



# REPORT 10

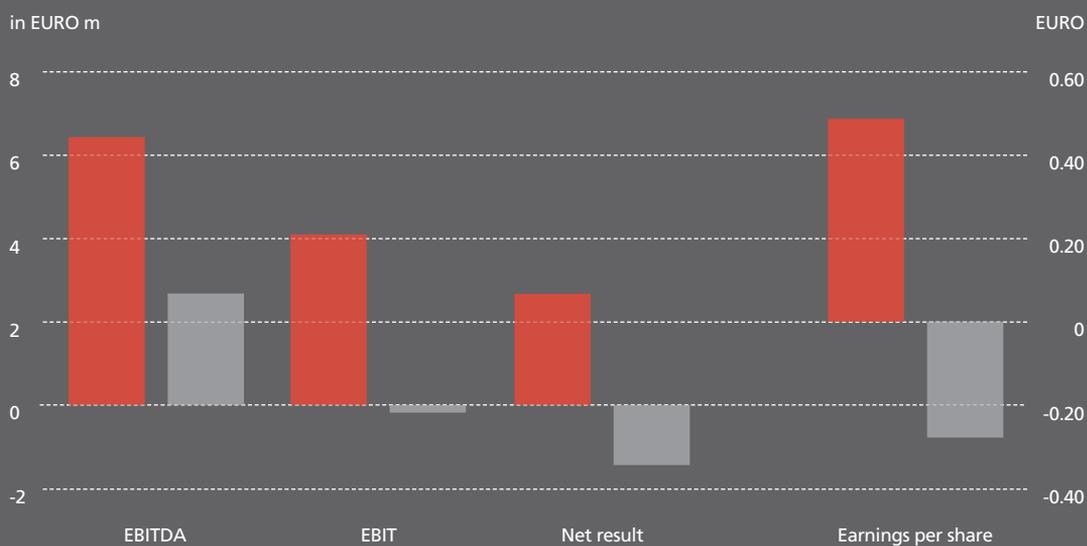
Motor racing | Vehicles and components  
Annual Report 2010



## KEY FIGURES

in EURO m	2010	2009	2008	2007	2006	2005
Sales income	44.9	64.8	64.8	60.9	57.6	59.9
EBITDA	6.4	2.6	3.1	12.0	9.7	9.0
EBITDA margin (in %)	14.3	4.0	4.8	19.7	16.8	15.0
EBIT	4.1	-0.2	0.2	9.1	6.9	6.5
EBIT margin (in %)	9.0	-0.3	0.3	15.0	12.0	10.8
Net result	2.5	-1.4	-0.40	5.6	4.2	3.9
Earnings per share (in Euro)	0.49	-0.27	-0.08	1.10	0.82	0.76

## AT A GLANCE 2010 | 2009



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## LETTER TO THE SHAREHOLDERS



Dear shareholders,

One year ago in this letter I promised you that HWA AG would show a profit again. Today, I am happy to report a return to profitability and the resumption of dividend payments for financial 2010. Our restructuring activities, cost reduction programs and improvements in efficiency – all introduced in 2009 – have proved fully effective in generating excellent profits and free cash flows.

HWA AG is back on track! We have been successful not only economically, but also in the German Touring Car Masters (DTM). Paul di Resta was crowned DTM Champion for 2010, and he won three of the eleven races in his AMG Mercedes C-Class race car. After winning the DTM Championship, Paul is racing for Force India in the Formula 1 Series in the 2011 season. He is the first HWA driver to move from DTM to Formula 1. Gary Paffett and Bruno Spengler came in second and third in the Drivers' Championship. Our drivers taking first, second and third places made our 2010 DTM season special, and a fantastic success. We also came in first in the team ranking, and in nine out of eleven races a Team AMG Mercedes car crossed the finish line first.

In 2010 HWA AG's top priority was to return to profitability. With net income of EUR 2.5m 49 cents per share we have achieved our goal. The results are greatly improved compared with the previous year, and they even exceeded our original forecasts. EBITDA more than doubled, from EUR 2.6m to EUR 6.4m. EBIT improved by over EUR 4m. Profit before interest and taxes amounted to EUR 4.1m. The EBIT margin was 9%. In line with expectations, sales compared with the previous year were down, to EUR 44.9m.

As forecasted, sales were lower in both our segments – the motor racing and vehicles and vehicle components businesses. In the motor racing business, the technical regulations meant that there were no new developments or improvements to DTM race cars. As a result, budget adjustments were necessary. In the vehicles and vehicle components business, the SL 65 AMG Black Series project came to an end as planned. As our next project, we developed and manufactured a GT3 version of the Mercedes-Benz SLS AMG in close cooperation with our partner Mercedes-AMG. In late March 2010, Mercedes-AMG presented the racing version of the Gullwing in Mexico and New York. In its first races, at a VLN event (Veranstaltergemeinschaft Langstreckenmeisterschaft Nürburgring) on the legendary Nürburgring Nord-schleife, the SLS AMG GT3 had some good results and one victory. In collaboration with Mercedes-AMG, the aim is to build up a customer motor racing business that guarantees the level of service for this customer sports vehicle for which Mercedes is renowned. Annual revenues from engines for the Formula 3 Series, which also form part of this business, were in line with budget.

The Company's solid performance in the past financial year resulted in satisfactory year end figures. Our equity ratio increased from 56.8% to 61.0%. At end of 2010 HWA AG had cash and cash equivalents of EUR 10.5m compared with EUR 5.3m a year earlier. The overall position went from net borrowings of EUR 6.5m on 31 December 2009 to net cash of EUR 0.9m on 31 December 2010. Cash flow from operating activities was up from EUR 4.4m to EUR 7.7m. After deducting cash flows for investments, the free cash flow more than doubled, to EUR 7.3m. These key figures also reflect the success of our efficiency and cost reduction program.

We are cautiously optimistic about the current financial year despite the continuing economic uncertainties. Our aim is to make a permanent feature of our current success and – if possible – to further improve on it. In the motor racing business, as complete service provider to the Mercedes-Benz brand in DTM, our ambition is to continue to be as successful as in 2010. With BMW joining DTM in 2012, the regulations will be modified and there will be new development of race cars. This should in general ensure a stable performance of the motor racing business. In the vehicles and vehicle components business, the GT3 version of the Mercedes SLS AMG has been shipping to customers since March 2011. Demand to date is satisfactory, and we predict satisfactory results for this segment as well.

After refraining from paying dividends in the past two years, the Management Board has now recommended to the Supervisory Board the payment of a dividend of EUR 0.50 per share to shareholders. The long-term goal of distributing a minimum of 50% of annual earnings as dividends remains unchanged. For 2010 the payout ratio is above this level.

Our efforts in 2010 have been successful, and the results are highly satisfactory. With the same high equity ratio, strict cost control, our accumulated skills and expertise, and unwavering attention to high quality, we will put all our efforts into bringing you – our shareholders – further successes. My team and I are full of enthusiasm for our work, and are convinced that the stage has been set for us to continue the comeback begun in 2010 and build a successful future for the Company.

