



REPORT **16**

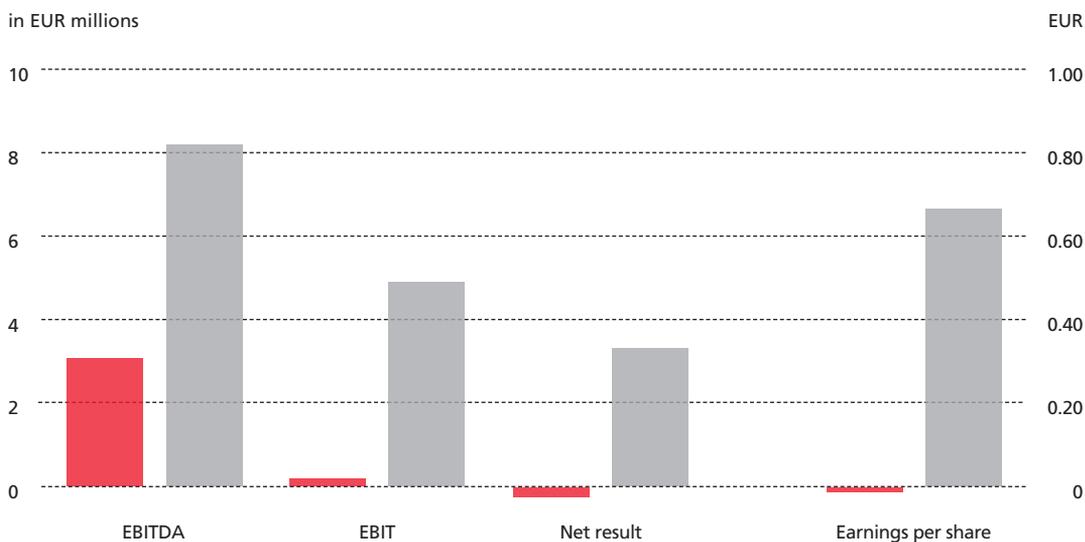
Motor racing
Vehicles and components



KEY FIGURES

in EUR millions	2016	2015	2014	2013	2012	2011	2010	2009
Sales income	97.4	83.6	64.1	56.0	63.5	63.8	44.9	64.8
EBITDA	3.2	8.1	3.7	7.9	7.7	8.1	6.4	2.6
EBITDA margin (in percent)	3.3	9.6	5.8	14.1	12.2	12.7	14.3	4.0
EBIT	0.2	5.1	1.4	5.7	5.6	5.9	4.1	-0.2
EBIT margin (in percent)	0.2	6.1	2.2	10.0	8.8	9.3	9.0	-0.3
Net result	-0.3	3.4	0.7	3.9	3.7	4.1	2.5	-1.4
Earnings per share (in EUR)	-0.06	0.66	0.13	0.75	0.73	0.79	0.49	-0.27

AT A GLANCE 2016 | 2015



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EVENTS 2017

28 April 2017	Publication of the annual figures for the 2016 financial year
17 May 2017	Publication of the 2016 annual financial statements
28 June 2017	Annual General Meeting of HWA AG in Affalterbach
29 September 2017	Publication of the 2017 half-year report

LETTER TO THE SHAREHOLDERS

Letter to the Shareholders,

In April 2017, HWA AG looked back on 10 years on the stock market. In the 2006 financial year, we generated over EUR 57 million in sales. Ten years later, we reported almost EUR 100 million in sales for the 2016 financial year. HWA AG has developed significantly within this period. The jump in sales was entirely organic, which is all the more remarkable as our motor racing business area is shaped primarily by the DTM. As a result, it is very difficult to achieve growth in this segment. Our vehicles and vehicle components segment originated in 2006 and has developed very positively over this 10-year period. In this area, we are operating in an interesting growth environment that is nonetheless highly competitive as well. This segment is based on the close collaboration with Mercedes-AMG GmbH in customer sports. Following the successful collaboration on the Mercedes-Benz SLS AMG GT3 project, the Mercedes-AMG GT3 was delivered at the end of 2015. In 2016, the vehicles and vehicle components segment posted strong growth that was attributable to the Mercedes-AMG GT3 project. In the area of customer sports, the collaboration with Mercedes-AMG also resulted in further proceeds from the spare parts and service business. We still consider the customer sports business to be attractive. Our goal must be to expand our customer structure in the vehicles and vehicle components segment. We succeeded in doing so in 2016 and expect to continue making progress in 2017.

However, growth in recent years, structural changes to the DTM and fierce competition impeded our progress in 2016, which certainly had a negative impact. In other words, earnings failed to develop as well as sales. Our result for 2016 is disappointing. We were not able to meet our high expectations for 2016 after a good year in 2015. This was neither the case in sports after winning two DTM championship titles in 2015 nor in the income statement. It is hardly any consolation that we achieved record sales in 2016. We would have preferred to achieve a pleasing result. The company's earnings performance in 2016 called for an assessment of HWA AG's internal business processes in December 2016, resulting in the need for structural changes to be made.

In the motor racing segment – which mainly involves the DTM – all three manufacturers represented have strived to reduce costs for years and make this racing series more attractive despite a smaller budget. This is going well although this means that we, as a service provider, are not able to increase sales in this series due to necessary changes to regulations.



Ulrich Fritz
(CEO)



Michael Wilson
(CTO)

In 2017, sales in the motor racing segment will decrease in line with planning. As various cost and performance parameters no longer apply to us, the impact on this segment's result is likely to remain contained. In addition, good planning for the entire process in the DTM was possible in 2016. As a result, our weaker operating performance recently is not attributable to motor racing but rather the vehicles and vehicle components segment. This is precisely the segment that has generated favourable growth for us in recent years. 2016 would have been an even better year for this segment if planned projects for this year had been completed. At the same time, we were negatively affected by an overly high level of vertical integration in this segment.

The results of our internal assessment of all business processes led to the disappointing conclusion that our cost structure is uncompetitive and that a programme to optimise and realign individual areas is necessary as a result. The reorganisation concept also involves a significant reduction of internal capacity and employment options and a focus on the core competencies of development services, the use, testing and construction of racing vehicles, after sales and support services. The programme was initiated in 2016 and will be implemented in 2017. The cuts are painful but necessary.

Our figures for 2016 as a whole were as follows – in the 2016 financial year, HWA AG generated sales of EUR 97.4 million and achieved an adjusted EBIT margin of around 2% or roughly EUR 2 million. Our forecast was based on an EBIT margin of between 4% and 6%. Reported EBIT was EUR 0.2 million, and provisions totalling EUR 1.8 million are included in this amount. These provisions are attributable to the reorganisation and were recognised in 2016. As a result of this negative one-time effect, HWA AG closed 2016 with a net loss for the year of EUR 0.3 million. This negative result also has disappointing consequences for all shareholders. We will not propose a dividend to the Annual General Meeting due to this negative result. Although our net retained profits would have certainly allowed for a dividend to be paid, we would like to point out to our valued shareholders that we believe that a payment as a matter of principle would send out the wrong message. We are happy to pay out a dividend if this has been earned based on results. We have not always paid dividends continuously but have certainly been generous in this respect over the last 10 years.

