



1998 – 2008
Annual Report 2008



10 YEARS HWA – A QUICK GLANCE BACKWARDS

A symbiosis of sportsmanship and high-tech is closely associated with the successful company history of HWA. We love high-powered engines, and the people who control them. "The fascination of racing" and "the automobile", as one of the out-standing products of human invention, accompany the activities of our creative team "on the road of success" – both in actual life, and in the figurative sense.

As with racing, so also our company philosophy: we are forward-looking, a quick glance into the rear-view mirror confirms that we are on the right track.

KEYFIGURES

in EURO m	2008	2007	2006	2005
Sales income	64.8	60.9	57.6	59.9
EBITDA	3.1	12.0	9.7	9.0
EBITDA margin (in %) ¹	4.8	19.7	16.8	15.0
EBIT	0.2	9.1	6.9	6.5
EBIT margin (in %) ¹	0.3	15.0	12.0	10.8
Net result	-0.40	5.6	4.2	3.9
Earnings per share (in Euro) ²	-0.08	1.10	0.82	0.76

1) in percent of sales income

2) based on key date

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Dear shareholders,

Financial 2008 was a bad year for your Company, and we are glad to have put it behind us. We have largely achieved our revenue targets, but – for the first time in HWA AG's history – results after tax have slipped slightly into the red. Overall, we are not satisfied with the way things went, and the earnings situation in 2008 was very unsatisfactory. These developments are spurring us to rethink our strategies and redouble our commitment in financial 2009. Here, we should like to present to you the major features of developments in 2008.

Remember a year ago, when all was still well with the world? What a contrast – nowadays banks collapse, state aid programs and ailing industries with dwindling order books are the order of the day. We were initially full of confidence for financial 2008, and the year began promisingly, but by the end things were increasingly unsettled for us as well.

From the autumn of 2008 onwards, we were unable to decouple ourselves from sharply declining market trends. While in the early part of the year the problems were principally concentrated in the financial markets, during the second half they swiftly transferred themselves to the real economy. In our business these developments first began to make themselves felt in November 2008. In the second half of the year negative reports from the automobile industry became ever more depressing almost on a weekly basis. As a supplier to the automotive industry, HWA AG was unexpectedly hard hit. It should however be said that in our vehicles business the postponement of the bulk of the order for the new sports car model into the new year had nothing to do with the financial and economic crisis. As plans stand, delivery of the model to the customer will now be completed by the end of the current financial year.

In 2008 HWA AG increased its annual revenues by 6.4% to EUR 64.8m. Earnings were unable to keep pace. Earnings before interest, tax, and depreciation and amortisation (EBITDA) decreased from EUR 12m to EUR 3.1m. Earnings before interest and tax (EBIT) fell back significantly, from EUR 9.1m to EUR 0.2m. For the first time in the Company's history, post-tax results were in the red – by EUR 0.4m.



Hans-Jürgen Mattheis
Management Board spokesman

Earnings per share were a negative 8 cents, after a positive EUR 1.10 in 2007. There are two main reasons for the decline in earnings. First, the motor racing business: HWA AG acts as a complete service provider to Daimler AG in its motor racing activities in the German Touring Car Masters Championship (DTM). The higher expenses that became necessary during the racing season in order to improve the HWA Team's ability to compete were only partly reimbursed by our business partner. The investments have however paid off – performance improved markedly, and we won the team classification in the German Touring Masters. Secondly, in the vehicles and vehicles components business the postponement of a part of the production of vehicles into 2009 was a serious dislocation: deliveries of the new model in 2008 were 50% lower than originally planned.

The disappointing financial results in 2008 and the present state of the real economy mean that we are unable to recommend the payment of a dividend to you, our shareholders. In the current economic environment it would be irresponsible to recommend the distribution of a dividend – protecting HWA AG against potential risks clearly takes precedence. The uncertainties pervading capital markets that are the result of the global financial crisis have also affected the Company's stock: over the course of the year the share price has fallen by over a third.

Neither the second half of 2008 nor the current financial year can fail to feel the impact of the worldwide turbulences created by the financial and economic crisis. In 2009 we face new challenges: the Company will implement the necessary restructuring policies without delay. Very little in the way of investment will be needed – if the climate becomes even harsher, more comprehensive cost reductions will become essential.

Given our well-filled order book in the vehicles and vehicle components business, we are cautiously optimistic for financial 2009. However, the economic and market environments continue to be difficult. The numerous imponderables and their potential effects on motor racing mean that restraint must be our watchword. Our business partner and some of



Gerhard Ungar
Management Board

the sponsors of the DTM Series are introducing strict cost savings programs in their own operations. In times of crisis, for most enterprises cash management is the first priority. Positive cash flow and the reduction of bank liabilities, together with getting back into profit, are our foremost goals.

In the medium term we continue to be confident: with a healthy equity ratio, cost reductions, strict cost control, comprehensive skills and expertise and the highest quality standards, we are certain that we shall emerge even stronger from the crisis. Our hard-working and dedicated employees are one key factor here, and we thank them heartily for all their efforts in 2008.

And we thank you for the confidence you have shown in the Company, and hope as well to have your constructive support in the difficult times that lie ahead of us. We assure you that we shall do our utmost to raise HWA AG's value again.

*Affalterbach, March 2009
The Management Board*



*Hans-Jürgen Mattheis
Management Board spokesman*



*Gerhard Ungar
Management Board*

Dear shareholders,

In financial 2008 the Supervisory Board discharged its duties under the law and the Company's articles of incorporation. It regularly advised the Management Board on the management of the Company's affairs, and reviewed all aspects of the Management Board's performance of its duties with due care. This included all decisions of fundamental importance for the Company. The Management Board reported to the Supervisory Board regularly, promptly and comprehensively – both in writing and orally – on the state of the Company's business affairs, its material business transactions and the earnings position, including the risk situation and risk management. I myself was engaged in regular dialogue with the Management Board concerning special developments and topics.

Supervisory Board meetings and agendas

During financial 2008 there were four meetings of the Supervisory Board, in which the current state of the Company's affairs were discussed with the Management Board and explained in detail. These meetings took place on 11 February, 23 May, 27 July and 25 November. All members of the Supervisory Board were present at the meetings. Between Board meetings the Chairman and the members of the Supervisory Board also kept themselves regularly informed about major business transactions through discussions with the Management Board. The principal topics of the Supervisory Board's deliberations were revenue and earnings trends, investment plans and the Company's overall performance and future prospects. The main theme of its deliberations, particularly in the second half-year, was the financial and economic crisis and the situation in the financial markets, and the effects on the Company's business operations. In the fourth Supervisory Board meeting on 25 November the subject was discussed again in detail, and in the light of developments the Management Board revised the targets for 2008.

Composition of the Supervisory Board

In accordance with its articles of incorporation, the Supervisory Board comprises six members. With effect from the Annual General Meeting of 23 May 2008, Eva Maria Aufrecht resigned her appointment and stood down from the Supervisory Board. The Annual General Meeting elected Ayman Al-Abbasi as new member of the Supervisory Board.



Professor Jürgen Hubbert
Chairman of the Supervisory Board

The members of the Supervisory Board are as follows:

- | | |
|----------------------------|-----------------------------|
| ■ Professor Jürgen Hubbert | ■ Christian Wolff |
| Chairman | ■ Ing. Willibald Dörflinger |
| ■ Hans Werner Aufrecht | ■ Rolf Krissler |
| Deputy Chairman | ■ Ayman Al-Abbasi |

Annual statutory audit

By resolution of the Annual General Meeting of 23 May 2008, registered auditor Joachim Lutz, of Weilheim-Teck, was appointed as statutory auditor of the Company's annual financial statements. The statutory auditor has audited the annual financial statements prepared by the Management Board and the Management Report for the financial year ended 31 December 2008, and issued an unqualified audit opinion.