I should like to thank you for your trust and your loyalty during the financial and economic crisis. We hope you will continue to follow HWA AG's extremely exciting progress with interest and look favourably on its achievements. My heartfelt thanks also to all our staff for their outstanding performance, and to the Supervisory Board and everybody who has contributed to HWA AG's success.

Affalterbach, April 2011



Gerhard Ungar  
Management Board

## REPORT OF THE SUPERVISORY BOARD



Hans Werner Aufrecht  
Chairman of the Supervisory Board

**Dear shareholders,**

In 2010 HWA AG's Supervisory Board continued to work closely with the Management Board in monitoring and supporting the progress of the Company's affairs. The financial crisis meant that HWA AG faced considerable challenges during the year. The Company was successful in dealing with the issues that arose, thanks to the tireless efforts of all its staff and the corrective measures taken by the Management Board: HWA AG finished financial 2010 with a respectable performance to report. The measures introduced in 2009 to return the business to profitability were implemented successfully. Adjusting the cost base to reflect customer requirements by reducing personnel and manufacturing costs brought the Company back into profit and produced results that were better even than originally expected.

In 2010 the Supervisory Board discharged its duties under the law and the Company's articles of incorporation with all due care. It advised the Management Board on the management of the Company's affairs on an ongoing basis, and kept all aspects of management and business performance under close review. The Supervisory Board was directly and promptly involved in all decisions of fundamental importance to the wellbeing of the Company, or wherever statutory provisions or the articles of incorporation called for such involvement. The Management Board reported to the Supervisory Board in writing or orally on a regular basis and in a comprehensive and timely fashion. These reports included information on business performance, significant business events, earnings and liquidity, and the risk situation and risk management. Cooperation between the Boards was marked by detailed and open dialogue. In addition, the Chairman of the Supervisory Board was in regular contact with the Management Board. Other Supervisory Board members were also in touch with the Management Board outside formal meetings, keeping themselves informed about ongoing business performance and significant business events and providing support and advice where needed.

### **Meetings of the Supervisory Board**

During financial 2010 the Supervisory Board met five times in the performance of its duties. In these meetings the current state of the Company's affairs were discussed with the Management Board and explained in detail. The Supervisory Board meetings took place on 19 February, 18 May, 24 June, 5 October and 25 November. After a detailed review based on consultations and prior talks and reviews, the Supervisory Board approved the annual financial statements of HWA AG in the annual financial statements meeting on 30 March 2010. The statutory auditor participated in the meeting. On 24 June, there was an extraordinary meeting of the Supervisory Board to elect a new Chairman and Deputy Chairman of

the Supervisory Board. This was necessary because Jürgen Huppert, Chairman of the Supervisory Board, had resigned his office. All members of the Supervisory Board were present at all its meetings. To mark the first race of the German Touring Car Masters (DTM) in Asia, the meeting on 25 November was held in Shanghai. All other meetings were held in Affalterbach. The Management Board provided the Supervisory Board with full information on urgent matters and matters of particular importance to the Company outside the regular meetings. All activities and transactions requiring the Supervisory Board's approval were discussed in depth in the Supervisory Board meetings. The main topics of the Board's deliberations were revenues and earnings trends, investment planning and the Company's current performance and future prospects. Two noteworthy items were the development and production of the customer race car SLS GT3 AMG and the changes to be expected as a result of the entry of a third manufacturer in the 2012 DTM Series.

#### **Personell changes in the occupancy of the Management Board and Board of Directors**

For health reasons, Management Board spokesman Hans-Jürgen Mattheis requested the Supervisory Board not to renew his appointment when it ended in March 2010. The Supervisory Board regretted his decision, but accepted his resignation. Mr. Mattheis retired as Management Board member and spokesman with effect from 3 March 2010. His duties were taken over by Management Board member Gerhard Unger, who is now the sole member of the Management Board. Mr. Ungar's appointment as a member of the Management Board, which expired in March 2010, was extended for a further five years until 2 March 2015.

Under the Company's articles of incorporation the Supervisory Board consists of six members. For personal reasons, Jürgen Hubbert resigned his appointment as Chairman of the Supervisory Board on 27 May 2010. In the extraordinary Supervisory Board meeting on 24 June 2010, the Board elected Deputy Chairman of the Supervisory Board Hans Werner Aufrecht to be the new Chairman, and Supervisory Board member Christian Wolff to be the new Deputy Chairman.

At the request of the Management Board, Michael Schmieder, Managing Director of Schmieder Beteiligungs GmbH & Co.KG, resident in Mannheim, was appointed member of the Supervisory Board until the next Annual General Meeting by decision of the Stuttgart District Court of 5 April 2011. At the next Annual General Meeting Mr.Schmieder will be proposed for election to the Supervisory Board in accordance with the Company's articles of incorporation.

As at 31 December 2010, the Supervisory Board was made up of the following persons:

- Hans Werner Aufrecht, Chairman
- Christian Wolff, Deputy Chairman
- Ing. Willibald Dörflinger
- Rolf Krissler
- Ayman Al-Abbasi

#### **Annual statutory audit**

By resolution of the Annual General Meeting of 18 May 2010, registered auditor Joachim Lutz, Weilheim-Teck, was appointed as statutory auditor of the Company's annual financial statements. The statutory auditor audited the annual financial statements prepared by the Management Board and the management report for the financial year ended 31 December 2010, and issued an unqualified audit opinion.

### Annual financial statements

The annual financial statements and the management report were presented to all 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 30 March 2011 in accordance with section 172(1) German Companies Act (AktG). The annual financial statements were thereby formally adopted. After extensive discussions, the Supervisory Board approved the Management Board's proposal for distribution of a dividend from the distributable profits.

### Supervisory Board's thanks

The Supervisory Board would like to thank the staff and the Management Board of HWA AG for their unremitting hard work and their dedication to the Company in the turbulent economic circumstances of financial 2010.

