races in the fifth Formula E season included Stoffel Vandoorne taking the podium in Rome and his pole position in Hong Kong. He and Gary Paffett made it to the super pole a total of seven times. Stoffel also won the fanboost voting in 12 of

13 rounds. In the upcoming season 6, the Mercedes-Benz EQ Formula E Team will compete in place of HWA RACELAB.

In addition to sales revenue in Formula E, HWA AG also generates additional sales revenue from development and other services for the joint venture Vynamic GmbH and its participation in the DTM.

HWA AG generates further sales revenue in motor racing by competing in the FIA Formula 3 championship with its own team. HWA RACELAB has positioned itself as a racing team in various motor racing series. The new, international FIA Formula 3 championship is an ideal platform for this. In the FIA Formula 2 championship, HWA AG works together with the long-established British motorsports company Arden International Motorsport and is thus also active in this series. The overall aim is to expand participation in various motor racing series. For example, HWA RACELAB will take part in the new fully electric off-road racing series Extreme E. Entry is planned for 2021. Starting in January 2021, Extreme E will see 12 teams compete in a tournament. The off-road stages will be held under the toughest conditions, from extreme heat (the Sahara) to humidity (the Amazon), extreme heights (Himalayas) and sub-zero temperatures (the Arctic).

## VEHICLES AND VEHICLE COMPONENTS

The vehicles and vehicle components segment performed well overall in H1 2019. Business performance continues to be dominated by the delivery of the Mercedes-AMG GT3 project and by the delivery of the Mercedes-AMG GT4, which is being produced on behalf of and in close collaboration with Mercedes-AMG GmbH. The Mercedes-AMG GT3 Evo project deepens the partnership between HWA and Mercedes-AMG.

The company expects a good year again in the vehicles and vehicles components business unit. In addition to the ongoing production of the Mercedes-AMG GT3, the

production of the Mercedes-AMG GT4 will contribute to sales revenue. The spare parts and service business will continue to grow as a result of the large number of vehicles now on the market, similarly contributing significantly to higher sales revenue. Overall, all of this results in a higher sales volume in the vehicles and vehicle components segment than in 2018.

The intensive AMG customer sports commitment also formed the focus for the vehicle and vehicle components business unit in H1 2019. Overall, the close cooperation with Mercedes-AMG GmbH in motorsports is continuing. AMG customer teams are competing with GT3 vehicles in various racing series around the world in 2019. The global parts supply ensures an optimum and reliable service, which is provided by HWA AG.

Together with Mercedes-AMG, HWA AG is excellently positioned in customer sport and well equipped for the coming years. The company has set itself the goal of enhancing the diversity of its project structure in vehicles and vehicle components with new customers. The Management Board is still working intensely on implementing this. An example of participation away from Daimler AG is the Apollo IE race car project, which is being implemented in conjunction with Apollo Automobil Limited. We are also working hard on designing and creating a hydrogen-powered vehicle.

## Vynamic GmbH

In July 2018, HWA AG announced that it had signed a declaration of intent with AF Racing AG, Niederwil (Switzerland), with both companies agreeing to begin talks on a joint venture enterprise. The focus of the joint venture is the development of a strategic innovation partnership for development projects in motor racing and in the automotive sector in general. The joint venture was established in January 2019 under the name Vynamic GmbH. HWA AG holds a 49% share in the company. The remaining shares are held by AF Racing AG.

HWA AG develops and builds the Aston Martin Vantage DTM vehicles on behalf of Vynamic GmbH, which are used by R-Motorsport in the DTM. R-Motorsport is the exclusive Aston Martin licence team in the DTM from the British manufac-

turer in the touring car series. Another goal for 2019 is to develop small-scale series production in the area of luxury sports cars.

From HWA AG's perspective, the high expectations associated with the joint venture have not yet been fulfilled. HWA AG's Management Board decided not to consolidate the company and to write down the interest. HWA AG's objective is still to guide the joint venture towards success. Nonetheless, it is currently assessing alternatives.

## Capital increase

In December 2018, the Management Board of HWA AG, with the approval of the Supervisory Board, resolved to utilise Authorised Capital 2018 to increase the company's share capital by up to 10% against a cash contribution. To that end, the company's share capital was increased by simplified exclusion of the shareholders' subscription rights by means of issuing a total of up to 511,500 new ordinary no par value bearer shares from EUR 5,115,000 by up to a nominal amount of EUR 511,500 to up to EUR 5,626,500. Issue proceeds from the capital increase served to strengthen equity.