Of course, HWA AG's top priority for 2017 is to return to profitability. Sales growth has been the focus in recent years. Now we are initially focusing on the development of margins and the implementation of the optimisation and realignment concept. We expect sales to be between EUR 80 million and EUR 85 million in the current year. This decline is due to an anticipated decrease in sales in the motor racing segment. Sales in the vehicles/vehicle component segment will stabilise to a high level after strong growth in the last two years. We expect an EBIT margin of at least 2.5% in 2017. But of course, the conditions need to be right. The political and, to some extent, the economic environment can certainly be regarded as turbulent. And as long as we do not see any disturbances here, we are confident that we will develop positively.

We believe that we are well equipped in the area of motor and customer sports, even in a persistently and intensively competitive environment, in order to assert and further expand our market position in the long term as a partner for our customers operating in the automotive sector and motorsports activity providers. 2017 will be an interesting year, with many exciting developments, structural changes and economic challenges that will also open up opportunities.

Together with the entire team at HWA AG, we are ready for what lies ahead!

Yours,



Ulrich Fritz



Michael Wilson

REPORT OF THE SUPERVISORY BOARD



Dear shareholders,

The Supervisory Board performed the review and monitoring activities incumbent upon it under the law and the Company's articles of incorporation with great diligence in 2016. During the past year, we advised the Management Board on the management of the Company's affairs on an ongoing basis and kept the management and performance of the Company under close review. The Supervisory Board was directly and promptly involved in all decisions of fundamental importance to the well-being of the Company, or wherever statutory provisions or the articles of incorporation called for such involvement. The Management Board informed the Supervisory Board regularly, thoroughly and promptly, in written and oral reports, about the Company's economic development, significant transactions and the earnings and liquidity situation, including 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 also maintained their contacts with the Management Board outside formal meetings, keeping themselves informed about ongoing business development and significant business events and providing support and advice where needed.

The Supervisory Board diligently monitored the Management Board's governance and confirms that the latter acted legally, properly and economically in every respect.

Meetings of the Supervisory Board

During the financial year 2016, the Supervisory Board met four times in the performance of its duties. In these meetings, the current state of the Company's affairs was discussed with the Management Board and explained in detail. The meetings took place on 22 March, 23 June, 13 October and 20 December 2016. All Supervisory Board meetings were attended by all members, with the exception of two meetings, at which for good reasons one member or two members were unable to be present. The Supervisory Board's meetings were all held at the Company's headquarters in Affalterbach. Mr Wilson was appointed as a Management Board member in September 2016 by way of circulation.

The Supervisory Board's financial statements meeting also took place on 22 March 2016. The Supervisory Board approved the annual financial statements of HWA AG for the year 2015 after a detailed review based on consultations and prior talks and reviews. The statutory auditor participated in the financial statements meeting.

The Management Board also 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 detail in the Supervisory Board meetings.

Major topics of discussion during last year included:

- The review of the planning, budget and investments for 2016
- Sporting developments and the status in the DTM in 2016
- The liquidity situation, liquidity planning and risk and opportunity management
- The financing structure of HWA AG
- The establishment of a subsidiary in the USA
- The progress of the various projects in motor racing and vehicles/vehicle components, in particular the production of the Mercedes-AMG GT3, and new projects
- The development of the Formula 3 and GT series
- The appointment of an additional Management Board member
- The diversification of the customer structure and the Company's future strategy
- The consequences based on the business performance in 2016
- The measures to reorganise HWA AG and their effects
- The effects of the changes in DTM regulations for HWA AG starting from 2017
- Future development and the budget for 2017.

Membership of the Management and Supervisory Boards

In the 2016 financial year, the Supervisory Board of HWA AG expanded the Management Board and appointed Michael Wilson as a new Management Board member with effect from 1 October 2016. In his role as CTO, he is responsible for all technical aspects at HWA AG. The previous sole director Ulrich Fritz was made Chief Executive Officer (CEO).

As at the end of the 2016 financial year, the Management Board of HWA AG consisted of the following members:

- Ulrich Fritz, Chief Executive Officer (CEO)
- Michael Wilson, Chief Technology Officer (CTO)

Under the Company's articles of incorporation, the Supervisory Board consists of six members. As at the end of the 2016 reporting year, the Supervisory Board was made up of the following persons:

- Hans Werner Aufrecht, Chairman
- Willibald Dörflinger, Deputy Chairman
- Gert-Jan Bruggink
- Rolf Krissler
- Michael Schmieder
- Hussain Ahmad Al Siddiqi

There were no changes to the Supervisory Board in the whole of 2016. All the above members of the Supervisory Board were elected for a new period in office at the Annual General Meeting in June 2015.

Annual financial statements and audit

By resolution of the Annual General Meeting of 23 June 2016, Treuhand Südwest GmbH Wirtschaftsprüfungsgesellschaft und Steuerberatungsgesellschaft, Karlsruhe, was appointed as statutory auditor of the Company's annual financial statements for the 2016 financial year. The statutory auditor audited the annual financial statements and the management report prepared by the Management Board and issued an unqualified audit opinion.

The annual financial statements and management report were laid before the members of the Supervisory Board in due time. They 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, and was available to answer further questions from the Supervisory Board. The Supervisory Board reviewed the statutory auditor's findings in detail and approved the auditor's opinion. On the basis of its review, the Supervisory Board had no grounds for objection to the annual financial statements. It approved the annual financial statements for the 2016 financial year on 21 March 2017. The annual financial statements for 2016 were thereby formally adopted. After in-depth discussions, the Supervisory Board approved the Management Board's proposal not to pay a dividend but instead to carry forward the net retained profits for 2016 to new account.

Supervisory Board's thanks

The Supervisory Board would like to express its thanks and appreciation to the Management Board and particularly all the Company's staff for their personal commitment and the work they have performed. The Supervisory Board thanks the shareholders of HWA AG for their trust in the Supervisory Board and in the Company as a whole.