For the Supervisory Board



Hans Werner Aufrecht  
Chairman of the Supervisory Board

Affalterbach, April 2011



## HWA AG – THE STOCK

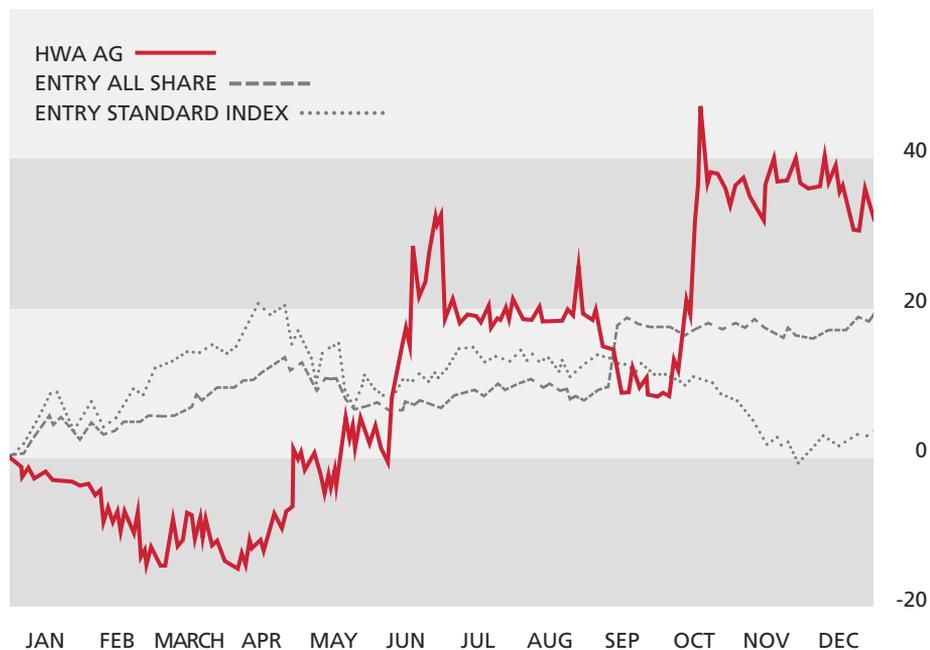
In 2010 the German securities market was subject to the conflicting effects of strong economic growth on the one hand and the European debt crisis on the other. By the end of the year, however, all leading German indexes were up, and the recovery of international securities markets, which began in 2009, had also continued. The expansionary monetary policy of the US Federal Reserve, the European banks' satisfactory scores in the European bank stress tests, strong economic performance in Germany and China, the positive results reported by businesses, and a noticeable increase in M&A activities were the key factors underlying the satisfactory performance of securities markets. The announcement of stringent austerity measures following the 750 billion euro bailout package for severely indebted euro countries, a weak US job market and China's strict monetary policy contributed to fears in the first half of 2010 that the world economy would slow. However, starting in the summer there were increasing signs that a sustained economic recovery was under way and that the European monetary union was no longer in danger of collapse. From then on, the indexes started climbing again, reaching annual highs in December 2010. The German DAX index put on 14% during 2010 and buoyed by export oriented businesses, closed the year at 6,914 points, just under the 7,000 level. With a gain of nearly 43%, the SDAX was the fastest growing German index. The MDAX grew by 32% over the course of the financial year, and the TecDAX showed an increase of 2%. The Entry Standard Index improved by 1%. On 4 January 2010 the Entry All Share closed at 700 points, and on the last trading day of the year it closed at a year's high of 832 points. Overall, the Entry All Share, in which HWA AG is listed, ended 2010 up 19% on the previous year.

The closing price of HWA AG stock on 4 January 2010 was EUR 9.60. At the beginning of April the share fell to EUR 8.40, its low point for the year, after which it outperformed the general trend, reaching EUR 13.11 on 28 June, its highest level during the year. In line with the general trend, the share price subsequently fell back a little, fluctuating between 11 and 12 euros until autumn. Starting in October the stock improved significantly, reaching a year's high of EUR 14.57 on 19 October, and outperforming the Entry All Share Index by a considerable margin. On the last trading day of the year the share closed at EUR 13.04. During the year the share price increased by 36%, so that it noticeably outperformed the major German indexes as well as the benchmark Entry Standard index and the Entry All Share index.

The improvement in price also meant a higher market capitalisation compared with the previous year: at the end of the year it stood at EUR 67m, which was EUR 18m higher than a year earlier. The trading volume was also slightly higher than in the previous year – in 2009 an average of 720 shares were traded each day, compared with 816 shares in 2010.

## HWA AG share at a glance

### Share price chart 2010 – Xetra (Compared with Entry All Share Index)



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	Close Brothers Seydler AG

## Investor relations / press

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Good communications with institutional and private investors are important to HWA AG. Our investor relations work fosters continuous and open exchange of information with all participants in the capital markets. We make ourselves available to interested shareholders on a regular basis, in one-on-one discussions and in telephone conferences. Since 2008 Close Brothers Seydler Research has been responsible for HWA's coverage: in 2010 it published two updates on the HWA AG share. In June the Frankfurt-based research specialist increased the target share price from EUR 8.86 to EUR 13 and changed its recommendation from "hold" to "buy". Thanks to a strong performance in the first half of 2010 the recommendation to buy was confirmed in September, and the target share price increased to EUR 14. One of the most important events in last year's corporate calendar was the third Annual General Meeting of HWA AG, which was held on 18 May in Affalterbach. The AGM is also an important forum for maintaining personal contact with our investors.

The Investors Relations section of our website [www.hwaag.com](http://www.hwaag.com) provides current and potential shareholders with detailed information on the HWA AG share, and is an important information platform in our communications with shareholders and the capital market. The resources include press releases, half-yearly reviews and annual reports. There is also the option of subscribing to an e-mail distribution list for forthcoming Company news. The website is regularly updated by the Company.

## Annual General Meeting 2010

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At HWA AG's third Annual General Meeting, which took place on 18 May 2010 in the equestrian facility in Rotland in Affalterbach, the Management and Supervisory Boards welcomed more than 50 shareholders representing 87% of the Company's issued share capital. We are very pleased with the lively interest shown by shareholders, especially the smaller ones. With the exception of agenda items 2 and 3, the resolutions were passed with few dissenting votes. The resolutions concerning discharge from liability each tallied over 150,000 votes against.

Resolutions were passed concerning the carrying forward of distributable profits (item 2), discharge from liability of the Management Board (item 3) and the Supervisory Board (item 4), authorisation to acquire own stock (item 5) and appointment of registered auditor Joachim Lutz as statutory auditor for financial 2010 (item 6).

## Financial calendar 2011

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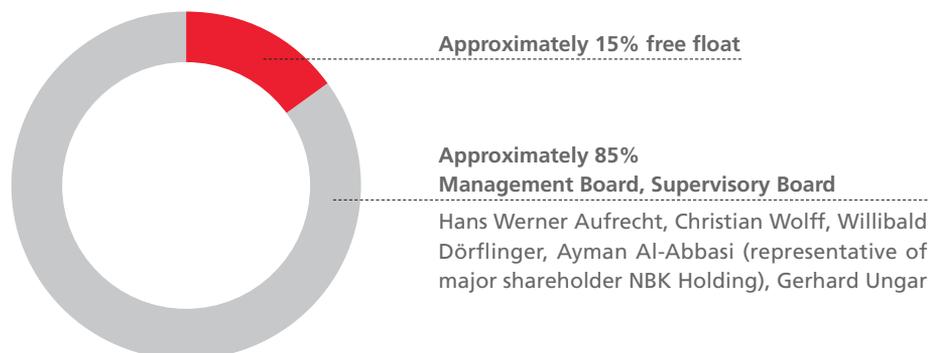
23 May 2011	Annual General Meeting of HWA AG in Affalterbach
30 August 2011	Publication of half-yearly report 2011

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## Shareholdings

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*Note: In virtue of its listing in the Entry Standard segment, HWA AG is not obliged to disclose information regarding shareholdings, and receives information from major shareholders on a voluntary basis. Consequently, the information is not verified.*



During 2010 the Company's shareholder structure remained largely unchanged. Hans Werner Aufrecht and Qatar-based NBK Holding continue to be the largest shareholders. 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 85% of HWA AG's share capital. NBK Holding from Qatar holds nearly 28% of the shares.