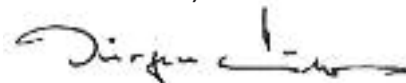
Annual financial statements

The annual financial statements and the Management Report were submitted to the members of the Supervisory Board in good time. The statements and report were exhaustively discussed in the Supervisory Board's financial statements meeting. The statutory auditor participated in the meeting and reported on the major features of his audit. He was available to answer supplementary questions of the Supervisory Board. The Supervisory Board reviewed the statutory auditor's findings in detail, and approved the auditor's opinion. The auditor approved the annual financial statements on 27 March 2009, in accordance with section 172(1) German Companies Act (AktG). The annual financial statements are thereby formally adopted. After exhaustive discussions, the Supervisory Board has approved the Management Board's proposal to carry forward the balance of accumulated profits into the next financial year, and not to pay a dividend.

Supervisory Board's thanks

The Supervisory Board conveys its heartfelt thanks to the Management Board and all the Company's staff for their hard work and commitment in 2008.

Affalterbach, March 2009



*Professor Jürgen Hubbert
Chairman of the Supervisory Board*

INTERVIEW

We interviewed Hans-Jürgen Mattheis and Gerhard Ungar, of HWA AG's Management Board – 10 years of HWA AG, and what does the future hold in store for the Company?

Gentlemen! Taking stock after 20 years working in motor sports and 10 years with HWA AG, what would you say about motor racing, and about the Company's other activities as well?

Mattheis: After 10 and 20 years respectively, our balance sheet in sporting activities and as a business is thoroughly respectable. We started 1999 with a turnover of 36.4 million Euro. In the meantime we have reached a turnover of over 60 million Euro. Over a time span of ten years, this is a very solid development and results from organic growth. And with the exception of 2008, our margins and earnings in the past decade have been very satisfactory. In 2007 we posted the highest profit in the Company's history. Our first business was motor racing – today we have our vehicles and vehicle components business as a second core pillar.

Ungar: We can look back on a whole series of top sporting results: since 1988 HWA AG and the AMG Mercedes team have won nearly 130 races and 22 championship titles in the ITC, DTM and FIA GT series alone. The facts speak for themselves.

This record of success must be seen against the background of how motor sport has developed over the past 20 years. The structure of motor racing in 1988 cannot be compared with present conditions. There has been a gigantic leap forward, and that goes for staff, construction, and simulation and modelling with computers. In the old days it was more intuitive, more a question of gut feelings. That doesn't work any more – everything has become much, much more professional.

Which of the milestones in HWA AG's 10 years was the most dramatic event for you?

Mattheis: Definitely the start of the new DTM series in 2000. For three years there had been no such series. The return of the DTM was of great significance to us in motor sports, so soon after the founding of HWA. Another milestone for the Series was undoubtedly the signing up of former Formula 1 drivers Jean Alesi and Mika Häkkinen for the DTM, and in 2008 the addition of Ralf Schumacher.

Ungar: In series construction the CLK DTM AMG was a milestone. We developed the car entirely on our own – starting with the design, then the whole technical development, and finally the production of the complete car. The CLK DTM AMG was HWA's first small road-going series car to appear, and it was a milestone. It was the foundation of our second core business, vehicles and vehicle components. Our new model is also a major step, because twice as many are being produced as there were CLK DTM AMGs.

From a business point of view, what is so special about HWA AG, which is so closely bound up with motor racing, sports cars and all those associated emotions?

Mattheis: It's the combination of all these aspects that makes it so attractive. Our second core business also came out of motor racing. People who attended the races kept approaching us, wanting to drive a racing car on the open road. That was the incentive for us to produce a road-going sports car. It is fascinating when one business activity spawns another business which also generates such strong emotions. From a sporting point of view, the CLK DTM AMG is a fantastic car and gives the driver enormous pleasure. These are precisely the kind of cars that arouse enormous emotions – both visually and to drive. And I wouldn't want to leave out the conversion of the A Class Mercedes into the fastest and sportiest A class in the world. That really makes the blood race.

During the last racing season heavy investments in the performance of the DTM race car were necessary. Where did you invest the money, and after all the expenses were you able to detect an improvement?

Ungar: The results of the additional investments are indisputable. The investments paid off, and the improvements were very easy to recognise. By the end of the year we were at the same level as our opponent, who in comparison with 2007 had originally made greater gains in development. At the beginning of the season we were not on an equal level, and we had to act quickly. The reason was simply that during the winter we had not continued development far enough. We were better than in the previous year, but our opponent's improvement was significantly greater. We were forced to admit this in the very first race. We had to make corrections and take development a stage further. In the middle of the season this isn't so easy, because the regulations for the Series are closely prescriptive in many points. Primarily, that affects large parts of the aerodynamics, where we couldn't change anything any more. So we had to tackle other areas. For example, the engine surrounds, the suspension, springing and shock absorption, and minor areas of the aerodynamics, where it was allowed. This led to an improvement from the sixth race onwards, after which we were competitive again. It was a lot of work, and cost a lot of money. For the new season in 2009 we are confident that we'll be competing on equal terms from the very first race. We have incorporated a whole range of new ideas, and have invested a lot of time and energy in the new race cars.

What were the reasons for the original targets for 2008 not being met?

Mattheis: The increased investments for motor racing were one reason. We had to mobilise additional resources and expand. The expenses for test simulations were considerably higher because performance had to be more radically improved than originally planned. Our business partner did not compensate us in full for the higher costs and investments, which is clearly reflected in HWA AG's results. And with the new project in the vehicles and vehicle components business, there were certain things we had to learn the hard way. The customer kept correcting the specifications for certification and quality, which resulted in additional expenses over and above the budget. The project was delayed, and we only began deliveries to our customer in November. So we supplied 50 percent fewer vehicles than we had budgeted for in 2008. Now we are back on track, and the order will be completed in 2009.

In 20 years of motor racing you've seen good economic times and bad economic times – what effects on motor sports and racing cars do you expect in the present environment?

Mattheis: In 1992 and 1993 we experienced a situation not unlike today's. In those days it wasn't an economic crisis, but the problems in the automobile industry were serious. It got so bad that AMG, which was then still running the motor racing, reduced capacity and even let people go. In difficult times we can't say categorically that such measures may not become necessary. That time we were very quickly successful in returning to normal business operations. By 1994 we were successfully back on track. Motor racing is closely tied up with Daimler AG. The DTM is safe for the present. But the Daimler Group is implementing stringent savings measures, and the racing budget in the DTM is affected. We have reacted by removing various services from the budget.

The DTM is already run in several European countries. Are there any plans for races outside Europe, and when can we expect to see a third manufacturer joining Mercedes-Benz and AUDI and making the series even more attractive?

Ungar: Our motor racing partner decides where the races take place, and that's where we drive. The market decides where the races are most attractive. We have already been active in different parts of the world and have nothing against racing outside Europe. The question of another manufacturer is of no relevance to us. That is for the DTM organisation to worry about. But the question naturally keeps on coming up. A third manufacturer wouldn't hurt. But even without a third manufacturer the Series has plenty of potential. The DTM and the product must be improved the whole time, so that everything is thrilling and full of suspense. This could be done with different race formats, or qualifying formats, or by changing the characteristics of the circuits. It is not clear, whether the health of the Series depends on a third manufacturer, or whether the big push will

come. Anyway, have there been any serious changes for the worse since Opel dropped out? Spectator numbers have grown, and media coverage of the Series has increased once again. After all, the Nascar series in the USA has functioned very well for more than 20 years with only two manufacturers.

What can Mercedes Benz fans expect this year, and has the financial and economic crisis affected the DTM?

Ungar: Our goal this year is to win the Championship. The fans can look forward to exciting races and hard-fought victories.

Mattheis: The effects of the economic crisis on the DTM seem to be limited. Consumers at the moment are saving on the big-ticket items. For a relatively modest amount, a family can spend the whole weekend at the racetrack. Small pleasures and outings, like a day at the races, are things consumers are still prepared to afford, even in times of crisis. Ticket sales for the first race of the season, at Hockenheim, are going very well – from what we hear.