For the Supervisory Board



Hans Werner Aufrecht
Chairman of the Supervisory Board

Affalterbach, May 2017



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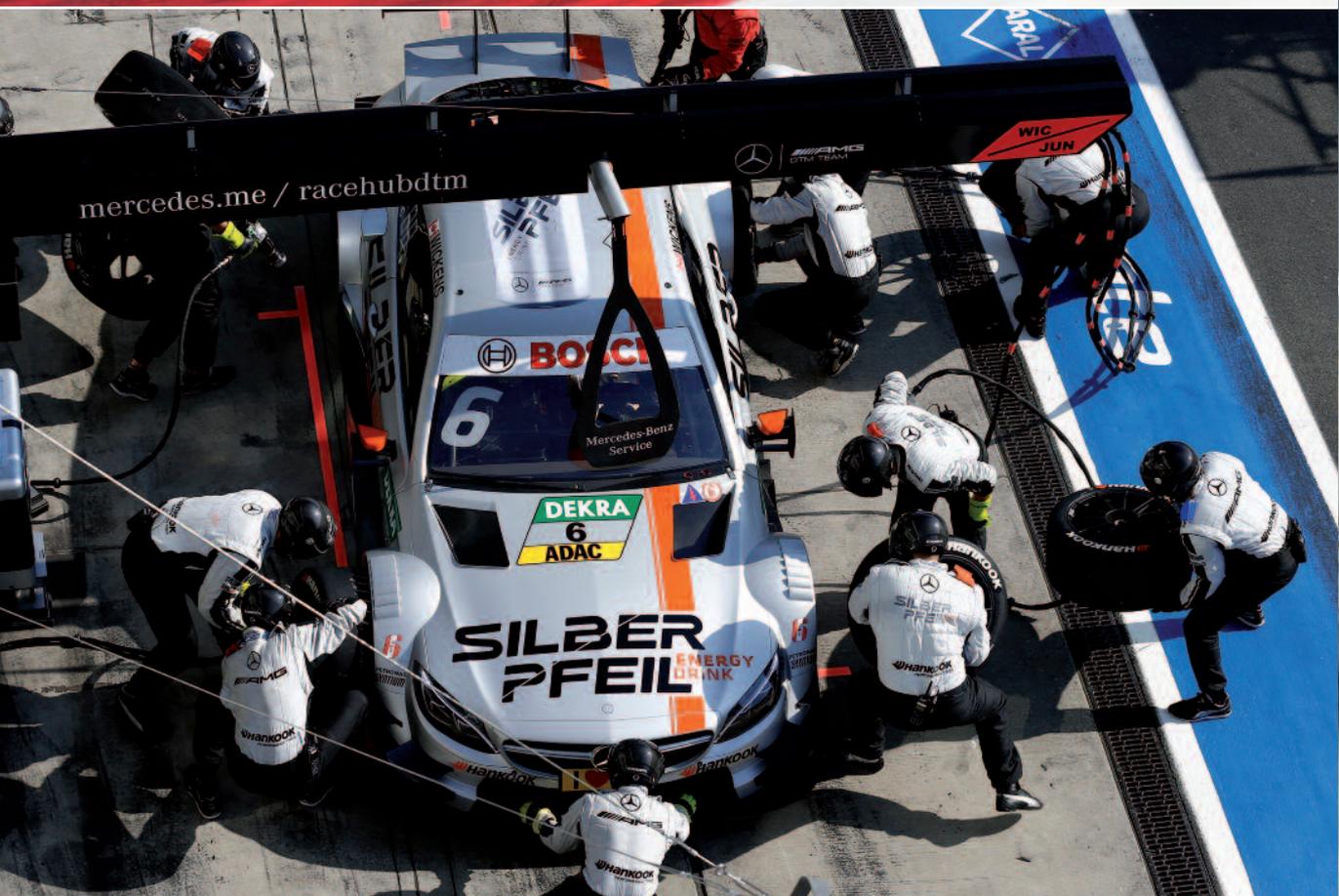
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BEST WATER TECHNOLOGY

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THE HWA AG SHARE

In 2016, stock markets were shaped by a challenging capital market environment, particularly affecting investors in Germany and Europe. Germany's stock index, the DAX, started trading at 10,486 points and remained significantly below the record 12,000-point mark achieved in 2015 over the year as a whole. In the first half of the year, the German stock market saw a declining share price performance due to weak economic data and an ongoing drop in oil prices. International stock markets, with the exception of the US and emerging economies, were also shaped by high volatility. In the third quarter of 2016, key factors influencing stock markets improved again and the fears of a renewed recession that had emerged at the beginning of the year faded. Data from Germany was particularly positive. In addition to economic conditions, corporate profits were also surprisingly positive on the whole. With a strong fourth quarter, investors saw a positive end to trading in 2016. The DAX's year-end level of 11,481 points represented an 11.7% increase compared to the previous year. Germany's mid-cap index, the MDAX, rose by 9.5% in 2016. The SDAX, Germany's small-cap index, increased by as much as 6.5%, while the TecDAX, Germany's technology index, rose by 1.0%. The Entry All Share index, in which the HWA AG share was also quoted until the beginning of March 2017, posted a rise of 16.4%, the best performance in 2016.

The HWA share did not manage to keep up with the price increases of the German indices in the 2016 financial year. HWA AG stock posted a price decrease of 12.4% in the year under review. On 4 January 2016, the HWA AG share opened the trading year at a price of EUR 16.01. The HWA share marked its high for the year of EUR 16.05 on 14 March 2016. Its lowest level of EUR 12.96 was recorded on 11 August 2016. Its price at the end of the year was EUR 14.02 (all information is based on XETRA prices).

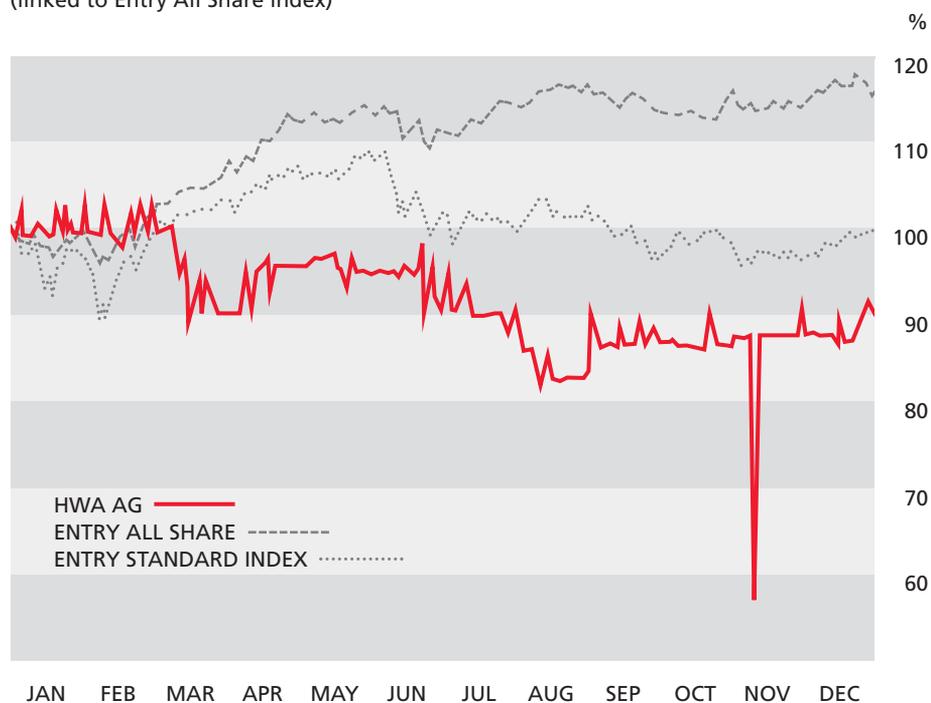
The average daily trading volume of the HWA share (XETRA and floor trading in Frankfurt) was 942 shares on 255 trading days in 2016 (previous year: 1,297 shares). The share price performance in 2016 resulted in correspondingly lower market capitalisation of around EUR 72 million at the end of the year based on 5,115,000 shares (2015: EUR 82 million).