## Dividend

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At the Annual General Meeting in May 2011 Management Board and Supervisory Board will propose the distribution of a dividend of EUR 0.50 per share for the past financial year from HWA AG's distributable profits for 2010, which amounted to EUR 17.5m. HWA AG's long-term, shareholder friendly dividend policy is to distribute a minimum of 50% of the distributable profit for the year to its shareholders. The proposed distribution for 2010 will therefore amount to some EUR 2.6m. At a share price of EUR 12.50, the distribution represents a dividend yield of 4%.

## HWA AG

H.W.A. GmbH was founded by Hans Werner Aufrecht towards the end of 1998, and started business in 1999. It was transformed into a public limited company on 4 December 2006, and the new name, HWA AG, was entered in the commercial register in Stuttgart on 15 December 2006.

HWA AG was founded as a spin-off from AMG, the customisation specialist, which was established in 1967 by Hans Werner Aufrecht. 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 what is now the AMG-Mercedes DTM racing team and parts of the vehicles and vehicle components business. These were transferred to HWA AG, which began business with around 80 employees taken over from Mercedes-AMG GmbH.

HWA's principal business is the development and production of high technology, luxury racing and passenger cars. The business is divided into two areas: the Company is a complete service provider to the motor racing business, and it is a development partner for vehicles and vehicle components for the premium segment of the automobile market.

### Outlook – motor racing

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In motor racing the primary focus is on participation in the German Touring Car Championship (DTM). HWA AG runs the official racing team for Daimler AG Motorsport as Team AMG-Mercedes. These services include everything required for successful racing operations. HWA has the sole responsibility for the development and construction of the race cars and their engines. It manages the racing team's operations from the original design to planning, preparing for and running the races. This also includes choosing and supporting the drivers, marketing the brand and working closely with Daimler AG in finding sponsors. HWA also produces and supports race cars and engines for independent customers who field their own racing teams in the DTM. It is responsible for technical support of the race cars in all its aspects. Together with Daimler AG, it is jointly responsible for marketing all vehicles. In 2010, HWA had nine race cars in the DTM, which in that year consisted of eleven races in six different countries.

Overall, 2010 was a very successful year in the DTM for HWA AG – it won both the individual and the team championships. Paul di Resta, Bruno Spengler, Ralf Schumacher and Gary Paffett were the drivers in the two HWA teams. Paul di Resta was crowned DTM Champion for 2010, and he won three of the eleven races in his AMG Mercedes C-Class race car. Gary Paffett and Bruno Spengler came in second and third in the Drivers' Championship. Members of the AMG-Mercedes Team were among the first three to finish in nine of the eleven races.

The DTM is HWA's core market in motor racing, and in collaboration with Mercedes-Benz it has been extremely successful in the series. In the new DTM, which began in 2000, Mercedes-Benz has won 77 of the 120 events, an impressive 64.17 percent. Overall, Mercedes-Benz has

been the victor in 161 DTM races since 1988 – almost half of the events staged. The HWA Team has won the driver's championship for Mercedes-Benz ten times: DTM 1992 and 1994 with Klaus Ludwig, DTM and ITC 1995, as well as DTM 2000, 2001, 2003 and 2006 with Bernd Schneider, and DTM 2005 with Gary Paffett. This makes HWA the most successful team in DTM history.

### Racing prospects

The HWA Team has begun the 2011 DTM season with a success: at the season's first race, in Hockenheim, Bruno Spengler was the winner. Ralf Schumacher came in third, earning his first place on the rostrum since joining the DTM circuit in 2008. This season's drivers of the HWA Team's four AMG Mercedes C-Class are Jamie Green, Gary Paffett, Ralf Schumacher and Bruno Spengler. With BMW joining DTM in 2012, the regulations will be modified and there will be new development of race cars. This should in general ensure a stable performance of the motor racing business. The addition of a third manufacturer will make the Series even more attractive.

This season's DTM – the most popular international touring car series – features ten competition races in five countries. The fixtures include traditional circuits in Germany, international highlights and the well-known racetrack in Spielberg, Austria, which has returned to the race calendar. DTM fans in Germany can be happy: the final race of this year's DTM season takes place on 23 October at the Hockenheimring in Baden-Württemberg. As a special highlight, this summer there is an extra show event in Munich. In 2011 AMG-Mercedes once again has a total of nine race cars competing in the DTM.

10	April	2011	(D)	Presentation Wiesbaden
01	May	2011	(D)	Hockenheimring Baden-Württemberg
15	May	2011	(NL)	Circuit Park Zandvoort
05	June	2011	(A)	Red-Bull-Ring Spielberg
19	June	2011	(D)	Lausitzring
03	July	2011	(D)	Norising
17	July	2011	(D)	Show event Olympiastadion Munich
07	August	2011	(D)	Nürburgring
04	September	2011	(GB)	Brands Hatch
18	September	2011	(D)	Motorsport Arena Oschersleben
02	October	2011	(E)	Valencia
23	October	2011	(D)	Hockenheimring Baden-Württemberg

## Vehicles and vehicle components

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In its vehicles and vehicle components business HWA AG carries out contract development work for customers in the automobile industry using its specialist racing skills and expertise. The Company is an exceptionally favoured development partner in the premium segment of the industry. With its contributions to the CLK-GTR, CLK DTM AMG and Mercedes-Benz SL 65 AMG Black Series, HWA AG has a substantial record of successful development services. Following the successful delivery of the Mercedes-Benz SL 65 AMG Black Series, our next project was to develop and produce a GT3 version of the Mercedes-Benz SLS AMG in close cooperation with our partner Mercedes-AMG last year. In late March 2010, Mercedes-AMG presented the racing version of the Gullwing in Mexico and New York. In its first races, at a VLN event (Veranstaltergemeinschaft Langstreckenmeisterschaft Nürburgring) on the legendary Nürburgring Nordschleife last autumn, the SLS AMG GT3 had some good results and one victory. In collaboration with Mercedes-AMG, the aim is to build up a customer motor racing business that guarantees the level of service for this customer sports vehicle for which Mercedes is renowned.