In the vehicles and vehicle components business you are working on a new model for your customer. Are you happy with the development of the new model, and what are your plans for a successor model?

Ungar: The current model is now being delivered according to schedule. We are selecting a successor model. At the moment we are assessing the economic feasibility of our ideas and preparing the facts for presentation. We can't say more than that at present.

Rental and sale of Formula 3 engines is also part of this business – how is that developing?

Ungar: Until just recently it was going well. But this area is now also being affected by the economic crisis. The fact is that everywhere in the world it is difficult to find sponsors at the moment. Which is why Formula 3 customers are having difficulties financing cars and engaging drivers. We don't expect 2009 to be a bad year, but it won't produce any records.

Since HWA AG began, 10 years ago, you have invested around 40 million euro at the Company's headquarters in Affalterbach. What are the Company's facilities and infrastructure like these days?

Mattheis: Our latest major investment was the new building, which doubled HWA AG's available office and factory space to more than 18,000 square metres. This is capacity enough for series production of exclusive sports cars. In terms of technology, we have all the equipment we need in house in order to produce an exclusive sports car series.

HWA AG in the year 2018 – where do you see the Company in the next 10 years?

Mattheis: It would be nice if we could copy forward the success of the past 10 years for the next ten years, but from today's perspective, that sounds very optimistic. Given the crisis, we need to stabilise operations first, and also to put certain processes on a sounder footing. Our goal in the next 10 years is to reduce our dependence on Daimler AG and to win orders from other customers. In this respect we are ready to consider anything: our infrastructure enables us to construct anything to do with cars.

Ungar: There's still a lot of potential we can exploit in motor racing. In addition to the DTM, there are other areas of motor sports we can go in for – customer sport is an example. If we broaden our base in motor racing in the next ten years, that would help to stabilise the business and would be a big jump in growth for HWA AG.

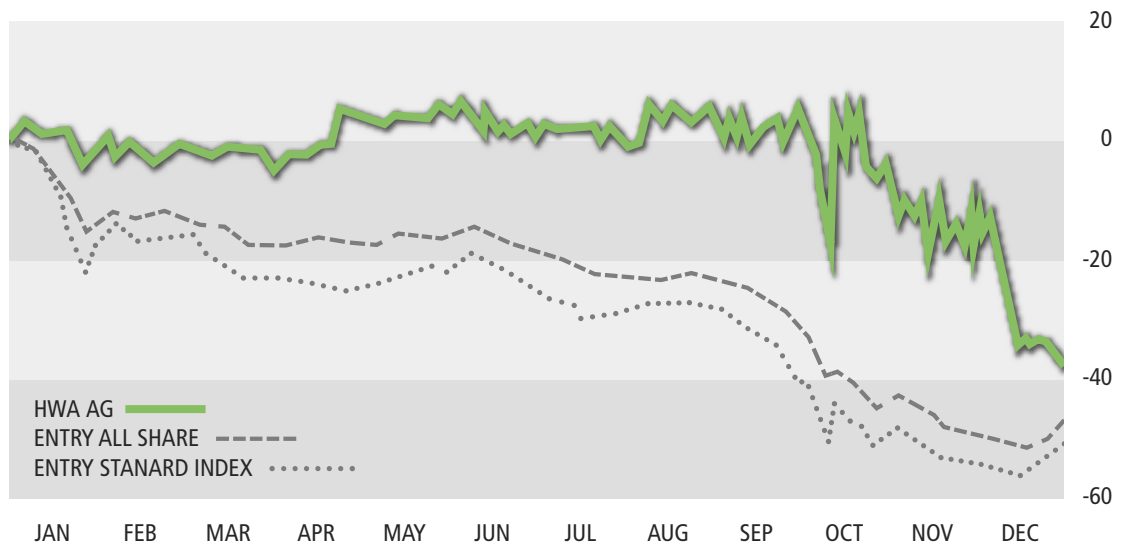
Mr. Mattheis, Mr. Ungar, thank you very much for the interview.

HWA AG in the capital market

For the world's stock exchanges, 2008 was dominated by the global financial crisis, which became dramatically more acute in the second half of the year. Even in the first half, the markets for stocks had exhibited a high degree of volatility. From September onwards, the financial crisis had an increasingly serious effect on the real economy. Uncertainties surrounding the stability of the global financial system precipitated panic selling and collapses in share prices. Government rescue operations pumped billions into banking and industry without being able to stop the flight from shares. Economic expectations became ever gloomier in the course of the second half of the year, and worldwide recession loomed increasingly large. The effects were felt first in the USA, and then in Western Europe and Asia as well. Germany's leading share index, the DAX, fell by more than 40% in 2008, while the MDAX lost 43%. The TecDAX dropped 48%, and the SDAX around 46%. The Entry Standard Index lost more than 51% over the course of the year, and the Entry All Share Index roughly 45%. The principal leading indexes outside Germany recorded similar substantial losses.

HWA AG's stock is listed on the Frankfurt Stock Exchange in the Entry Standard segment. Compared with all the major stock indexes, the performance of HWA AG stock was above average during the first six months of 2008. It traded in a narrow range between 25 and 27 euro, and was generally stable. In the second half of the year the share could no longer avoid being sucked into the general maelstrom – its performance became more volatile, and it fell substantially in value.

SHARE PRICE PERFORMANCE (COMPARED WITH ENTRY STANDARD INDEX)



On 2 January 2008 the opening price stood at EUR 25.20 and on 28 December the closing price was EUR 17.00, a loss in value of some 33%. The high for the year was EUR 27.00, and the low EUR 15.70. During 2008 the market capitalisation fell from EUR 128m to EUR 87m.

Trading volumes fell slightly during the year: compared with a daily average of 1,957 shares traded in 2007, the volume in 2008 was an average of 1,675 shares daily.

SHARE KEY DATA

Securities identification number (WKN)	A0LR4P
ISIN	DE000A0LR4P1
Stock exchange symbol	H9W
Trading segment	Entry Standard (part of Open Market) on Frankfurt Stock Exchange
Share type	Ordinary no par value bearer shares
Authorised capital	EUR 5,115,000.00
Shares in issue	5,115 million
Initial listing	19 April 2007
Listing price	EUR 25.13
Designated sponsors	Dresdner Kleinwort, Close Brothers Seydler AG, ICF Kursmakler AG

INVESTOR RELATIONS

HWA AG attaches great importance to communications with institutional and private investors. In our investor relations work we practise ongoing and open exchange of information with all capital market participants. The Management Board explains the Company's strategy and performance at road shows and capital market conferences. Investors, analysts and representatives of the financial press also took advantage of the opportunity to visit the Company at its home in Affalterbach and acquire an insight into the whole process of development and production, and thus to gain a closer understanding of the Company and its products and services. During 2008 Close Brothers Seydler Research began coverage of HWA AG stock.

The Investor Relations section of the Company's website www.hwaag.com provides detailed information on HWA AG's shares for shareholders and other interested parties. The resources include press releases, and annual and half-yearly financial statements. There is also the option of subscribing to an e-mail distribution list for forthcoming Company news.

ANNUAL GENERAL MEETING 2008

The first Annual General Meeting since the initial stock market listing in 2007 took place on 23 May 2008. Around 70 shareholders met in the equestrian facility in Rotland in Af-falterbach. Share capital with a nominal value of EUR 4,629,375 was represented at the meeting, which is 90.51% of the Company's total share capital of EUR 5,115,000. We are very pleased with the great interest shown by shareholders, especially the smaller ones.

Shareholders voted individually on resolutions concerning the payment of a dividend of EUR 0.75 per share out of distributable profits (agenda item 2), discharge from liability of the Management Board (item 3) and Supervisory Board (item 4), authorisation to acquire own stock (item 5) and a change in authorised share capital together with a change in the articles of incorporation (item 6). They also passed resolutions on the appointment of registered auditor Joachim Lutz as statutory auditor for financial 2008 (item 7) and election of Ayman Al-Abbasi and Rolf Krissler to the Supervisory Board (item 8).