The new shares were subscribed to by Aufrecht GmbH and Dörflinger Management & Beteiligungs GmbH ("DMB") as part of a prospectus-free private placement. Aufrecht GmbH is represented by Hans Werner Aufrecht and DMB by Willibald Dörflinger. The placement price was set at EUR 13.87 and was not substantially lower than the corresponding stock market price. The new shares were admitted to trading in the Open Market on the Frankfurt Stock Exchange with concurrent inclusion in the Basic Board segment. The company generated gross issue proceeds of just under EUR 7.1 million from the placement. The capital increase was entered by the Stuttgart Local Court on 27 May 2019.

## EMPLOYEES

At 30 June 2019, HWA AG had 327 employees, compared with 296 employees a year earlier. HWA AG's staff headcount rose on account of additional projects.

## ANNUAL GENERAL MEETING 2019

The twelfth Annual General Meeting of HWA AG since the initial stock market listing in 2007 was held on 25 June 2019. Around 30 shareholders met at the Residenzclub in Affalterbach. Of the company's total share capital of EUR 5,626,500.00 – split into 5,626,500 shares – over 3.6 million shares or 64% of the share capital were represented.

Specifically, a resolution was passed on the appropriation of the net retained profits for the 2018 financial year. In this regard, the management proposed a dividend of 37 cents per share to the shareholders. In addition, resolutions were passed in relation to approving the actions of the Management Board (agenda item 3) and the Supervisory Board in individual votes (item 4) and the appointment of Treuhand Südwest GmbH Wirtschaftsprüfungsgesellschaft und Steuerberatungsgesellschaft, Karlsruhe, as the auditor for the 2019 financial year (item 5).

The resolutions were all adopted unanimously, i.e. with 100% of the votes.

## HWA STOCK

HWA AG stock performed stably in the period from 1 January to 30 June 2019. It started the year at EUR 14.50 and closed at EUR 13.90 at the end of June in Xetra trading. During the first half of 2019, it marked a high of EUR 14.50 and a low of EUR 13.90. Overall, HWA AG stock is moving within a very narrow trading margin. A dividend of 37 cents per share was paid to shareholders on 26 June 2019.

As at the reporting date 30 June 2019, HWA AG's stock market value amounted to over EUR 78 million.

## KEY FIGURES AND INFORMATION

Securities identification number (WKN)	A0LR4P
ISIN	DE000A0LR4P1

Stock exchange symbol	H9W
Trading segment	Basic Board (part of Open Market) on Frankfurt Stock Exchange
Share type	Ordinary no par value bearer shares
Authorised capital	EUR 5,626,500.00
Shares in issue	5,626,500
Initial listing	19 April 2007
Listing price	EUR 25.13
Designated sponsor	Oddo Seydler Bank AG

## SHAREHOLDER STRUCTURE AS AT 30 JUNE 2019

To the company's knowledge, the shareholder structure of HWA AG with regard to the major shareholders changed on account of the capital increase during the first half of 2019. The company's founder and Chairman of the Supervisory Board, Hans Werner Aufrecht, and his family hold an equity interest in HWA AG of 40.7%, up on just under 40% previously. Dörflinger Privatstiftung, which is represented by the Deputy Chairman of the Supervisory Board Willibald Dörflinger, has an equity interest of 20.7% in HWA AG following the capital increase in May 2019. Nasser Bin Khaled (NBK) Holding, also represented on the Supervisory Board, has an interest in the company of around 26%. Together, these three shareholders control over 87% of HWA AG's share capital. The information provided on HWA AG's shareholder structure is based on the notification of voting rights for the Annual General Meeting in June 2019 and on directors' dealings. Due to its listing in the Basic Board, HWA AG is not required to disclose detailed information on the shareholder structure.