In the vehicles and vehicles components business HWA AG has also earned itself an outstanding reputation for the development and production of racing engines. The Mercedes-Benz Formula 3 M271 engine, which was developed on the basis of C-class and E-Class production engines, was used for the first time nine years ago, at the start of the Formula 3 Championship in Hockenheim. Drivers of cars with the Mercedes-Benz Formula 3 engine have racked up 127 victories in 18 races in the old German Championship that ran till 2002, 158 races in the Euroseries since 2003, eight Masters in Zandvoort and Zolder (2003 to 2010), three Macau Grand Prix (2004 to 2006) and one international event in Bahrain (2004). Eight teams with 18 drivers will be using the Mercedes-Benz engine in 2011 in three separate Formula 3 Championships in Europe: in the Formula 3 Euroseries, the British Championship and the ATS Formel 3 Cup. In addition to the reigning Formula 1 Champion, Sebastian Vettel, numerous Formula 1 drivers have won victories with Mercedes-Benz engines in the Formula 3 Euroseries. The current DTM Champion, Paul di Resta, laid the foundation for his career by winning the Formula 3 Euroseries with a Mercedes-Benz engine in the 2006 season (ahead of Sebastian Vettel).

## Outlook – vehicles and vehicle components

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With the start of delivery of the Mercedes-Benz SLS AMG GT3 in March this year, the outlook for the vehicles and vehicle components business in financial 2011 is extremely positive. Demand to date has been satisfactory. The Formula 3 engine business in 2011 will continue to present a challenge. The continuing reluctance of sponsors to fund the various racing teams competing in the series, together with the intensified competition with other championships, such as the GT series, is having unfavourable effects on demand.

The SLS AMG GT3 is designed as a customer racing car for sprint and long-distance racing. These races for close-to-series GT cars are well known for the mixed field of entrants they attract, and for gripping races. The comparatively low cost is just one of the reasons why these series are becoming more and more popular all round the world. The new SLS AMG GT3 was developed to comply with international FIA GT3 regulations and can be entered in all GT3 series. The quality of the basic model combined with our competence guarantees that our customers are getting a competitive race car. This is the basis of a successful project, and a cornerstone of future business success.





# MANAGEMENT REPORT

## 1. Legal and economic situation of the company in the year 2010

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„HWA“, formed at the end of the year 1998 as GmbH (private limited company), started operating in the year 1999. By resolution passed on December 4, 2006 to change legal form, legal form was changed to Aktiengesellschaft (stock corporation). Change of form to Aktiengesellschaft using the name "HWA AG" was entered in the commercial register Stuttgart on 15. December 15, 2006.

Since April 19, 2007, shares of the company are listed at the Frankfurt stock exchange in the so-called „entry standard“. This sector of the stock exchange is part of the open market (Freiverkehr).

The business activities of the company have essentially remained unchanged. On the one hand, they include automobile racing sports and on the other development and production of vehicles/vehicle components for road and customer sports vehicles. The sector of customer sports was newly developed.

Participation in the racing sports series Deutsche Tourenwagen-Masters (DTM) continues to form the focal point within the business unit automobile racing sports. The official racing team of HWA AG is operated as "Team AMG-Mercedes" under assignment from the motor sports department of Daimler AG. HWA AG regards itself as service provider and as full service provider assumes development, manufacture and employment of racing vehicles. Furthermore, care for and employment of race drivers as well as support of further customer teams, which participate in DTM using racing vehicles manufactured by HWA AG are included in the services.

The second business unit vehicles/vehicle components performs development and production orders using know-how gained in racing sports. Besides this, HWA AG is a highly specialized supplier for the premium sector of the automobile industry. Also, development and production of racing engines has acquired an excellent reputation. Therefore, a market for sales exists besides the leasing business. Served are several teams of differing Formula 3 series, for instance Formula 3 Euro series or the British Formula 3 series.

## 2. Situation of the economy

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Global economic achievement was able to clearly increase growth, after the recent recession. After a reduction of about 2.0 percent during the past year, the global economy achieved a growth of about 4.0 percent in the year 2010. The most important contribution to this was made by threshold and developing countries - the BRIC states. The lead was taken by China, which was among the peak nations with a growth of about 10.0 percent, closely followed by the Asia-Pacific region with about 9.3 percent.

Due to the recovering economy, Germany was able to achieve the strongest growth since reunification after the years of recession in 2008 and 2009. The gross national product (GNP, BIP) adjusted for price increase was able to grow by 3.6 percent. The most important stimuli

for this were exports, which clearly increased by 14.2 percent in comparison with the past year. Germany was able to gain in market share especially in developing countries. But domestic demand also increased the growth trend. On average, enterprises spent more than 9.4 percent on machines, vehicles and other equipment during the past year, while investments in construction increased by 2.8 percent. Even very reserved consumer spending could achieve a growth of 0.5 percent in comparison with the past year.

The worldwide automobile economy was able to develop much better in the year 2010 than forecast at the beginning of the year. Increases of registrations of new vehicles had especially developed in countries in North and South America, Asia and Eastern Europe.

In Germany, about 2.9 million automobiles were registered anew in 2010. This is clearly less than in the year 2009 (3.8 million), which was characterized by the scrapping bonus. But a positive trend up showed in September, 2010, with greater orders received than in the prior months. This trend continued in December, so that for the first time, an increase of newly registered automobiles by 6.9 occurred in comparison with the same month in the past year, as the federal office for motor traffic informed.

Especially manufacturers of compact and medium size cars, who had benefited most from the scrapping bonus, suffered in the year 2010. Premium manufacturers, on the other hand, were winners of the crisis. At the end of the year, they experienced increased demand. Due to worldwide representation and great popularity of German automobile manufacturers and their suppliers, the general conditions for a good exporting year 2011 have been set.

### **3. Development of business and profit situation**

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In the year 2010, sales revenues amounted to Euro 44.9 million. This means, that they were clearly below the level of the past year (Euro 64.8 million) by 30.7 percent. Of this, Euro 40.5 million concerned Germany (past year Euro 59.2 million) and Euro 4.4 million (past year Euro 5.6 million) international business.

In the sector of automobile racing sports, sales decreased, as expected, in comparison with the prior year. Due to DTM regulations for 2010, on which resolution was passed in August, 2009, which contained a ban on development, no further development and no new manufacture of DTM racing vehicles took place. This action had the consequence that budget adjustments were made by Daimler AG. The business of engine leasing/sales was – as forecast – also declining further. This slump in sales shows in the sector of vehicles/vehicle components.

Overall materials used clearly reduced by 57.1 percent, from Euro 36.8 million to Euro 15.8 million. This great reduction has been triggered on the one hand by ceasing production of a product in the sector of vehicles/vehicle components. On the other hand, this effect was achieved by new product development due to reduced use of raw materials and supplies and measures for increasing efficiency in procurement management. Expenditure for raw materials and supplies decreased by 66.0 percent from Euro 24.1 million to Euro 8.2 million. The share of materials used in overall operational performance fell from 55.7 percent to 34.4 percent.

Staff cost fell from Euro 16.1 million by 6.2 percent to Euro 15.1 million, due to restructuring actions initiated in the past year.