The shareholders approved the distribution of the dividend with 100% of the votes of those present. The discharge from liability of Management Board spokesman Hans-Jürgen Mattheis, Management Board member Gerhard Ungar and the entire Supervisory Board was also approved with 100% of the votes. The authorisation to repurchase shares was also approved unanimously. The change in share capital and the related change in the articles of incorporation were passed with a 96% majority. The appointment of Joachim Lutz as statutory auditor was unanimous. Ayman Abbasi, representing major shareholder Nasser bin Khaled (NBK) Holding of Qatar, was elected to the Supervisory Board with 99.99% of the votes. The reelection of Rolf Krissler to the Supervisory Board was unanimous.

SHAREHOLDINGS AS AT 31 DECEMBER 2008 *

Approximately 90% Management and Supervisory Boards	Hans Werner Aufrecht, Christian Wolff, Willibald Dörflinger, Ayman Al-Abbasi (representing NBK Holding), Hans-Jürgen Mattheis, Gerhard Ungar
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Circa 10% Freefloat

The Company's founder Hans Werner Aufrecht, MarchSixteen Finance Services, represented by Christian Wolff, Willibald Dörflinger through the Dörflinger Privatstiftung and Nasser Bin Khaled (NBK) Holding (all represented on the Supervisory Board) together with the Management Board hold about 90% of HWA AG's share capital. Recently NBK increased its share from 25% to nearly 28%.

*) Note: In virtue of its listing in the Entry Standard segment, HWA AG is not obliged to disclose information concerning the shareholdings, and receives the information from the major shareholders without obligation. The information is in consequence unverified.



FAST – PRECISE – EXCLUSIVE

MARCH 2009

1998 – 2008:

Ten years of
dedication to
motor racing and
exclusive sports
cars

CONTINUOUS GROWTH

HWA, a profitable
enterprise from the
beginning

HIGH-TECH IN THE LUXURY SEGMENT

HWA is a develop-
ment partner and
producer in the
premium segment
of the automobile
market

DTM RACING SERIES

HWA: successful in
DTM motor sport
from the start



HWA – A STRONG PARTNER FOR THE INTERNATIONAL AUTOMOBILE INDUSTRY

At its home base in Affalterbach, Swabia, the Company has 18,500 qm of factory space at its disposal. In its motor racing business HWA AG is a complete service

provider for the DTM. In its vehicles and vehicle components business it supplies development and production services for exclusive luxury sports cars.



1998



1999

FOUNDING OF HWA AG

HWA AG was founded as a spin-off from AMG, which was established in 1967 by Hans Werner Aufrecht as the Mercedes Benz customisation specialist. Towards the end of 1998 Aufrecht sold a majority interest in AMG Motoren- und Entwicklungsgesellschaft mbH, as it then was, to Daimler AG.

As part of this transaction the motor racing business was spun off. It consisted of the current AMG-Mercedes DTM racing team and parts of the vehicles and vehicle components business. They were transferred by Hans Werner Aufrecht to the company founded as H.W.A. GmbH, which began operations in 1999.

2000

BEGINNING OF A NEW ERA – DTM IS BACK

DTM is the trademark of the most popular international touring car racing series, which began in the 1984 season with close-to-production cars and in the 1996 season peaked in a global series for high-tech touring cars.

After a break of three years, DTM made a successful comeback in 2000. The new DTM, with touring cars that were just as spectacular but a lot less expensive, proved to be just as successful as the old DTM. Today, DTM ranks as the premier touring cars series, and is one of the biggest sporting events in Europe.

At the end of the 2000 season, the top three places went to three stars from the old DTM: Bernd Schneider, Manuel Reuter and Klaus Ludwig. Schneider was the last champion of the old DTM and the first of the new DTM.

In the first season of the new series for touring car sport in Germany, Mercedes drivers won 8 out of 16 races, including 3 double victories.

DTM is organised and marketed by ITR e.V., based in Wiesbaden. ITR is the acronym of Internationale Tourenwagen-Rennen, international touring car racing. The first chairman of ITR was Hans Werner Aufrecht, the founder of HWA.







2001



HWA CELEBRATES VICTORY

Bernd Schneider wins DTM championship for third time

After its successful comeback, Abt-Audi, Mercedes-Benz and Opel continue their whole-hearted commitment to the DTM in 2001.

In the second year of the new DTM, six drivers divide up the ten race victories. Mercedes driver Bernd Schneider is the first driver in the history of the championship to successfully defend his title.



In the more than 30-year history of AMG and HWA and the 10-year collaboration with Daimler AG many automotive dreams have come true, both on the road and on the racetrack.

IT STARTED WITH A VISION: THE RESULT – THE MERCEDES-BENZ CLK-GTR LIMITED EDITION

But the Mercedes-Benz CLK-GTR Limited Edition undoubtedly adds a new dimension to the vision, where the boundaries between racing cars and



sports cars melt away, where daring visionary ideas become reality, and where the theoretically possible becomes technically feasible. With a top speed of 320 kph, the CLK-GTR is one of the fastest sports cars in the world. From standstill to 200 kph takes only 9.9 seconds. The CLK-GTR was truly a limited edition – only 25 cars were built.

TECHNICAL SPECIFICATIONS

Cylinders / arrangement:
60-degree V12 engine, 4 valves per cylinder

Displacement: 6898 cc

Bore x stroke: 89.0 x 92.4 mm

Rated output: 450 kW (612 HP) at 6800 1/min

Rated torque: 775 / 5250 Nm at 1/min

Maximum RPM: 7200 1/min

Compression ratio: 10.5

Mixture formation:
microprocessor-controlled injection system

2002







HWA WINS NINE OUT OF TEN RACES

The Championship drivers are joined by Jean Alesi, a veteran of 201 Formula 1 races.

Jean Alesi was the first Formula 1 driver to switch to DTM. The Frenchman with Sicilian ancestry was a driver in the DTM between 2002 and 2006. With four victories, Jean Alesi has had more success in DTM than any other Formula 1 driver.

Jean Alesi made the podium in his first race in DTM in 2002. Schneider and his team-mate Albers were in a dramatic battle for the championship right up to the finale, where at the last race in Hockenheim Schneider won by a narrow margin. For his fourth DTM championship, with which he made DTM history, Mercedes driver Schneider had to put up an extremely hard fight.



2004

CLK DTM AMG – MAKES THE HEARTS OF AUTO ENTHUSIASTS RACE

State-of-the-art motor sport technology, racetrack driving dynamics, eye-catching design and unrivalled exclusivity: that is the new Mercedes Benz CLK DTM AMG Cabriolet.

With its 428 kW / 582 HP AMG 5.5 litre V8 compressor engine, the newly developed sports suspension, optional sports tyres and wind tunnel-optimised aerodynamics, the limited edition CLK DTM AMG Cabriolet offers you driving performance of the highest calibre.

The AMG high performance thoroughbred takes only 4.0 seconds to reach 100 kph, and the maximum speed is 300 kph (electronically governed). This makes the new top-of-the-range AMG the fastest open-topped 4-seater in the world.



2005



MIKA HÄKKINEN DEBUTS IN DTM

Seven different drivers at the top of the board and a thrilling duel for the championship crown; the 2005 DTM season was one of the most exciting seasons in DTM history. The two protagonists at the top: Mercedes-Benz driver Gary Paffett and Audi driver Mattias Ekström. With five victories to three, the title went to Paffett, who transferred to Formula 1 as a test driver after the end of the season.

In 2005 Mika Häkkinen joined the drivers line-up. At the end of 2001 Mika ended his 11-year career in Formula 1 after 166 Grand Prix races. With McLaren Mercedes he drove to 20 victories and 26 pole positions. He won the drivers championship twice and was runner-up once.

In 2005, his first season in DTM, Mika celebrated his first win in a DTM race in the season's third race in Spa-Francorchamps, Belgium. He won pole position and drove three fastest laps.