After the end of the reporting period, HWA AG switched to the Open Market's Basic Board segment at the start of March 2017 when the former Entry Standard was discontinued by the German Stock Exchange (Deutsche Börse).

HWA AG share at a glance

Securities identification number (WKN)	A0LR4P
ISIN	DE000A0LR4P1
Stock exchange symbol	H9W
Trading segment	Basic Board (part of Open Market) on Frankfurt Stock Exchange
Share type	Ordinary no par value bearer shares
Authorised capital	EUR 5,115,000.00
Shares in issue	5.115 million
Initial listing	19 April 2007
Listing price	EUR 25.13
Designated sponsor	Oddo Seydler Bank AG

Share price performance in 2016 – XETRA (linked to Entry All Share index)



Investor Relations/Press

The HWA AG share is included in the Basic Board segment of the Open Market on the Frankfurt Stock Exchange. Transparent communication with the capital market is given particularly high priority at HWA AG. In line with the statutory and stock exchange reporting requirements, HWA AG promptly informed institutional investors, financial analysts and private investors about the current business performance and relevant events. We were regularly available to interested shareholders in individual discussions and teleconferences. Oddo Seydler Bank AG has been HWA's designated sponsor since 2008 and secures an adequate level of liquidity and the tradeability of the HWA share by quoting binding bid and ask prices.

In the past year, the key events in the corporate calendar once again included the Ninth Annual General Meeting of HWA AG in Affalterbach on 23 June 2016. The Annual General Meeting is also an important forum for maintaining contact with our shareholders.

In addition, the company's website (hwaag.com) provides shareholders and other interested capital market participants with all relevant information about the HWA AG share. This includes press releases, half-year reports and annual reports. The Investor Relations section is an important platform for communicating with shareholders and the capital market.

Annual General Meeting 2016

The ninth Annual General Meeting of HWA AG since the initial stock market listing in 2007 took place on 23 June 2016. Around 65 shareholders attended this event at the Residenzclub in Affalterbach. Of the company's total share capital of EUR 5,115,000 – split into 5,115,000 shares – roughly 4.9 million shares or around 95% of the share capital were represented. We are very pleased with the interest shown by shareholders, especially the smaller ones.

Specifically, a resolution was passed on the appropriation of the net retained profits for the 2015 financial year (agenda item 2). In this regard, the management had proposed the distribution of a dividend of EUR 0.33 per share. In addition, resolutions were passed in relation to approving the actions of the Management Board (agenda item 3) and the Supervisory Board (agenda item 4) and the appointment of Treuhand Südwest GmbH Wirtschaftsprüfungsgesellschaft und Steuerberatungsgesellschaft, Karlsruhe, as the auditor for the 2016 financial year (agenda item 5). The resolutions were all adopted as proposed by the management.

Financial calendar 2017

28 April 2017	Publication of the annual figures for the 2016 financial year
17 May 2017	Publication of the 2016 annual financial statements
28 June 2017	Annual General Meeting of HWA AG in Affalterbach
29 September 2017	Publication of the 2017 half-year report

Shareholder structure



Note: Due to its listing in the Basic Board, HWA AG is not required to disclose information on its shareholder structure and receives information on the shareholdings of the corresponding shareholders on a voluntary basis only. Thus, this information is not verified.

HWA AG's shareholder structure did not change in 2016. The company's founder and Chairman of the Supervisory Board, Hans Werner Aufrecht, and his family hold an equity interest in HWA AG of around 40%. The shareholdings of Dörflinger Privatstiftung, which is represented by the Deputy Chairman of the Supervisory Board Willibald Dörflinger, and of Nasser Bin Khaled (NBK) Holding, also represented on the Supervisory Board, were unchanged as at the end of December 2016. Together, these three shareholders hold roughly 85% of HWA AG's share capital.

Dividend in 2016

Based on HWA AG's dividend policy of paying out around 50% of the annual profit to the company's shareholders, the Management Board and the Supervisory Board of HWA AG have decided not to propose any dividend to the Annual General Meeting for 2016 and thus to suspend the dividend payment, as the result for 2016 was negative. HWA AG's goal is to resume dividend payments for 2017.

HWA AG – THE COMPANY

Passion for motor racing, top performance and determination to win – that is the philosophy of HWA AG. The Company has been active in international motorsports for nearly five decades and is one of the most successful teams of all time. Characterised by fierce duels against established opponents on legendary racetracks, HWA AG bundles its expertise for further victories. As a sought-after development partner, HWA AG is also positioning itself in international competition for the future.

Founded towards the end of 1998 by Hans Werner Aufrecht, H.W.A. GmbH started business in 1999. On 4 December 2006, it underwent a change of legal form. It was converted into a public limited company with the entry in the commercial register by the Stuttgart Local Court. Since 15 December 2006, the Company has operated as “HWA AG”. In April 2007, HWA AG was floated on the stock market.

The origins of HWA AG go back to AMG Motoren- und Entwicklungsgesellschaft mbh, founded in 1967 by Hans Werner Aufrecht. At the end of 1998, Aufrecht sold a majority interest in the company to Daimler AG, which gave rise to the customisation specialist Mercedes-AMG GmbH. AMG stands as one of the pioneers in this business. As part of this transaction, the motor racing business unit was spun off. It included today’s Mercedes-AMG DTM team and parts of the vehicles and vehicle components unit. Both were transferred to HWA AG. With the foundation of the Company, around 80 employees were taken over from Mercedes-AMG GmbH. Today, HWA AG focuses on the development and production of high technology for racing and passenger cars. The Company is active in two business areas: as a complete service provider to the motor racing business, and as a development partner for vehicles and vehicle components for the premium segment of the automotive market.

Alongside DTM, motorsports at the highest level also determines day-to-day business: HWA AG’s other area of expertise is in the development, manufacture and servicing of Formula 3 racing engines. The racing version of the Mercedes-Benz SLS AMG was also developed and produced by HWA AG – in close cooperation with Mercedes-AMG. 100 SLS AMG GT3 vehicles have been produced so far, securing over 240 victories to date. In 2016, the racing version of the Mercedes-AMG GT, which was developed from the ground up, marked a new era for the Mercedes-AMG Motorsport customer sports programme. Around 70 Mercedes-AMG GT3 vehicles were produced in the first year alone, resulting in success around the world. This includes the quadruple victory at the 24-hour race at the Nürburgring Nordschleife, which was certainly exceptional.

Motor racing

The motor racing business is dominated by participation in the German Touring Car Masters (DTM) racing series. HWA AG runs the official racing team for Mercedes-AMG Motorsport in the DTM as “Mercedes-AMG Motorsport DTM Team”. The portfolio covers all racing operation activities – from the development and construction of the race cars, including the engines, to

preparation for and participation in the races. HWA AG is also responsible for supporting and choosing the drivers. The Company works closely with Daimler AG in marketing the brand and all the vehicles and gaining sponsors.