In the year 2010, HWA AG was able to generate a clearly positive EBIT of Euro 4.1 million. In the year 2009, EBIT was at Euro minus 0.2 million. EBIT (earnings before interest and taxes) is regarded as operational result figure and is calculated as follows:

#### Profit and loss account

in million Euro (rounded)	2010	2009
<b>Sales revenues</b>	<b>44.9</b>	<b>64.8</b>
Stock change	0.0	-0.4
Other operating revenues	1.0	1.6
<b>Overall performance</b>	<b>46.0</b>	<b>66.0</b>
Material used	15.8	36.8
Staff cost	15.1	16.1
Depreciation (amortization)	2.4	2.8
Other operating expenditure	8.6	10.5
<b>EBIT</b>	<b>4.1</b>	<b>-0.2</b>

Financial results could be improved by 18.9 percent in the year 2010 and amounts to Euro minus 0.4 million. The reason for this was lower interest expense for long-term liabilities.

Due to retransfer of a reserve formed for deferred taxes for losses carried forward, which was formed on January 1, 2010, within the scope of the „BilMoG opening balance sheet“, tax expenditure conforms – inspite of tax losses carried forward claimed during the year under review – to commercial results.

After balancing out total revenues against total expenditure, an annual result in the amount of Euro 2.5 million remains, compared with Euro minus 1.4 million in the past year.

#### 4. Asset and financial situation

Compared with the past year, balance sheet total increased from Euro 37.1 million to Euro 40.0 million. The fixed asset share in the balance sheet total fell from 61.7 percent to 52.4 percent. In contrary to this, the share in current assets in the balance sheet total increased from 37.6 percent to 46.8 percent. This increase is especially based on increase of bank credit balances. Stock of raw materials and supplies also increased, due to imminent start of production of the GT3 model based on Mercedes-Benz SLS AMG, and the purchasing volume increased due to this. In addition, the amount of receivables could be reduced, which in turn had a positive effect on bank balances.

The equity capital ratio increased from 56.8 percent to 61.0 percent and is therefore far above industry average.

Liability reserves have increased from Euro 1.9 million to Euro 2.7 million. This is for instance due to deferred maintenance in the year 2010. Warranty reservers could be partially retransferred.

Liabilities could be reduced from Euro 14.2 million to Euro 12.9 million. Decisive for this is reduction of indebtedness to banks.

Due to much improved results for the period in connection with reduction of receivables, a massive increase of cash flow from current business was achieved. It has improved, from Euro 4.4 million in the past year, to now Euro 7.7 million. Cash flow from investment activities in 2010 amounts to Euro minus 0.4 million, compared with Euro minus 0.9 million in 2009.

Investments were reduced to the required minimum for the year 2010. Cash flow from funding activities is negative due to redemption of long-term bank loans.

On the hand, financial funds have markedly improved from Euro 5.3 million in the past year to Euro 10.5 million.

## 5. Staff

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In the fiscal year 2010, on average 202 (past year: 246) employees including members of the executive board formed the staff:

- 97 salaried employees
- 103 workers
- 2 trainees/student employees

## 6. Chances and risks

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HWA AG employs instruments to detect potential risks early. Using a consistent information system, management is enabled to initiate effective measures at any time.

The economic crisis in the years 2008 and 2009 – triggered by the financial crisis – has had a lasting effect on numerous key industries and changed them. After a massive slump in sales, the worldwide automobile industry has recovered at breathtaking speed in the year 2010. Especially manufacturers of premium vehicles are notifying of record sales. In some economies, almost the level before the crisis was reached concerning GNP growth rates.

There are still numerous risks besides the positive growth rates. High governmental debts, political unrest and the instable banking sector may have a negative effect on the GNP of individual economies. The current crisis in Japan could also have a breaking effect on the worldwide upswing.

The sector automobile racing sports – the core business of HWA AG – is still very much dependent on decisions made at Daimler AG. The long years of cooperation in the sector of motor sports with Mercedes-Benz cannot exclude risks, but minimizes them. Due to intense contacts, management of HWA AG is included in decisions at an early stage, so that it is able to reasonably react to them.

Another potential risk is formed by the racing series Deutsche Tourenwagen Masters, which is funded by sponsors and the media. The variety of brands and manufacturers is an important criterion for attractiveness. The return of BMW AG to Deutsche Tourenwagen Masters forms an important step to the future. This makes the racing series even more attractive for sponsors and the media. DTM commitment is highly regarded as marketing instrument due to numerous successes of the brand Mercedes-Benz in Deutsche Tourenwagen Masters.

The main risk to be considered in the sector vehicles/vehicle components is sales. The business of leasing and sales for Formula 3 engines is – as the DTM racing series – very much dependent on sponsors. If funding of Formula 3 teams should further deteriorate, then sales of leasing and sale engines could show further negative effects.

The product SLS GT3 also includes sales risks. Besides these, the relative short „time-to-market“ and complex engineering of the vehicle may have an effect on warranties. Furthermore, the market volume for such a vehicle is limited – also regarding the competitive situation.

Besides risks of the economy and product-related risks, financial risks must also be considered. Generally, risks of default may result from trade debtors shown in the balance sheet, due to change of exchange rates, interest or market prices. Currency risks form a small endangering potential, since business transactions are largely settled in Euro.

The derivative financial transactions employed by the company are two interest swap transactions. This secures the historically low interest level of 2009 for a longer term. Concerning the balance sheet, these swap transactions form a valuation unit with the Euribor loans, so that no balance sheet risk exists.

In addition, there is the usual market price risk from purchase of parts and raw materials.

## **7. Research and development**

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HWA AG has comprehensive internal as well as external resources, which are required for development of racing vehicles, customer sports vehicles, engines and components. Due to employment of state-of-the-art simulation and construction software (CAD and FEM), it is possible to engineer, develop and manufacture products to the highest levels.

Besides this, HWA AG has far-reaching expertise in development of electric and electronic systems. The electric and electronic systems of racing vehicles, customer sports vehicles and vehicle components may be developed by use of internal resources. Development activities include creation, programming, simulation and evaluation of vehicle and engine electric/electronic systems.

HWA AG has good infrastructure in several sectors. This enables production, testing and maintenance of racing vehicles, road vehicles, customer sports vehicles, engines and components.

Internal and external resources of research and development, which serve engineering, simulation and development of products, will be in our special focus in the future as well. Due to deliberate investments in individual (specialist) sectors, these are to be continuously expanded and enlarged.

## 8. Course of business and presumed development of the company

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After a challenging fiscal year of 2010 with solid results, great efforts must be undertaken in the upcoming fiscal year to be able to achieve satisfying results - in sports as well as economically.

The general economic conditions have improved, but HWA AG will be confronted by numerous challenges in the fiscal year 2011 as well.