Only one other newcomer to DTM scored a victory as early as Mika Häkkinen in the new DTM, and that was Jean Alesi, whose DTM debut was in 2002 with Mercedes-Benz.







SCHNEIDER'S RECORD

The season's first race at Hockenheim Ring on 9 April 2006 was an eventful race, and German Bernd Schneider drove to a masterful victory and the 40th DTM win of his career. And three weeks later at the EuroSpeedway, Bernd Schneider celebrated his second victory in a row.

Bruno Spengler is the winner of a spectacular and turbulent race at the No-

rising. Second and third places went to Bernd Schneider and Mika Häkkinen respectively. After a sensational performance, Stefan Mücke came in fourth in last year's car and completed the quadruple win for Mercedes-Benz.

In 2006 Mika made the podium three times and drove two fastest laps. He came in sixth in the drivers championship.



HWA TAKES OFF – SUCCESSFUL IPO

To finance the vehicles and vehicle components business and boost growth, HWA AG listed in the Entry Standard of the Frankfurt Stock Exchange on 19 April 2007. The listing price was EUR 25.13, giving a market capitalisation of around EUR 128m. This makes HWA AG Germany's first listed motor racing company.

Going public created great media interest: with HWA drivers Mika Häkkinen and Bernd Schneider, Chairman of the Supervisory Board Jürgen Hubbert, founder of the company Hans Werner Aufrecht and members of the Supervisory Board Christian Wolff, Willibald Dörflinger and Rolf Krissler present, the IPO was a huge success for the company.

In 2007, the Mercedes-Benz race cars built by HWA won seven out of ten races. For Mika Häkkinen 2007 was his third season, and after a victory in Mugello he retired from the Series. In his three years of DTM racing, Häkkinen was always one of the spectators' favourites.







Bernd Schneider being showered in champagne at the Barcelona winners ceremony. Mercedes driver Paul di Resta takes first place in his AMG Mercedes C-Class in the 2008 DTM race in Barcelona. Bernd Schneider came in third behind Audi driver Timo Schneider.



The DTM cars are jacked up as if by magic for a tyre change – HWA's team takes only three to four seconds.





For Jamie Green, 2008 was his fourth year driving for Mercedes-Benz in the DTM. The 26-year old Briton was Mercedes-Benz's strongest driver over long stretches.



Ralf Schumacher fights in his first DTM-year for every thousandth.



DTM BARCELONA 2008

For DTM, the 2008 season is slowly but surely coming to an end. At the ninth race of the season on the Circuit de Catalunya, the suspense was palpable. At the top of the table, Timo Scheider realises that he does not have to win at all costs any more.

Still in the running, Paul di Resta separates himself from the pack and gives everything he's got to catch the leader in his Audi. Amidst the hubbub, DTM record champion Bernd Schneider drove to his 25th pole position and came third in the race.

After some avoidable mistakes, two aspiring champions took themselves out of the race: Jamie Green and Mattias Ekström. Paul di Resta shot to the front and won the race in the 19th lap.

2008

RALF SCHUMACHER STARTS DTM CAREER

After 11 years and 180 races in Formula 1, Ralf Schumacher starts his career in DTM. He won 6 races in Formula 1 and came fourth in the championship in 2001 and 2002, driving for BMW Williams.

After his brother Michael, Ralf Schumacher is the second-most successful German Formula 1 driver. After his change to DTM, he quickly became one of the favourite drivers of fans and media in the 2008 series.

He made his first point in DTM when he came in eighth on the Nürburgring in extreme weather conditions. He started from seventh position on the grid, which was his best qualifying result. In Barcelona he came in seventh, his best result for the season.



The former Formula-1 racing pilot completes this year his second DTM-season for Mercedes-Benz. The Kerpener starts the next step in the new car model.



The tests in Mugello have shown that Ralf can produce a top-level performance in a DTM touring car. His goal are first places on the podium.





"Ralf became one of the spectators' favourites in his first year".



Suspense in training – the HWA team at a pit stop.





DTM-Calendar 2009

17 May	Hockenheimring Baden-Württemberg	(D)
31 May	EuroSpeedway Lausitz	(D)
28 June	Norisring	(D)
19 July	Circuit Park Zandvoort	(NL)
02 August	Motorsport Arena Oschersleben	(D)
16 August	Nürburgring	(D)
06 September	Brands Hatch	(GB)
20 September	Circuit de Catalunya	(E)
11 October	Dijon	(F)
25 October	Hockenheimring Baden-Württemberg	(D)

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MANAGEMENT REPORT

of HWA AG for the year ended 31 December 2008

1. LEGAL AND BUSINESS BACKGROUND OF THE COMPANY IN 2008

Formed as a private limited company (GmbH) at the end of 1998, the Company began business operations in 1999. It changed its legal form to public limited company (AG) by resolution on 4 December 2006. The change of form and the new name, HWA AG, were entered in the commercial register in Stuttgart on 15 December 2006.

The Company's shares have been traded on the Frankfurt Stock Exchange in the Entry Standard segment since 19 April 2007. This segment of the stock exchange is part of the Open Market.

The Company's business activities remain the same: the motor racing business on the one hand, and the production of vehicles and components for the premium sports segment of the automobile industry on the other.

In motor racing the primary focus is still on participation in the German Touring Car Championship (DTM). HWA AG operates the official racing team for Daimler AG Motorsport as Team AMG-Mercedes. As full service provider, HWA AG is entirely responsible for the whole process of development and construction of the racing cars, including the engines, together with all other activities involved in the racing team's operations. These activities include preparation for the race, selecting and supporting the drivers in the race team during the race, and organising all aspects of racing activities for the team and other customer teams taking part in the DTM with racing cars built by HWA AG.

In its vehicles and vehicle components business HWA AG carries out contract development work using its specialist racing skills and expertise. Additionally, HWA AG is a highly specialised supplier to the premium segment of the automobile industry in particular. The department responsible for the development and production of racing engines has also established an excellent reputation. It supplies racing engines on a rental basis, and there is also a market for selling the engines. We supply teams in various Formula 3 Series, such as the Formula 3 Euroseries and the British Formula 3 Series.

2. ECONOMIC CLIMATE

In 2008 global economic growth was just 2.4%. As a result of the worldwide financial and economic crisis, the satisfactory growth trend of recent years has been interrupted. Growth in the emerging economies was comparatively high at 6%, but this was still less than rates in earlier years. In Japan economic growth was lower than in the previous year – the economy actually shrank by 0.8%. Real GDP growth in Germany for 2008 was 1.3% (2007: 2.5%).

The automotive industry all around the world suffered a major setback in 2008: global car sales were down nearly 5%. Growth in the emerging economies of Asia and Latin America continued, but was unable to compensate for the significant drop in demand in North America, Western Europe and Japan.

In 2008 the number of new car registrations in Germany was down 1.5% compared with the previous year, which itself lower than the year before. The decline was accelerated in the last quarter of 2008, when the global financial and economic crisis had a negative impact on investments and consumption. The trend was towards microcars, while the four-by-four segment also showed an increase in registrations, with a gain of 3%. New registrations were down for the upper range of medium-sized vehicles (-18.6%) and sports cars (-14.2%); however, the Federal Motor Transport Authority does not compile separate statistics for premium sports cars.

3. PERFORMANCE AND EARNINGS

Revenues for 2008 were up by 6.4% to EUR 64.8m (2007: EUR 60.9m). Of this, EUR 56.7m (2007: EUR 54.6m) came from Germany and EUR 8.1m (2007: EUR 6.2m) from abroad. Revenues from the motor racing business grew, while revenues from vehicles and vehicle components declined slightly. The main reason for this was that a large part of the vehicle sales planned for 2008 had to be pushed back until 2009, so that deliveries in 2008 were lower than originally planned. Leasing and sales of Formula 3 engines developed satisfactorily.