In the reporting period, there were 18 DTM races in five countries. In 2016, the Mercedes-AMG Motorsport DTM team was not able to match the success achieved in the previous year after winning the championship title and reaching the top spot in the team rankings. Paul Di Resta was successful at the start of the season in Hockenheim, taking first place in one race. Lucas Auer was victorious in a race in Lusatia. Robert Wickens won races in both Zandvoort and Moscow. The Mercedes-AMG Motorsport season ended with the 18th race of the season on 16 October 2016. The team started the 2017 season on 17 October 2016.

The DTM is the core market of HWA AG. Overall, the Company operates successfully there in collaboration with Mercedes-AMG Motorsport. In total, the brand with the star has been the winner in more than 170 DTM races since 1988. The HWA team succeeded in winning a total of eleven driver titles, nine brand titles and 14 team titles for Mercedes-AMG Motorsport. This impressive record puts Mercedes-AMG Motorsport and HWA ahead of every other manufacturer and team in over 30 years of DTM history.

Outlook – Motor racing

In the 2017 DTM season, Mercedes-AMG Motorsport started with six Mercedes-AMG C 63 DTM race cars. The Mercedes-Benz DTM pilots for 2017 include Gary Paffet, Paul Di Resta, Robert Wickens, Lucas Auer and two new additions to the team: Edoardo Mortara, DTM Vice-Champion of 2016, and Maro Engel, who was already part of the team between 2008 and 2011.

2017 DTM motor racing calendar

5 to 7	May	2017	(D)	Hockenheimring Baden-Württemberg
19 to 21	May	2017	(D)	Lausitzring
16 to 18	June	2017	(H)	Budapest
30 to 02	June / July	2017	(D)	Norising
21 to 23	July	2017	(RU)	Moscow Raceway
18 to 20	August	2017	(NL)	Zandvoort
8 to 10	September	2017	(D)	Nürburgring
22 to 24	September	2017	(A)	Spielberg
13 to 15	October	2017	(D)	Hockenheimring Baden-Württemberg

The DTM is traditionally marked by exciting battles for position and close time differences. In total, 18 race touring cars from Mercedes-AMG, Audi and BMW are competing in the popular touring car series. The high-performance density guarantees a gripping race. The 2017 DTM season includes nine racing weekends. It traditionally starts and ends at the Hockenheimring Baden-Württemberg, Germany. Five of the racing weekends are taking place in Germany, with four guest appearances for DTM abroad – in Austria, the Netherlands, Russia and Hungary. Two races are held each racing weekend, one on Saturday and one on Sunday. The races on Saturday and Sunday are the same length (55 minutes plus one lap) and each include a qualifying session (20 minutes) and a pit stop.

HWA AG has also developed an outstanding reputation in the motor racing business for the development and production of racing engines for Formula 3. The first Mercedes-Benz Formula 3 engine was used back in 2002. Between 2003 and 2012, drivers with Mercedes-Benz engines won seven out of a possible nine driver titles in the Formula 3 European series. In the current FIA Formula 3 European championship, which has been ongoing since 2013, all titles to date have gone to drivers and teams using cars powered by the Mercedes-AMG Formula 3 engine.

The current F3 414 engine developed by HWA AG for Mercedes-Benz is a pure racing engine with four cylinders, maximum displacement of two litres and direct fuel injection; it delivers well over 200 horsepower. With the “PREMA Powerteam”, Mercedes-Benz won the FIA Formula 3 European championship three times in a row with Esteban Ocon (2014), Felix Rosenqvist (2015) and Lance Stroll (2016). Stroll switched to Formula 1 after successfully winning the FIA Formula 3 European championship in 2017. HWA AG’s Formula 3 winning streak is, therefore, continuing unabated. Ultimately, no other manufacturer can boast of more titles, victories, pole positions and fastest laps than Mercedes-Benz with the Formula 3 engines developed by HWA.

Vehicles and vehicle components

A series of victories and almost five decades of motor racing at the highest level – HWA AG also applies its extensive expertise profitably in the vehicles and vehicle components business. Highly specialised development contracts for customers from the automotive industry are another strength of the Company. With its expertise, HWA AG is a much sought-after partner for premium suppliers in the industry. In the past, HWA AG has developed and produced top-class sports cars for series production such as the Mercedes-Benz CLK-GTR, the CLK DTM AMG and the SL 65 AMG Black series. Since the end of 2010, when the Company first entered the AMG customer sports segment, more than 100 Mercedes-Benz SLS AMG GT3 cars have been delivered all over the world. In close cooperation with Mercedes-AMG GmbH, HWA AG drove forward the development of the Mercedes-AMG GT3 follow-up project in 2015. The first race cars were delivered to customer teams at the end of 2015. At the first long-distance race of the 2016 season in Dubai, the V8 race car from Affalterbach took second place. However, the highlight of 2016 was the historic quadruple victory for the new Mercedes-AMG GT3 at the 24-hour race at the Nürburgring. At the 44th ADAC Zurich 24-hour race at the Nürburgring, Mercedes-AMG GT3 teams grabbed the first four places and took the sixth place too. This speaks for the quality of the vehicle and the development expertise of HWA AG.

Outlook – Vehicles and vehicle components

The intensive AMG customer sports commitment also forms the focus for the vehicle and vehicle components business in 2017. The production and delivery of more Mercedes-AMG GT3 cars will have a positive impact on the development of this segment. AMG customer teams will compete with the GT3 vehicle in various racing series around the world in 2017 as well. The global parts supply ensures an optimum and reliable service. The successful collaboration with Mercedes-AMG GmbH is to be continued. The Mercedes-AMG Motorsport programme is expanding with the Mercedes-AMG GT4. Interest in GT4 race cars is constantly increasing, and an even larger target group of amateur and professional drivers and teams can be reached as a result. HWA AG is thus excellently positioned in customer sports and well equipped for the coming years. HWA AG has set itself the goal of enhancing the diversity of its project structure in vehicles/vehicle components with new customers. In 2016, development projects were also acquired and are being continued in 2017.





The Green Hell

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MANAGEMENT REPORT

1. Legal and economic position of the company in 2016

HWA AG was founded under the name of H.W.A. GmbH in 1998. The company became an "AG" (joint stock corporation) in 2006. The shares of HWA AG have been traded on the Frankfurt securities exchange since 19 April 2007 in the Open Market segment. The company operates in Germany as an individual company. In 2016, HWA US Inc. was established in the State of Delaware in the USA. HWA AG holds 100% of the shares directly.

In the two areas of business in which HWA AG operates, Motor Racing and Vehicles/Vehicle Components, high-performance technological products are developed, constructed and produced.

The main focus of activity of the Motor Racing division is participation in the Deutsche Tourenwagen Masters (DTM) motor racing series. HWA AG appears under the name of "Mercedes-AMG DTM Team" and undertakes the complete development, construction, assembly and deployment of the racing vehicles on behalf of Daimler AG. The wide range of services offered also includes recruiting and looking after the racing drivers. In addition to the development and production of racing vehicles and components, the range of services offered by the company also includes the development and production of DTM and Formula 3 (racing) engines.