Slightly increasing sales volume is expected in the sector automobile racing sports. The reason for this is the new DTM regulations 2012, for which a new DTM racing vehicle has to be engineered, developed and tested. Due to applicability of the "old DTM regulations", no new construction of racing vehicles will be performed in the year 2011. Due to return of BMW to the DTM racing series, a decisive step to secure the future has been taken. In the year 2012, the manufacturers Mercedes-Benz, AUDI and BMW will be competing for the first time in years. There is no final answer today to the question, whether another manufacturer will participate in the DTM racing series under the new DTM regulations 2012.

As we see it today, sales will increase in the sector vehicles/vehicle components. The main pillar for sales is the customer sports vehicle SLS GT3. Production has started in December, 2010 – the first customer vehicles have been delivered in March, 2011. Besides this, further sales will be generated from spare parts and servicing business during the course of the year. The business of engine leasing/sales for Formula 3 will – as in the fiscal year 2010 – continue to decline. Due to deteriorating funding, numerous Formula 3 teams have greatly reduced the number of vehicles and employment of vehicles.

In spite of all challenges, a positive outlook may be postulated for the fiscal year 2011. In spite of increasing sales, our focus must remain on consistent cost and stock management. In light of the increased variety of projects and products, larger expenditure for materials and staff must be expected. As a whole, a stable to slightly expanding employment situation may be assumed for the current fiscal year, which is to be secured by internal flexibility.

During the fiscal year 2011, management has the goal of completing the fiscal year with a clearly positive overall result.

**9. Events after completion of the fiscal year 2010**

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No events have occurred after completion of the fiscal year leading to different assessment of the company for HWA AG.

Affalterbach, March 18, 2011

A handwritten signature in black ink, appearing to read 'G. Ungar', is written over a light gray circular stamp.

Gerhard Ungar



**Balance sheet as at 31 December 2010**

ASSETS	EUR	31.12.2010 EUR	31.12.2009 TEUR
<b>A. FIXED ASSETS</b>			
<b>I. Intangible Assets</b>			
IT software and licences		382,918.33	663
<b>II. Fixed Assets</b>			
1. Land And Buildings	16,507,292.15		17,369
2. Plant And Machinery	1,006,605.30		1,306
3. Other Facilities, Office And Plant Equipment	3,071,411.14		3,590
		<b>20,585,308.59</b>	<b>22,265</b>
		<b>20,968,226.92</b>	<b>22,928</b>
<b>B. CURRENT ASSETS</b>			
<b>I. Stocks</b>			
1. Raw materials and supplies	4,500,294.78		3,695
2. Work in process	280,000.00		0
3. Finished product and goods for resale	0		238
4. Advance payments to suppliers	21,585.00		0
		<b>4,801,879.78</b>	<b>3,933</b>
<b>II. Accounts Receivable And Miscellaneous Other Current Assets</b>			
1. Trade debtors	3,019,337.86		3,404
2. Due from subsidiaries and affiliated companies	0		33
3. Miscellaneous other current assets	393,572.20		1,201
		<b>3,412,910.06</b>	<b>4,638</b>
<b>III. Securities</b>			
Other securities		105,817.50	106
<b>IV. Cash And Due From Banks</b>		10,401,321.11	5,269
		<b>18,721,928.45</b>	<b>13,946</b>
<b>C. PREPAYMENTS AND ACCRUED INCOME</b>		267,079.45	264
<b>D. DEFERRED TAXES</b>		60,000.00	0
		<b>40,017,234.82</b>	<b>37,138</b>

LIABILITIES	EUR	31.12.2010 EUR	31.12.2009 TEUR
<b>A. EQUITY CAPITAL</b>			
<b>I. Subscribed Capital</b>		<b>5,115,000.00</b>	<b>5,115</b>
<b>II. Revenue Reserve</b>			
1. Statutory reserves	511,500.00		489
2. Other reserves	1,310,000.00		500
		<b>1,821,500.00</b>	<b>989</b>
<b>III. Net Profit For The Year</b>		<b>17,492,756.75</b>	<b>14,987</b>
		<b>24,429,256.75</b>	<b>21,091</b>
<b>B. ACCRUALS</b>			
1. Provisions for taxation	302,700.00		0
2. Sundry accruals	2,422,178.99		1,862
		<b>2,724,878.99</b>	<b>1,862</b>
<b>C. LIABILITIES</b>			
1. Amounts owed to credit institutions	9,566,660.00		11,716
2. Payments received on account of orders	0		300
3. Trade creditors	2,601,066.90		1,790
4. Other accounts payable thereof taxes EUR 641,769.16 (2009: TEUR 281)	695,372.18		379
		<b>12,863,099.08</b>	<b>14,185</b>
		<b>40,017,234.82</b>	<b>37,138</b>

## Income statement 2010

	EUR	2010 EUR	2009 TEUR
1. Sales revenues	44,928,583.94		64,758
2. Increase (past year reduction) of inventory of finished goods and work in process	42,500.00		412
3. Other operating revenues thereof earnings from currency conversion EUR 362,770.83 (2009: TEUR 234)	1,016,450.31		1,652
		<b>45,987,534.25</b>	<b>65,998</b>
4. Raw materials and consumables			
a) Expenses associated with raw materials and supplies	8,217,119.75		24,119
b) Expenses associated with goods and services purchased	7,595,615.73		12,663
5. Staff costs			
a) Wages and salaries	13,080,384.03		13,780
b) Other fiscal charges and expenses for retirement pensions thereof for retirement pensions EUR 12,153.19 (2009: TEUR 19)	2,051,535.60		2,296
6. Amortization of intangible assets and depreciation of fixed assets	2,373,723.74		2,809
7. Other operating expenses thereof expenditures from currency conversion EUR 165,678.97 (2009: TEUR 36)	8,586,378.89		10,543
		<b>41,904,757.74</b>	<b>66,210</b>
8. Other interest and similar revenues	67,037.72		1,400
9. Interest and similar expenses	512,127.87		1,949
		<b>-445,090.15</b>	<b>-549</b>
10. Profit or loss on ordinary activities		3,637,686.36	-761
11. Taxes on corporate income and business profits thereof expenses from change of deferred taxes shown in the balance sheet EUR 750,000.00 (2009: TEUR 0)	1,080,565.47		572
12. Other taxes	29,330.86		39
		1,109,896.33	611
13. Profit for the year (2009: loss)		2,527,790.03	-1,372
14. Profit carried forward from the past year		14,987,455.74	16,359
15. Addition to statutory reserves		22,489.02	0
<b>16. Net profit for the year</b>		<b>17,492,756.75</b>	<b>14,987</b>