Raw material costs were up by 47.8% to EUR 37.5m. The motor racing business was responsible for the smaller part of this increase. The initial superiority of Audi in the DTM Series made it necessary to carry out substantial testing and development work. The result was a victory in the team classification. In the vehicles and vehicle components business, R&D expenses had to be increased above the levels originally budgeted. This was made necessary by the need to rectify unexpected problems, compliance with additional certification procedures and meeting changed customer requirements. To cover peak demands for personnel, temporary workers were used, and the expenditure for these workers is also included in this item.

Material costs as a proportion of total output increased from 40.7% to 56.1%.

Personnel costs were down by 4.2% to EUR 15.3m. The bulk of this reduction was accounted for by the absence of performance-related premiums for 2008.

Higher energy, operating and distribution costs were responsible for the increase in operating expenses.

HWA AG's EBIT for 2008 was positive, at EUR 0.2m. In 2007 the EBIT of EUR 9.1m was 14.6% of total output. EBIT (earnings before interest and taxes) is used as a measure of operating performance at HWA AG and is calculated as follows:

INCOME STATEMENT

(EUR M, ROUNDED)

	2008	2007
Revenues	64.8	60.9
Changes in inventory	0.2	-0.1
Other operating income	1.9	1.6
Total output	66.9	62.4
Raw materials	37.5	25.4
Staff costs	15.3	15.9
Depreciation and amortisation	2.8	2.9
Other operating expenses	11.1	9.1
EBIT	0.2	9.1

In 2007 financial results were still positive by a small margin, but in 2008 a substantial pre-financing burden and some very delayed incoming payments pushed financial results down to a negative EUR 0.7m. In order to reduce the short-term interest burden, temporary money market loans were taken out.

After netting the income with total expenditure, the results for the year were a negative EUR 0.4m, compared with a positive EUR 5.6m last year.

4. ASSETS AND FINANCES

Total assets grew from EUR 43.2m at the end of last year to EUR 45.3m at 31 December 2008. Non-current assets as a proportion of the total rose from 47.8% to 54.5%, in absolute terms an increase of EUR 4.2m to EUR 24.7m. The main reason for this was the investment in the new building (see section 5, Investments).

As in the previous year, motor racing parts and parts for the CLK GTR that were superfluous to requirements have been written down. The additional development work necessary for the new model also caused a delay in the start of production. Existing supplier contracts could only partly be adjusted to the new timeline. Additionally, some suppliers could only economically provide the comparatively small lot sizes as a single batch. This led to an increase of EUR 3.2m in inventories of raw materials and supplies, to a total of EUR 9.6m. A return to the previous inventory levels will not be possible for the time being, since provision must be made for an adequate supply of spare parts.

Finished goods and work in progress of EUR 0.7m consisted of vehicles partially assembled at balance sheet date. The balance of EUR 0.4m from the previous year has been invoiced in full.

Trade receivables were up by EUR 1.7m to EUR 7.5m, increasing from 13.4% to 16.4% of total assets. The increase in other current assets to EUR 1.7m is largely attributable to tax refund entitlements.

The equity ratio dropped from 61.8% to 49.6%. A large part of the decrease in the equity ratio was due to the payment of dividends of EUR 3.8m in May. The ratio is nonetheless still well above average by today's standards.

Provisions were down from EUR 5.1m to EUR 2.6m. Provisions for taxation were almost entirely released, and other provisions decreased by EUR 1.8m from EUR 4.3m to EUR 2.5m. Most of the change was in staff-related provisions.

Liabilities on the other hand increased from 26.1% to 44.8%. At the end of 2008 they amounted to EUR 20.3m, compared with EUR 11.3m a year earlier. Due to the higher volume of purchases, trade payables increased by EUR 4.9m from EUR 3.2m to EUR 8.1m.

Cash flow from operating activities deteriorated in 2008: there was a net outflow of EUR 2.8m, compared with a net inflow of EUR 8.5m in the previous year. This was mainly attributable to the increase in inventories and receivables. Cash flow from investing activities was negative, mainly due to the investment in the new building (net outflow of EUR 7.1m, compared with EUR 3.8m in 2007). Cash flow from financing activities was also negative due to the dividend payment and loan repayments (net outflow of EUR 4.3m, and EUR 2.3m in 2007). This led to an overall worsening of the liquidity situation.

5. INVESTMENTS

Investments in tangible and intangible non-current assets amounted to EUR 7.1m in 2008 compared with EUR 4.4m in 2007. The principle individual items were the new production and warehouse building (EUR 3.3m), transport trailers for the motor racing business (EUR 0.6m), milling machines (EUR 0.8m) and various servers and networks (EUR 0.3m).

6. EMPLOYEES

On average 243 people, including the members of the management board, were employed in 2008 (2007: 223).

Salaried staff	102
Non-salaried staff	138
apprentices / trainees	3

7. OPPORTUNITIES AND RISKS

Management has installed systems and processes to ensure that risks are identified as early as possible. Both external and internal risk factors are monitored.

Primary financial instruments disclosed in the balance sheet, such as trade receivables, are in principle exposed to default risk and market risk from changes in exchange rates, interest rates or market prices.

Currency risks from operating activities are minimal, since by far the largest part of the business is transacted in euros. A short-term CHF loan was taken out to optimise interest payable, which could result in currency risks.

The company uses derivative financial instruments in the form of swaps, which can result in interest and currency risks.

The subprime crisis in the USA has turned into a global financial crisis, which particularly since the second half of 2008 has impacted the real economy. Economic growth in industrialised countries has slowed, and in some cases even become negative. For 2009 economic growth is expected to be negative for most industrialised countries, and the European Central Bank expects a gradual improvement in 2010. Consumers could continue to be unsettled by these uncertainties, which in turn means increased sales risks. More insecurity could stem from the ongoing environmental debate (particulate matter and

carbon dioxide emissions). It is not at present possible to predict whether this will have a material negative impact on the market for exclusive cars.

HWA AG's main business is still carrying out racing activities as contractor for Daimler AG, so that it is dependent on Daimler AG. HWA AG's Management is however of the opinion that the risk is controllable in the medium term, since close contact is maintained with decision makers in the motor racing world, both inside and outside Daimler AG, and future plans are largely known.

An additional risk to the German Touring Car Masters and hence for HWA AG results from the Series' reliance on sponsors, who finance the racing. The media make a major contribution to the success of the German Touring Car Masters, and the public interest produced by media coverage of motor racing is indispensable. Live and recorded TV broadcasts in particular are practically a prerequisite for the commitment of carmakers and sponsors to the continuing existence of the German Touring Car Masters.

The Series is extremely successful. The participating car manufacturers value the DTM highly as a marketing instrument. The Series' sponsors are pleased with the continuing high numbers of spectators at the races and the media coverage, which in part is actually increasing. In 2008 more than 770,000 spectators watched the races at the circuits. The live TV broadcasts had an average of 2.01 million viewers per race. The races' average market share was 11.4%. Coverage in the print media reached an average of 184 million copies per race in 2008, a significant increase. DTM has established itself with media and spectators alike as a racing series second only to Formula 1, and by signing Ralf Schumacher as a driver it has acquired a popular magnet for spectators. The repercussions of the financial and economic crisis are difficult to predict, and in consequence so is the future behaviour of those providing funding for the Series. The Management Board believes that the benefits currently still outweigh the costs for the sponsors, and that therefore the DTM will continue to take place.

A quality management system in accordance with DIN EN ISO 9001:2000 for the development, production, maintenance and distribution of racing cars, custom cars, exclusive sports cars and vehicle components was introduced in 2002 and re-certified in 2008. The internal value-adding processes have been aligned to comply with the system, and are subject to ongoing monitoring and, where necessary, improvement.

Overall, HWA AG's risks have increased, due to the effects of the financial and economic crisis.

8. RESEARCH AND DEVELOPMENT

HWA AG has the resources in all business areas necessary for the development and construction of racing cars, vehicles and vehicle components. These include computer assisted vehicle construction using CAD and FEM, as well as computer assisted vehicle simulation programs.