The focus of the second business area, Vehicles/Vehicle Components, is on the provision of development, production and after sales services for the automobile industry. As a highly specialized service provider, HWA AG fulfils development and production orders for various customers using its expertise in the field of motorsports. Furthermore, HWA AG provides spare parts and engineering services for worldwide customers.

2. Economic environment

In 2016, with a real increase of around 2.5%, the world economy achieved the lowest rate of growth since the financial crisis in 2009. This was due not only to the continued disappointing economic development in threshold countries, as in the previous year, but also to a noticeable slowing of growth in the industrialised nations. The uncertainties associated with geopolitical developments proved to be a particular stress factor, whether it was the outcome of the British referendum ("Brexit"), the attempted putsch in Turkey or the continuing conflicts in Syria and the Ukraine. After the weakest start to the year in decades, the global share markets were able to recover over the rest of the year, although they continued to be volatile. Raw material prices also rose slightly again after an initial continued downward trend.

In the generally very tense world economic environment, the national economies of the industrialised nations, with a growth rate of around 1.5%, were unable to continue the dynamism of the previous year (2.2%). This also applies for the US economic, which, with an overall increase of 1.6%, remained well below the growth rates of the previous years. However, private consumption remained relatively solid, while corporate investment stagnated.

Within the industrialised nations, only the economy of the European Currency Union was able to develop in line with its potential, with GDP of around 1.5%, thus showing considerable resistance despite the continuing political risks. With continued unusually low rates of inflation and a hesitant recovery of credit activities, however, the European Central Bank supported economic development by once again expanding its already very expansive measures.

The economic development of the threshold countries, which at around 3.5% only grew a little faster than in the year of the financial crisis, was once again disappointing. In particular, the very unfavourable economic situation in South America, Russia and the Middle East was a contributory factor here. Even if raw material prices recovered slightly over the course of the year, the raw material exporting economies continued to suffer under the continued low price level. In contrast, the fears about the Chinese economy which had still been clearly expressed at the beginning of the year turned out to be unfounded; on the contrary: supported by fiscal and monetary policy measures, the economic situation improved and recorded a robust growth rate of 6.7%.

Economic growth in Germany accelerated clearly in the last quarter of 2016. Both internal and external factors played a part here. The export of goods by German companies, for example, finally rose strongly. Combined with the very strong situation as regards incoming industrial orders, this produced a clear increase in industrial production. According to the provisional calculations of the Federal Statistics Office, real GDP in Germany in 2016 rose by 1.9%. This meant that the rise in overall economic output was slightly up on the previous year. This growth rate was 1.7% in the previous year. Overall, the German national economy was able to post a very successful year with the rate of growth achieved. Growth was driven by the very strong domestic demand. Private consumption benefited from the favourable employment market situation and the high increases in real disposable income due to the suppressed price increases. The rise in exports, however, was curbed by weak world trade. In particular, export activity on the part of German companies in non-member states outside the European Economic and Currency Union was restrained.

Automobile markets

Despite the weaker world economy, demand for passenger cars continued to develop positively in 2016. On the basis of the record level of the previous year, worldwide sales of cars rose by a good 5%. This relatively high figure, however, was characterised largely by strong market growth in China. Apart from China, developments in global demand were slightly mixed. The European market posted a clear rise, while the US market only increased minimally. Market developments in the major threshold countries continued to be inconsistent.

Demand for cars in Western Europe continued to develop satisfactorily. Despite increasing political uncertainty, the recovery continued with a rise of around 6%. Market increases were observed across the board here. Demand in the core markets of Germany and France continued to be very robust, with increases of 4.5% and approx. 5%. The British market is so far unaffected by the Brexit vote, reaching a growth rate of 2%. The highest increase of all the Western European volume markets was recorded by Italy, at 16%, although the starting level had been relatively low. The situation in the Russian car market, which shrank clearly once again, continued to be difficult, however.

Worldwide, a total of 83 million cars were sold in 2016. Of this, 23.7 million units were sold in China, 17.5 million units in the USA and around 14 million in Western Europe.

Last year, nearly 3.4 million cars were registered for the first time in Germany, compared with 3.2 million the previous year. The Mercedes brand, for example, recorded a high increase in sales in Germany. Mercedes posted a growth of 8.5% and sold over 310,000 units in total.

3. Development of business and profit situation

In 2016, HWA AG sales revenues totalled EUR 97.4 million, which was well above the previous year's level of EUR 83.6 million. Of this figure, EUR 82.0 million (previous year: EUR 70.8 million) was posted in Germany and EUR 15.4 million (previous year: EUR 12.8 million) abroad. The increase in sales revenues came mainly from the Vehicles/Vehicle Components division. In particular, delivery of the Mercedes-AMG GT3 project contributed positively to the rise in sales revenues. In parallel, HWA AG posted sales revenues with projects which were realised with new customers.

Other operating revenues reached EUR 1.1 million, including mainly revenues from currency gains and the release of value adjustments on receivables.

It total, for the year 2016, the overall performance recorded was EUR 100.4 million after EUR 83.6 million in the previous year.

Material expenditure rose by over 50 percent compared with the previous year, from EUR 35.2 million to EUR 53.5 million. This was largely due to expenditure for the manufacture of the Mercedes-AMG GT3 and projects with other customers, along with slightly higher deployment costs in the DTM. The relative share of material expenditure in relation to overall business performance rose considerably from 42.2% to 53.3%. This is essential due to the extent of the production and replacement parts supply for the Mercedes-AMG GT 3.

Because of the clear increase in sales revenues posted by HWA AG in recent years, personnel costs rose again. They increased in the reporting period by 5.4%, from EUR 24 million to EUR 25.3 million. However, the rise in personnel costs was proportionately lower than the increase in sales revenues. The increased staffing level was essentially primarily due to increased units of development projects.

Other operating expenditure increased in the reporting period compared with the previous year from EUR 16.2 million to EUR 18.4 million. This increase is essentially due to the formation of a restructuring reserve in the sum of EUR 1.8 million.

Currency losses and gains resulted from fluctuations in exchange rates due to the UK's announcement that it would be leaving the European Union.

In 2016, HWA AG achieved an EBIT of EUR 0.2 million after EUR 5.1 million in the previous year. The EBIT margin was thus 0.2%. The company had forecast an EBIT margin of between 4 and 6% for 2016, with rising sales revenues. The increase in sales revenues was achieved.

However, the EBIT margin was below the forecast. The reasons for this lay primarily in the Vehicles/Vehicle Components Division. In this segment, it had proved impossible to fully process projects planned for 2016, as these were postponed to 2017. In addition, a higher costs structure in the production was also a burden. In the 2016 financial year, the Management Board of HWA AG also approved a programme for the optimisation and refocussing of individual business areas. The concept centres on the increased focussing of the company's activities on core competences, which the Management Board has defined as lying in the areas of development services, the deployment, testing and assembly of racing vehicles plus after-sales and servicing in motorsports and customer sports. The reorganisation concept will lead primarily to a clear reduction in manufacturing depth and to the reduction of internal capacities in some areas which will be outsourced in the future. Within the scope of the programme, which is being implemented in 2017, the number of employees will be reduced by approx. 10 to 15 percent.