## Cash flow statement

	2010 TEUR	2009 TEUR
all statements are rounded off in TEUR		
<b>1. Cash flow from operating activities</b>		
Net profit / (loss) for the year	2,528	-1,372
Depreciation and amortisation of non-current assets	2,374	2,809
Increase (+) / decrease (-) in provisions	863	-687
Expense from changes in deferred taxes	750	0
Other non-cash expenses	239	669
Losses on disposal of non-current assets	5	16
Decreases in inventories, trade receivables and other assets	114	10,173
Increases (+) / decreases (-) in trade payables and other liabilities	827	-7,237
<b>Cash flow from operating activities</b>	<b>7,700</b>	<b>4,371</b>
<b>2. Cash flow from investment activities</b>		
Receipts from non-current asset disposals	34	23
Investments in property, plant and equipment	-387	-920
Investments in intangible assets	-66	-41
<b>Cash flow from investing activities</b>	<b>-419</b>	<b>-938</b>
<b>3. Cash flow from financing activities</b>		
Proceeds from bank borrowings	0	10,000
Repayment of bank borrowings	-2,122	-5,287
<b>Cash flow from financing activities</b>	<b>-2,122</b>	<b>4,713</b>
<b>4. Cash and cash equivalents at end of year</b>		
Changes in cash and cash equivalents (subtotal items 1 - 3)	5,159	8,146
Cash and cash equivalents at beginning of year	5,348	-2,798
<b>Cash and cash equivalents at end of year</b>	<b>10,507</b>	<b>5,348</b>
<b>5. Represented by</b>		
Liquid assets	10,401	5,269
Securities	106	106
Short-term liabilities to banks	0	-27
<b>Cash and cash equivalents at end of year</b>	<b>10,507</b>	<b>5,348</b>

## Development of fixed assets in 2010

	Purchasing and manufacturing cost			31.12.2010 EUR
	1.1.2010 EUR	Additions EUR	Disposals EUR	
<b>I. Intangible assets</b>				
EDP software and licences	2,734,602.05	65,658.54	0.00	2,800,260.59
<b>II. Fixed assets</b>				
1. Land and buildings	24,718,132.73	0.00	0.00	24,718,132.73
2. Plant and machinery	8,357,960.32	2,182.50	0.00	8,360,142.82
3. Other facilities, office and plant equipment	11,138,409.93	385,067.74	168,138.35	11,355,339.32
	<b>44,214,502.98</b>	<b>387,250.24</b>	<b>168,138.35</b>	<b>44,433,614.87</b>
	<b>46,949,105.03</b>	<b>452,908.78</b>	<b>168,138.35</b>	<b>47,233,875.46</b>

	Accumulated depreciation			Book values	
	1.1.2010 EUR	Additions EUR	Disposals EUR	31.12.2010 EUR	31.12.2009 TEUR
	2,071,604.44	345,737.82	0.00	2,417,342.26	663
	7,349,295.46	861,545.12	0.00	8,210,840.58	17,369
	7,052,062.69	301,474.83	0.00	7,353,537.52	1,306
	7,547,938.58	864,965.97	128,976.37	8,283,928.18	3,590
	<b>21,949,296.73</b>	<b>2,027,985.92</b>	<b>128,976.37</b>	<b>23,848,306.28</b>	<b>22,265</b>
	<b>24,020,901.17</b>	<b>2,373,723.74</b>	<b>128,976.37</b>	<b>26,265,648.54</b>	<b>22,928</b>

# HWA AG, AFFALTERBACH

## NOTES TO THE FINANCIAL STATEMENTS 2010

### General

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These annual financial statements have been prepared in accordance with the provisions of section 242 et seqq and section 264 et seqq of the German Commercial Code (HGB), for the first time as modified by the Accounting Law Modernisation Act (BilMoG), 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

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

**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 1,000.00 are written off immediately, unlike in earlier years, and in departure from 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 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.

**Other provisions** are made for all 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 payable.

For the calculation of **deferred taxation** based on temporary differences – including those unlikely to reverse in the foreseeable future – between the carrying amounts of assets, liabilities and accruals for the purposes of financial accounting and of tax computation, or based on tax loss carryforwards, the amounts of deferred tax liabilities or assets are calculated using the rates of taxation expected to apply to the Company at the time the differences are expected to reverse. The amounts of tax so calculated are not discounted.

**Foreign currency assets and liabilities** with remaining terms of one year or less have as a general rule been translated using the mean spot rate at balance sheet date.

Where **hedge accounting** in the meaning of section 254 HGB is applied, the accounting and valuation policies applied are as follows. 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.

## Notes on the balance sheet

### Non-current assets

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

### Accruals

Accruals include a discount on issue of EUR 10,000.

### Deferred taxes

Deferred tax assets were made up as follows:

	Carrying value financial accounts	Carrying value tax purposes	Difference	Effective in- come tax rate	Deferred Taxes
	TEUR	TEUR	TEUR	%	TEUR
Low value assets	132	0	132	29	39
Long service benefits provision	169	97	72	29	21
					<b>60</b>

### 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, staff bonuses and profit shares, outstanding maintenance work and outstanding supplier invoices.

#### Liabilities

Of the amounts due to banks, EUR 5,978,000 had a remaining term of between two and five years and EUR 2,800,000 a remaining term of more than five years. EUR 5,034,000 was secured by charges on real property. Other liabilities had remaining terms not exceeding one year.

#### Other financial obligations

	<b>TEUR</b>
Obligations under service, rental and leasing agreements	1,612
Purchase commitments	5,205

The agreements come to an end between 2011 and 2014.

#### Derivative financial instruments

Two interest rate swaps have been taken out to hedge interest rate risk on two variable rate loans totalling EUR 9.3m, as follows:

	Basic interest rate	Fixed interest rate	Amount	Maturity	Market value
		%			<b>TEUR</b>
Swap 1	3-month Euribor	3.04	3,000 TEUR	30.9.2014	-118
Swap 2	3-month Euribor	3.57	6,300 TEUR	30.9.2019	-311

Derivatives are valued on the basis of current market information using standard market valuation methods. Since the sole purpose of the derivative transactions is to hedge the related loans, the loan and the corresponding

#### Restriction on distributions

The recognition of deferred tax assets means that under section 268(8) HGB there is a restriction on distributions of EUR 60,000.



**Auditor's remuneration**

	TEUR
Audit services	25.0
Other services	8.7
	<b>33.7</b>

**Recommended distribution of profits**

The Management Board, with the agreement of the Supervisory Board, proposes to distribute a dividend of EUR 0.50 per share and to carry forward the balance of distributable profits into the new year.

Affalterbach, 18 March 2011

The 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 2010. 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 conducted 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 conducted 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 current knowledge of the Company's business activities and the economic and legal envi-

ronment in which it operates, together with expectations as to possible sources of error. Evaluation of the effectiveness of the accounting-related internal control system and the evidence supporting the information and disclosures in the accounts and records, the annual financial statements and the management report is largely based on examination on a test basis in the course of the audit. 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 audit revealed 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, 18 March 2011

Lutz  
Auditor

## EVENTS 2011

23 May 2011	Annual General Meeting of HWA AG in Affalterbach
30 August 2011	Publication of half-yearly report 2011

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HWA AG, Daimler AG

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