# HWA AG – FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDING 30 JUNE 2019

## CONSOLIDATED BALANCE SHEET – ASSETS (HGB)

ASSETS	EUR	30 June 2019 EUR	31 Dec. 2018 EUR
<b>A. FIXED ASSETS</b>			
<b>I. Intangible assets</b>		<b>3,977,903</b>	<b>402,695</b>
Internally generated industrial property rights	3,498,206		0
Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets	479,697		402,695
<b>II. Tangible assets</b>			
1. Land and buildings	11,791,922		12,158,553
2. Technical equipment and machinery	1,779,127		2,034,974
3. Other equipment, operating and office equipment	1,882,410		1,715,211
4. Prepayments and assets under construction	2,817,788		2,039,462
		<b>18,271,247</b>	<b>17,948,200</b>
		<b>22,249,150</b>	<b>18,350,895</b>
<b>B. CURRENT ASSETS</b>			
<b>I. Inventories</b>			
1. Raw materials, consumables and supplies	28,743,194		30,165,950
2. Work in progress	16,013,217		15,029,532
3. Prepayments	714,093		633,376
4. Payments received on account of orders	-2,720,751		-4,575,859
		<b>42,749,753</b>	<b>41,252,999</b>
<b>II. Receivables and other assets</b>			
1. Trade receivables	13,123,937		11,204,794
2. Other assets	1,018,743		1,497,222
		<b>14,142,680</b>	<b>12,702,016</b>
<b>III. Cash in hand and at banks</b>		<b>721,802</b>	<b>2,989,008</b>
		<b>57,614,235</b>	<b>56,944,023</b>
<b>C. PREPAID EXPENSES</b>		<b>819,673</b>	<b>310,700</b>
<b>D. DEFERRED TAX ASSETS</b>		<b>163,858</b>	<b>905,631</b>
		<b>80,846,916</b>	<b>76,511,249</b>

## CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES (HGB)

EQUITY AND LIABILITIES	EUR	30 June 2019 EUR	31 Dec. 2018 EUR
<b>A. EQUITY</b>			
I. Subscribed capital		5,626,500	5,115,000
II. Capital reserves		6,583,005	0
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		80,134	-46,039
V. Net retained profits		18,897,656	22,575,587
		33,008,795	29,466,048
<b>B. PROVISIONS</b>			
1. Tax provisions	1,751,419		1,519,846
2. Other provisions	7,110,488		4,186,802
		8,861,907	5,706,648
<b>C. LIABILITIES</b>			
1. Liabilities to banks	27,384,647		25,694,997
2. Loan liabilities to shareholders	1,500,000		3,500,000
3. Trade payables	7,328,799		10,083,151
4. Other liabilities	779,633		2,060,405
thereof from taxes EUR 239,177 (PY: EUR 564 thousand)			
thereof as part of social security EUR 3,270 (PY: EUR 2 thousand)			
thereof to shareholders EUR 0 (PY: EUR 940 thousand)			
		36,993,079	41,338,553
D. PREPAID EXPENSES		1,983,135	0
		80,846,916	76,511,249

# HWA AG – CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2019

Consolidated income statement for the period from 1 January to 30 June 2019

	EUR	1 Jan. to 30 June 2019 EUR	1 Jan. to 30 June 2018 EUR
<b>1. Sales revenue</b>	67,868,014		55,077,504
<b>2. Change in finished goods and work in progress</b>	2,234,314		2,912,297
<b>3. Other own work capitalised</b>	2,875,028		0
<b>4. Other operating income</b> thereof income from foreign currency translation EUR 90,854 (PY. EUR 161,000)	258,883		510,685
		<b>73,236,239</b>	<b>58,500,486</b>
<b>5. Cost of materials</b>			
a) Costs of raw materials, consumables and supplies	31,270,321		27,522,016
b) Cost of purchased services	10,795,525		7,343,223
<b>6. Personnel expenses</b>			
a) Wages and salaries	12,256,819		10,950,024
b) Social security and post-employment costs thereof for old-age pensions EUR 31,696 (PY: EUR 10 thousand)	1,962,520		1,669,248
<b>7. Depreciation, amortisation and write-downs</b>			
a) of intangible fixed assets and tangible fixed assets	3,969,000		1,098,154
b) of current assets, provided these exceed write-downs customary for the company	1,168,423		0
<b>8. Other operating expenses</b> thereof expenses from foreign currency translation EUR 89,448 (PY. EUR 0)	12,099,595		7,742,139
		<b>73,522,203</b>	<b>56,324,804</b>
<b>9. Profit before interest and tax (EBIT)</b>		<b>-285,964</b>	<b>2,175,682</b>
<b>10. Other interest and similar income</b>	0		0
<b>11. Interest and similar expenses</b>	-296,139		302,449
<b>12. Income taxes</b> thereof expenses (PY: income) from change in recognised deferred taxes EUR 741,760 (PY: EUR 10 thousand)	980,478		394,311
<b>13. Earnings after taxes</b>		<b>-1,562,581</b>	<b>1,478,922</b>
<b>14. Other taxes</b>	28,224		18,488
<b>15. Net loss (PY: net profit)</b>		<b>-1,590,805</b>	<b>1,460,434</b>
<b>16. Retained profits brought forward</b>		<b>20,488,461</b>	<b>19,240,682</b>
<b>17. Net retained profits</b>		<b>18,897,656</b>	<b>20,701,116</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2019