At HWA AG, EBIT (earnings before interest and taxes) is taken as the measure of operating results and performance. The EBIT is calculated as follows:

Profit and loss account

million euro (rounded off)	2016	2015
Sales revenues	97.4	83.6
Stock changes	1.8	-2.6
Other operating revenues	1.1	2.6
Overall performance	100.4	83.6
Material used	53.5	35.2
Staff costs	25.3	24.0
Depreciation	3.0	3.0
Sonstige betriebliche Aufwendungen	18.3	16.2
EBIT	0.2	5.1
EBIT in %	0.2	6.1

If this is adjusted for the one-off effect of the restructuring concept for which a reserve in the sum of EUR 1.8 million was formed, the EBIT is calculated at EUR 2.0 million. The EBIT margin adjusted in this way was thus 2.0% for the year 2016.

The financial result for the 2016 financial year rose from minus EUR 0.4 million to minus EUR 0.6 million due to the increased loan obligations.

Seen overall, this leaves a result for the year 2016 of minus EUR 0.3 million in comparison with plus EUR 3.4 million in 2015.

4. Asset and financial situation

In the 2016 financial year, capital assets fell slightly from EUR 25.9 million to EUR 24.6 million. Liquid assets rose strongly, from EUR 28.3 million to EUR 46.2 million. This high rise is due to increased stocks, increased receivables and other asset items. The rise in stocks is due primarily to the production and expansion of the replacement parts supply for the Mercedes-AMG GT3, which started in December 2015 and has been delivered to the customer since 2016.

Trade receivables rose due to reporting date factors.

In the financial year, reserves increased from EUR 3.8 million to EUR 7.6 million. The main items under reserves are, for example, tax reserves, personnel reserves, reserves for warranties and corresponding reserves for the costs of restructuring.

Liabilities rose considerably from EUR 23.3 million in 2015 to EUR 39.0 million. The largest item under liabilities is the loans. As at the end of December 2016, these stand at EUR 27.8 million after EUR 17.3 million in the previous year. The increase in bank loans is due to the clear increase in liquid assets. Trade payables rose from EUR 4.9 to EUR 6.7 million. The increase is due to the production and market launch of the Mercedes-AMG GT3.

The balance sheet total rose considerably in comparison with the previous year from EUR 54.7 million to EUR 72.2 million. The proportion of fixed assets fell as a result of this from 47.3 to 34.0 percent. In contrast, the level of liquid assets rose as a proportion of the balance sheet total from 51.6 to 64.0 percent. The equity ratio fell due to the increased balance sheet total and higher level of debt from 50.5% to 35.5% as at December 2016. Equity fell because of the disbursements and the negative result for the year. In the 2016 financial year, equity fell slightly from EUR 27.6 million to EUR 25.7 million.

At the end of the 2016 financial year, HWA AG had financial funds totalling minus EUR 2.3 million compared with minus EUR 3.8 million the previous year. This improvement is essentially due to the company's increased borrowing level. In 2016, operating cashflow was negative, at minus EUR 2.2 million. The positive result and depreciation were more than offset by the built-up of stock for the production of the Mercedes-AMG GT3 and the increase in trade receivables due to reporting date factors. Cashflow from investment activity, at minus EUR 1.7 million, is negative. Disbursements refer essentially to expenditure for technical equipment and machinery and operating and business equipment. Cashflow from financing activity, at EUR 5.4 million, is positive. This is mainly due to the taking of long-term loans in the sum of EUR 10 million, reduced by the repayment of loans in the sum of EUR 2.3 million and the payment of dividends to shareholders in 2016 totally EUR 1.7 million.

5. Investments

In the past financial year, gross investments in the sum of KEUR 1,508 were made (previous year KEUR 3,388). The breakdown of investments is given in the following table:

Gross investments	KEUR
1. Intangible assets	386
2. Technical equipment and machinery	616
3. Other systems, operating and business equipment	461
4. Down-payments on fixed assets	45
	1,508

Investments relate to replacement investments in the area of technical equipment and machinery and operating and business equipment. In the area of intangible assets, investments were mainly made in the area of SAP. Beyond this, no significant individual investments were made in 2016. Investments in technical equipment and machinery totally KEUR 1,100 are planned for the year 2017.

HWA US Inc., based in Delaware, was founded in 2016 to provide local services at GT3 racing events and the sale of spare parts for Mercedes-AMG GT3 vehicles in the USA. HWA AG is the sole shareholder and the investments necessary for this totalled KEUR 240.

6. Employees

In the 2016 financial year, the average number of employees was 309 (previous year: 295) employees, including Management Board members:

- 161 white-collar employees
- 146 industrial employees
- 2 trainees/interns

7. Opportunities and risks

The overall economic situation in the most important economies in the world has a major influence on the sales markets of HWA AG and in particular the automobile market, where the greatest risks and opportunities for HWA AG lie. The worldwide automobile market is set to grow further in 2017. HWA AG shares the view of the majority of economic institutions, who assume that the world economy will not be able to move out of the slightly below-average growth corridor of 2.5 to 3.0 percent. Overall all, the economic risks and, in particular, the degree of uncertainty for the entire business landscape have slightly increased in comparison with the previous year. This includes the possible consequences of the UK's departure

from the EU, the elections in France, the parliamentary elections in Germany, developments in the USA due to the change in government and also, basically, the trouble spots in various regions all over the world combined with developments in the financial markets due to the long, expansive monetary policy. Further growth in the US economy will be partly determined by whether the measures announced in the election campaign are actually implemented. There are opportunities for increased growth in the US economy in 2017 through tax cuts and higher investments in infrastructure. However, in the short term, the risks will increase if trade restrictions are actually imposed. Further development in the USA generally has a significant influence on worldwide economic growth.

To be able to identify, analyse and evaluate potential risks as promptly as possible, HWA AG relies on a consistent information system that allows the management to implement effective strategies and measures at an early stage.

Daimler AG and its subsidiary company Mercedes-AMG GmbH are still the most important clients for HWA AG. The Daimler Group presented record figures for 2016 for volume sales, sales revenues and overall results. According to Daimler AG, it is expected that volume sales, sales revenues and operating results will continue to improve slightly in 2017. The outlook is thus positive. This is an important basis for further cooperation with Daimler AG and the continuation of motorsports activities within the automobile corporation in HWA's Motor Racing segment and for activities in the Vehicles/Vehicle Components division with Mercedes-AMG GmbH.

However, risks for HWA AG cannot be completely excluded. The continuation of motorsports activities ultimately depends on the strategic direction taken and the corresponding decisions on the part of Daimler AG. HWA AG has been working in close partnership with the Daimler Group for many years. The management of HWA AG is in regular contact with the decision makers there in order to be able to react promptly to decisions.