The complete electrical and electronic systems of racing cars, vehicles and vehicle components can be developed on site. This includes the construction and programming of engine electronics as well as adapting automotive sensor systems to match the evaluation electronics, including development of the appropriate hardware.

The Company is also equipped with all the infrastructure necessary for testing and maintaining race cars, vehicles and vehicle components and engines, whether in the factory, on the race track or on the customers' premises.

These are the permanent resources that are used every year to develop the DTM racing cars. The same applies to the design of engines, which is continually being refined both for the Formula 3 series and for the DTM. For vehicles and vehicle components, development is also carried out for other customers.

9. BUSINESS AND EXPECTED DEVELOPMENT OF THE COMPANY

HWA AG's involvement in the DTM will be somewhat less in 2009 than in 2008. The weakness of the economy makes it necessary to reduce costs, since finding funding from sponsors has become more difficult. Cost reducing measures include changes made by the organisers ITR, including a reduction in the number of races from 11 in 2008 to 10 in 2009 and shortening the length of the racing weekends by a day, but also cutting costs in the development of racing cars and in running the races themselves. Additionally, only eight instead of nine racing cars will be used, which means that sales in the motor sport business will be lower than in 2008.

In the vehicles and vehicle components business sales will be up slightly compared with 2008. The volume of engine rentals and sales in the Formula 3 series will probably decline only slightly despite the increased competition, while the sale of the new model from customised vehicle construction will more than make up for the loss.

Nevertheless, 2009 will be a difficult year, and under current conditions forecasts are fraught with uncertainties. The investments made in the past two years have increased the burden of fixed costs. In the high-priced sports car segment the competition is also becoming more intense, which puts pressure on margins. The phase-out of the current model in 2009 means more extensive development activities, and these costs have initially to be financed by HWA AG. Very promising discussions on a successor project are underway, but when this will start to generate cash flows cannot be predicted with any accuracy. External financing will be necessary in the interim. Temporary workers are deliberately being employed for the current production, so that they can be let go at short notice as production runs down in the second half of 2009. Given the situation, further personnel cuts such as short-time working cannot be ruled out, and will be considered if necessary. It should therefore be assumed that the number of employees will decline in comparison with the end of 2008.

10. EVENTS AFTER BALANCE SHEET DATE

There were no events after balance sheet date of material importance to HWA AG which could lead to a change in the assessment of the Company's situation.

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Income statement 2008

	EUR	2008 EUR	2007 EUR '000
1. Revenues	64,756,540.30		60,863
2. Changes in inventories of finished goods and work in progress	233,517.42		46
3. Other operating income	1,954,640.35		1,627
		66,944,698.07	62,444
4. Raw materials			
a) Expenses for raw materials and consumables used	22,467,225.24		16,677
b) Expenses for external services	14,999,520.56		8,668
5. Staff costs			
a) Wages and salaries	13,104,000.13		13,905
b) Social security and pension contributions thereof pension contributions EUR 19,092.70 (2007: EUR 18,000)	2,169,098.30		2,036
6. Depreciation and amortisation of tangible and intangible assets	2,842,177.93		2,937
7. Other operating expenses	11,120,572.53		9,119
		66,702,594.69	53,342
8. Other interest and similar income	1,646,121.93		1,775
9. Interest and similar expenses	2,332,493.36		1,739
		-686,371.43	36
10. Profit from ordinary activities		-444,268.05	9,138
11. Income tax expense	-315,170.25		3,494
12. Other taxes	276,177.43		36
		-38,992.82	3,530
13. Net (loss)/profit for the year		-405,275.23	5,608
14. Profits brought forward from previous year		16,764,805.23	15,273
15. Allocation to statutory reserve		0.00	280
16. Retained earnings		16,359,530.00	20,601

Balance sheet as at 31 December 2008 _ Assets

	EUR	2008 EUR	2007 EUR '000
A. NON-CURRENT ASSETS			
I. Intangible assets			
IT software and licences		963,107.05	1,060
II. Property, plant and equipment			
1. Property and buildings	17,695,204.15		11,973
2. Plant and machinery	1,778,310.22		1,201
3. Other assets, plant and office equipment	4,051,025.45		2,850
4. Payments in advance and assets under construction	240,214.40		3,406
		23,764,754.22	19,430
III. Financial assets			
Other loans		0.00	167
		24,727,861.27	20,657
B. CURRENT ASSETS			
I. Inventories			
1. Raw materials and supplies	9,584,273.85		3,177
2. Work in progress	649,517.42		416
3. Payments in advance	40,375.01		0
		10,274,166.28	3,593
II. Receivables and other assets			
1. Trade receivables	7,523,732.41		5,775
2. Receivables from associated companies	51,254.32		48
3. Other current assets	1,692,012.42		1,203
		9,266,999.15	7,026
III. Securities			
Other securities		105,817.50	8,452
IV. Cash in hand and at banks		735,809.15	2,924
		20,382,792.08	21,995
C. PREPAID EXPENSES		223,719.39	567
		45,334,372.74	43,219

Balance sheet as at 31 December 2008 _ Equity and liabilities

	EUR	2008 EUR	2007 EUR '000
A. EQUITY			
I Share capital		5,115,000.00	5,115
II. Revenue reserves			
1. Statutory reserve	489,010.98		489
2. Other revenue reserves	500,000.00		500
		989,010.98	989
III. Retained earnings		16,359,530.00	20,601
		22,463,540.98	26,705
B. PROVISIONS			
1. Provisions for taxation	31,000.00		828
2. Other provisions	2,518,405.59		4,300
		2,549,405.59	5,128
C. LIABILITIES			
1. Amounts due to banks	10,616,337.75		7,442
2. Trade payables	8,053,345.61		3,192
3. Other liabilities	1,651,742.81		627
thereof taxes EUR 1,564,522.63 (2007: EUR 458,000)			
		20,321,426.17	11,261
D. ACCRUED LIABILITIES		0.00	125
		45,334,372.74	43,219

Cash flow statement

all statements are rounded off in EURO m

	2008 EUR m	2007 EUR m
Net (loss)/profit for the year	-0.4	5.6
Depreciation and amortisation of non-current assets	2.8	2.9
Changes in provisions	-2.6	-1.8
Other non-cash expenses	0.5	0.2
Cash flow per DVFA/SG	0.3	6.9
Gains/losses on disposal of non-current assets	0.0	0.0
Inventories	-6.7	2.7
Trade receivables	-2.2	-0.8
Other receivables and prepaid expenses	-0.1	-1.1
Trade payables	4.9	0.6
Payments received on account	0.0	0.0
Other payables and accrued liabilities	1.0	0.3
Cash flow from operating activities	-2.8	8.5
Proceeds of disposal of non-current assets	0.0	0.6
Investments in non-current assets	-7.1	-4.4
Cash flow from investment activities	-7.1	-3.8
Distributions to shareholders	-3.8	0.0
Loan (repayments)/borrowings (net)	-0.5	2.4
Cash flow from financing activities	-4.3	2.4
Cash and cash equivalents at beginning of year	11.3	4.2
Net change in cash and cash equivalents	-14.1	7.1
Cash and cash equivalents at end of year	-2.8	11.3