## General information

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

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

To improve comparability, figures as at 31 December are shown as the previous year figures for the balance sheet and figures as at 30 June for the 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 2019 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. HGB. The notes to the consolidated interim financial statements have been created in line with the provisions of sections 313 and 314 HGB. The income statement was prepared using the total cost (nature of expense) method in accordance with section 275 (2) HGB.

Unless otherwise specified, amounts are reported in full euros.

## Register information

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

## Consolidated group

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

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

## Principles of consolidation

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

Capital is consolidated in accordance with the revaluation method. All assets and liabilities of the subsidiary are then recognised at their fair value at the acquisition date or at the date when a controlling influence is obtained. Any positive difference that arises when the acquisition costs are offset against the revalued equity attributable to the parent company is reported as goodwill under intangible assets and is amortised over the respective useful life. There was no goodwill for the consolidated companies.

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 and losses 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 and purchased **intangible assets** are recognised at cost of acquisition/production and where appropriate are amortised on a straight-line basis over their expected useful lives of three or five years. Development costs for the internally produced R4T engine were capitalised at construction cost for the first time.

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

Depreciation of property, plant and equipment is performed on a straight-line basis over its expected useful life. 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 lower of average cost or net realisable values.

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

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

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

**Receivables and other assets** are recognised at their nominal value. For risks attaching to individual items, specific provisions are made; general credit risk is the subject of general provisions. Material long-term receivables and other assets are discounted, provided they bear no interest.

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

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

**Liabilities** are recognised at the settlement amount.

**Deferred taxes** are calculated based on temporary differences (including those not likely to reverse in the foreseeable future) between the carrying amounts of assets, liabilities and accruals for the purposes of financial accounting and their carrying amounts for tax purposes, and on tax loss carry-forwards. The amounts of the resulting tax burden or tax relief are calculated using the rates of taxation expected to apply to the company at the time the differences are reversed, and are not discounted. Deferred tax assets and deferred tax liabilities are recognised on a net basis.

The acquisition cost of assets and liabilities denominated in foreign currencies is translated at the mean spot rate at the transaction date. Assets and liabilities with remaining terms of one year or less are generally measured using the mean

spot rate at the balance sheet date. Assets and liabilities with a remaining term of more than one year are recognised at the mean spot rate at the balance sheet date, taking account of the realisation and imparity principle.

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

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

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

## Consolidated balance sheet disclosures

### Fixed assets

#### 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 240 thousand (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.

The joint venture Vynamic GmbH, in which HWA AG holds 49% of shares, was established this year in Germany. The remaining shares are held by AF Racing AG. The company was founded with capital of EUR 100,000. Capital was increased by EUR 8,000,000 in the first half of the year, with both shareholders participating in accordance with their shares. From HWA AG's perspective, the high expectations associated with the joint venture have not yet been fulfilled and so the Management Board decided to recognise and write down the equity interest under other assets.

### Inventories

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 interest in Vynamic GmbH is recognised under other assets and has been written down to zero.

### Equity and authorised capital

On the basis of the resolution at the Annual General Meeting on 18 July 2018, 511,500 new, no par value bearer shares were issued, hence the share capital increased by EUR 511,500 and is now divided into 5,626,500 no par value bearer shares with a pro rata amount of the share capital of EUR 1.00. Based on the subscription price of EUR 13.87 per share, EUR 6,583 thousand was allocated to capital reserves.

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

In addition, the Annual General Meeting on 18 July 2018 resolved to authorise the Management Board, with the approval of the Supervisory Board, to issue - in one or more instalments - convertible or option bonds (bonds) as either registered or convertible bonds, dated or undated, up to a total of EUR 50,000,000 until 24 July 2023 and to grant the bearers or creditors of such bonds conversion or option rights to bearer shares of the company with a pro rata amount of share capital of up to EUR 2,557,500.00 in accordance with the more detailed conditions of the respective option or convertible bonds (bond conditions).

### Provisions

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

### Liabilities

Of the liabilities to banks, EUR 10,150 thousand (PY: EUR 10,171 thousand) have remaining maturities of up to one year and EUR 17,235 thousand (PY: EUR 15,524 thousand) have remaining maturities of more than one year. EUR 13,722 thousand (PY: EUR 5,743 thousand) of the latter category have remaining maturities of more than five years.

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.

### Contingent liabilities

Other financial commitments

There are payment obligations under rental and leasing agreements in the amount of EUR 1,617 thousand in 2019 and EUR 7,426 thousand in total over the entire term. The agreements come to an end between 2019 and 2025. The lessor or landlord bears all risks. The purchase commitment is EUR 6,900 thousand.

### Derivative financial instruments

An interest rate swap has been taken out to hedge interest rate risk on a variable-rate loan totalling EUR 0.7 million, as follows:

Base rate	Fixed interest %	Reference value	Term	Fair value EUR thousand
3-month EURI-BOR	3.57	EUR 700 thousand	30 Sep. 2019	-7

The derivative is valued on the basis of current market information using standard market valuation methods. Since the sole purpose of the derivative transaction is to hedge the related loan, the loan and the corresponding derivative are valued as a single unit.

### Distribution restriction

Due to capitalising internally generated intangible assets, EUR 777,000 is subject to a bar on distribution in accordance with section 248 (2) HGB.

## Consolidated income statement disclosures

### Sales revenue

Sales revenue breaks down as follows:

	2019
	<u>EUR thousand</u>
Sales revenues by region	
Germany	30,635
Outside Germany	<u>37,233</u>
	<u>67,868</u>

### Other operating income

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

### Write-downs on current assets

Write-downs on current assets relate to shares in Vynamic GmbH.

### Other operating expenses

Other operating expenses consist of operating expenses (EUR 2,169 thousand), sales and administrative expenses (EUR 7,335 thousand), other personnel expenses (EUR 2,172 thousand) and miscellaneous other expenses (EUR 423 thousand). Miscellaneous other expenses mainly comprise valuation allowances on receivables (EUR 202 thousand) and exchange losses including currency valuations (EUR 68 thousand).

### Interest expenses

The total amount of interest paid during the reporting period for liabilities to banks comes to EUR 296 thousand.

### Income taxes

Deferred taxes result from differences between the carrying amounts of fixed assets, inventories, trade receivables, other assets 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 relate primarily to income from ordinary operating activities.



Taxes on income reduced consolidated net profit by EUR 980. Taxes on income include expenses from deferred taxes in the amount of EUR 742 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 thou- sand	
Earnings before income taxes	-610	
Relevant tax rate		27.0%
<hr/>		
Expected tax expense	165	
 <b>Deviation from tax base</b>		
Difference tax carrying amounts	947	-155.2%
Write-downs on items not recognised for tax purposes	-15	2.4%
Changes in tax rates		
Foreign tax rates	-4	0.7%
Recognition and measurement of deferred tax assets		
Non-recognition of provisions	-17	2.7%
Non-periodic effects		
Advance tax payments	229	-37.4%
Other	5	-0.8%
<hr/>		
Current tax expense	980	
<b>Effective tax rate</b>		<b>-160.6%</b>

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

## Other disclosures

### The Supervisory Board

- Hans Werner Aufrecht, businessman, Chairman
- Willibald Dörflinger, entrepreneur, Deputy Chairman
- Hussain Ahmad Al-Siddiq, Deputy Chief Executive Officer
- Gert-Jan Bruggink, equestrian show jumper
- Rolf Krissler, tax adviser

- Clemens Große Vehne, entrepreneur

Supervisory Board member Rolf Krissler stepped down from his position with effect from 30 September 2019.

The remuneration of the Supervisory Board for the purposes of section 113 of the German Stock Corporation Act (AktG) amounts to EUR 87 thousand on a pro rata basis.

### Management Board

Ulrich Fritz, CEO

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

### Employees

Average number of employees during the financial year:

Non-salaried staff	134
Salaried staff	192
	<hr/>
	326
Apprentices	1
	<hr/>
	327

-Affalterbach, 10 October 2019

The Management Board



Ulrich Fritz

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