Capital assets movement statement

	Acquisition and construction costs				Accumulated depreciation				Carrying values		
	1.1.2008 EUR	Additions EUR	Disposals EUR	Transfers EUR	31.12.2008 EUR	1.1.2008 EUR	Additions EUR	Disposals EUR	31.12.2008 EUR	31.12.2008 EUR	31.12.2007 EUR '000
I. Intangible assets											
IT software and licences	2,339,496.58	289,710.59	0.00	0.00	2,629,207.17	1,279,580.76	386,519.36	0.00	1,666,100.12	963,107.05	1,060
II. Property, plant and equipment											
1. Property and buildings	17,437,168.16	3,432,270.32	0.00	3,194,821.37	24,064,259.85	5,463,842.45	905,213.25	0.00	6,369,055.70	17,695,204.15	11,973
2. Plant and machinery	7,173,246.20	984,340.49	0.00	149,700.00	8,307,286.69	5,972,599.15	556,377.32	0.00	6,528,976.47	1,778,310.22	1,201
3. Other assets, plant and office equipment	9,000,255.94	2,165,790.60	172,006.73	61,034.73	11,055,074.54	6,149,775.92	994,068.00	139,794.83	7,004,049.09	4,051,025.45	2,850
4. Payments in advance and assets under construction	3,405,556.10	240,214.40	0.00	-3,405,556.10	240,214.40	0.00	0.00	0.00	0.00	240,214.40	3,406
	37,016,226.40	6,822,615.81	172,006.73	0.00	43,666,835.48	17,586,217.52	2,455,658.57	139,794.83	19,902,081.26	23,764,754.22	19,430
III. Financial assets											
Other loans	167,288.39	0.00	167,288.39	0.00	0.00	0.00	0.00	0.00	0.00	0.00	167
	39,523,011.37	7,112,326.40	339,295.12	0.00	46,296,042.65	18,865,798.28	2,842,177.93	139,794.83	21,568,181.38	24,727,861.27	20,657

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HWA AG _ Affalterbach

Notes to the financial statements 2008

GENERAL

These annual financial statements have been prepared in accordance with section 242 et seqq and section 264 et seqq of the German Commercial Code (HGB), together with the applicable provisions of the German Companies Act (AktG) and the company's articles of incorporation. The provisions governing large companies apply.

The income statement has been prepared using the cost of sales method.

ACCOUNTING AND VALUATION PRINCIPLES

In preparing the annual financial statements the following accounting and valuation principles have been applied unchanged.

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

Property, plant and equipment is recognised at cost of acquisition or construction and where appropriate is depreciated on a straight-line basis over its expected useful life. Low value assets with a value of up to EUR 1,000 are written off over a period of five years, in accordance with the tax regulations. Additions to property, plant and equipment are depreciated rateably.

Inventories of **raw materials and supplies** are recognised at the lower of average cost or net realisable value.

Work in progress and finished goods are valued on an individual basis 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 are not included.

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

writedowns. 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.

Other securities are recognised at acquisition cost.

Provisions for taxation and other provisions are made for liabilities of uncertain amount and potential losses on pending transactions. The amounts provided are the amounts deemed necessary in prudent commercial judgement.

Liabilities are recognised at the amounts repayable.

Foreign currency payables and receivables are translated at the higher of cost and market value or the lower of cost and market value respectively.

Notes on the balance sheet

NON-CURRENT ASSETS

Changes in individual items in non-current assets including depreciation and amortisation for the year under review are shown in the non-current assets movement schedule.

ACCRUALS

Accrued and deferred assets include a discount on issue of EUR 16,000.

AUTHORISED SHARE CAPITAL

The Company's authorised share capital is divided into 5,115,000 no par value bearer shares. With the approval of the Supervisory Board, the Management Board is until 22 May 2013 authorised to increase the authorised capital in one or more tranches by a total of EUR 2,557,500 for contributions in cash or in kind.

PROVISIONS

Other provisions are principally for unconsumed vacation, long-service payments, occupational health and accident insurance contributions, claims under guarantees, potential losses on pending transactions and outstanding supplier invoices.

LIABILITIES

Of the amounts due to banks, EUR 1,689,000 has a remaining term of between two and five years. EUR 6,741,000 is secured by charges on real property. Other liabilities have remaining terms not exceeding one year.

OTHER FINANCIAL OBLIGATIONS

	EUR '000
Obligations under service, rental and leasing agreements	2,491
Purchase commitments	1,145

The agreements come to an end between 2009 and 2015.

DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2008 there was an outstanding currency and interest rate swap concluded on 22 August 2006.

	Interest rate %	Base value	Maturity	Market value EUR '000
outstanding currency and interest rate swap	3.75	1,326 TEUR/		
	2.60	2,093 TCHF	31.12.2009	-87

There was a provision for impending loss in the amount of the negative fair value. The base values reduce semi-annually, in step with the reduction in the long-term bank loan. The valuation is based on generally accepted models (Black-Scholes, Heath-Jarrow-Morton).

NOTES TO THE INCOME STATEMENT

Revenues by region	2008		2007	
	EUR '000	%	EUR '000	%
Germany	56,662	87.5	54,637	89.8
Elsewhere	8,094	12.5	6,226	10.2
	64,756	100.0	60,863	100.0

OTHER OPERATING INCOME

Income relating to prior years consisted principally of proceeds from non-current assets disposals (EUR 24,000) and income from the release of provisions (EUR 1,313,000).

OTHER TAXES

Expenses for prior years amounted to EUR 238,000 and consisted of income tax on wages and salaries and tax deductions under section 50a(4) German Income Tax Act (EstG).

OTHER INFORMATION**SUPERVISORY BOARD**

Prof. Jürgen Hubbert, businessman	Chairman
Hans Werner Aufrecht, businessman	Deputy Chairman
Rolf Krissler, tax adviser	
Christian Wolff, businessman	
Eva-Maria Aufrecht	until 23 May 2008
Willibald Dörflinger, businessman	
Ayman Al Abbasi, Chief Financial Officer	from 23 May 2008

The total remuneration of the Supervisory Board amounted to EUR 26,000.

MANAGEMENT BOARD

Hans-Jürgen Mattheis

Spokesman

Gerhard Ungar

EMPLOYEES

Average number of employees during the year under review:

Non-salaried staff	138
Salaried staff	102
	240
Trainees	3
	243

RECOMMENDED DISTRIBUTION OF PROFITS

The Management Board proposes that the balance of accumulated profits be carried forward into the next financial year.

Affalterbach, March 2009

Management Board

AUDITOR'S REPORT

I have audited the annual financial statements – consisting of balance sheet, income statement and attached notes – together with the accounts and records and the management report of HWA AG, Affalterbach, for the financial year ended 31 December 2008. The accounts and records, and the preparation of the annual financial statements and the management report in accordance with the provisions of German commercial law are the responsibility of the Company's management. It is my responsibility, on the basis of my audit, to give an opinion on the annual financial statements together with the accounts and records and the management report.

I have carried out my audit of the annual financial statements in accordance with section 317 German Commercial Code (HGB) and the principles applicable to the annual statutory audit as established by the German Institute of Auditors (IDW). These require that the audit be so planned and carried out that errors and breaches that materially affect the presentation of the Company's assets, finances and earnings in the annual financial statements prepared in accordance with generally accepted accounting principles and in the management report will with reasonable certainty be detected. The planning of the audit reflects the knowledge of the Company's business activities and the economic and legal environment in which it operates, together with expectations as to possible sources of error. As part of the audit, the effectiveness of the system of internal control as it affects accounting, together with evidence supporting the information contained in the accounts and records, the annual financial statements and the management report is assessed, predominantly on a test basis. The audit includes the assessment of the accounting principles applied and the material estimates made by the Company's management, together with an evaluation of the overall presentation of the annual financial statements and the management report. I believe that my examination forms a reasonable basis for my opinion.

My examination provided no grounds for objection.

In my opinion, based on the information acquired in the course of my examination, the annual financial statements comply with the statutory requirements and present in accordance with generally accepted accounting principles a true and fair view of the assets, finances and earnings of the Company. The management report is in agreement with the annual financial statements and presents an appropriate view of the state of the Company's affairs and of the opportunities and risks of its future business.

Weilheim/Teck, 26 March 2009

Lutz
Auditor

Events 2009

February 18, 2009	Release of preliminary figures for the business year 2008
April 2009	Release of final figures for the business year 2008
May 8, 2009	Annual General Meeting of HWA AG in Affalterbach
August 18, 2009	Release of preliminary figures for the first half year 2009
August 27, 2009	Release of the half year report 2009

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