The largest individual project for HWA AG at the moment continues to be its involvement in the "Deutsche Tourenwagen Masters" (DTM) racing series. With the presence of the three premium manufacturers Audi, BMW and Mercedes-Benz, the platform itself continues to be attractive both for spectators and for the media and manufacturers. This is of considerable importance for the continuation of the DTM. To make the DTM even more attractive, two races per weekend, each with independent qualifying events, were already run in the 2015 racing season instead of just one. The concept proved successful and will be continued in 2017. One of the largest risks for HWA AG continues to be the complete termination of the DTM racing series. This could be the case, for example, if one of the manufacturers decides to end its involvement in the DTM. If this happens, only two manufacturers would be represented in the DTM, which could in turn have a negative effect on sponsor and media interest and thus on the overall appeal of the racing series. The DTM is an important and firmly established pillar of the motor racing activity of the Mercedes-Benz brand. At the moment, HWA AG currently feels that it is not very likely that the brand will pull out, although the risk of this happening cannot be completely excluded. One should not underestimate the fact that the racing series is under constant costs pressure and that cost savings on the part of manufacturers could have a lasting negative effect for HWA AG. Overall, the DTM regulations have continued to develop, which is leading to the standardisation of so-called standard components and restricted freedom in vehicle development. This will lead in turn to a budget reduction on the part of the customer and a fall in sales revenue for HWA AG.

As regards the lease and sale of Formula 3 engines, volume sales continue to depend largely on the financial resources of the individual teams. This area of motorsports also depends on external sponsors, who could be more restrained if the economy weakens. Opportunities are arising following the excellent performance to date of the Formula 3 engines in previous years, which has made HWA AG one of the market leaders in this field.

In the Vehicles/Vehicle Components sector, HWA AG is operating in an intense, densely populated competitive environment within the framework of its involvement in the GT3 segment. In addition, the market landscape has changed. Because of the high level of competition, this business is price-sensitive. The company is working at a high production depth, which is no longer appropriate for the current climate and no longer economically viable due to the changing framework conditions. Measures in this respect have already been introduced and should affect margins positively in the medium term.

Together with Mercedes-AMG GmbH, the company has become a firm fixture in the GT3 segment. Mercedes-AMG GmbH is a strong partner, which means that HWA AG has associated opportunities for further increasing its volume of business. Volume sales risks are likely to arise in 2017 due to a possible reduction in the current Mercedes-AMG GT3 project compared to the figures for 2016. The spare parts and service business for the entire HWA AG product range is set to develop positively again, because of the large number of motor racing vehicles in the market, which offers corresponding opportunities for HWA AG.

Opportunities are also arising for HWA AG from a potential project with Mercedes-AMG GmbH in the GT4 segment. The aim of this project is to continue the successful Mercedes-AMG GT3 series. The management also sees further opportunities in the assignment of projects which are independent of the Daimler Group and would lead to a diversification of our customer structure.

An exclusive racing car for racetrack use is currently being developed in cooperation with the design team of Pininfarina and the two-times Formula 1 world champion Emerson Fittipaldi. This will then be built by HWA AG in Affalterbach as a limited series.

8. Risk report on the use of financial instruments

In addition to the risks relating to sales volumes and revenues, financial risks also need to be considered. Trade receivables which were shown at the end of 2016 in the company's balance sheets are classified partly as slightly risky. Changes which could arise from exchange rates, interest rates or market prices represent a negligible to low-risk potential, because most of the company's business is transacted in euros.

Derivative financial instruments are used by HWA AG solely to hedge against risks to corresponding land transactions. Exchange rate risks arise essentially from purchases made in pounds sterling. The development of this exchange rate is permanently in focus so that the company can react to any exchange rate fluctuations and in order to hedge the risks with derivative financial instruments if necessary. As of 31 December 2016, there is no exchange rate hedging for purchases made in British pounds.

To protect the interest rate level, the company uses derivative financial instruments which are based on a swap business. Because this swap business forms a valuation unit with the Euribor loan, there is no accounting risk here.

The opportunities/risks profile has not materially changed over the previous year. The information system that has been implemented is considered to be a reliable way of identifying risks so that counter-measures can be introduced at an early stage. Overall, the opportunities/risks ratio is balanced.

9. Research and development

Across all its activities and business areas, HWA AG also has comprehensive resources at its disposal which are the precondition for the competitive development of racing vehicles, customer sports vehicles and vehicle assemblies and components. The use of the latest IT solutions in the simulation and design sector, for example, ensures that all developments are at the cutting edge of technology. The company also possesses the wide-ranging expertise and a broad spectrum of resources for developing electrics and electronics in racing and customer sports vehicles and vehicle components specifically, independently and individually tailored to the intended application. This covers both the creation and programming of corresponding control electronics and the simulation and evaluation of these items.

In order to be able to guarantee a corresponding level of service to customers operating globally in the customer sports sector, HWA AG has built up an excellent infrastructure that has worked superbly over the years which allows thorough testing and the maintenance of vehicles on the racetrack, in-house or directly on site.

Research and development will continue to be the focus of particular attention at HWA AG in the future too so that the company can continue to guarantee the high standard of its products and its resulting competitive advantage. Good planning and targeted investments in this area will underpin the idea.

10. Non-financial performance indicators

Within the area of employee development, a start had been made in 2014 on defining measures which would improve cooperation within HWA AG as a team. Implementation of these measures will probably be finished in 2017.

In line with the legal requirements, the company has a health and safety specialist who trains employees in the field of health and safety at work each year.

The quality management system is based on the process model described in the quality assurance standard ISO 9001-2008 and the statutory requirements. The audit carried out in 2016 was successfully completed.

Work started in mid-2015 on revising the ERP system so that processes within the company could be further optimised. This was taken into operation on 1 July 2016.

11. Course of business and probable development of the company

Overall, the 2016 financial year was below the level expected by the Management Board from the point of view of both sporting and financial success. From a sports viewpoint, it is HWA AG's goal to do better in the DTM in 2017 than in 2016. The aim is also that the adjusted level of earnings in 2017 should be at least stabilised, or preferably improved, in comparison with the previous year. The preconditions within the company have been created for this. The external background conditions are regarded as stable, although they are subject to higher risks than in the previous year.

In the DTM, in the 2015 season, the Mercedes-AMG DTM Team HWA succeeded in winning the DTM Drivers Championship with Pascal Wehrlein and the DTM Team Championship with the goooix/original parts Mercedes-AMG. HWA AG was unable to repeat this success in 2016. HWA was not among the winners in the DTM Drivers' Championship or in the team rankings.

Cooperation with Mercedes-AMG GmbH in their customer sports activities developed satisfactorily. The Mercedes-AMG customer sports team celebrated a large number of successes during 2016. At the 44th ADAC Zurich 24-hour Nürburgring race, the top four places and sixth place when to teams using the new Mercedes-AMG GT3. The new vehicle was appearing at this 24-hour race for the first time. This demonstrates the quality of the vehicle and the development expertise of HWA AG.

In addition, Lance Stroll won the FIA Formula 3 European Championship in 2016, following the success of HWA AG in gaining this title in 2015. HWA AG has had considerable success with its engines in this series for many years and has been a regular winner.

HWA AG had planned to increase its overall performance by 4 to 8 percent in 2016. Overall performance, in fact, increased by 20 percent. The difference upwards is essentially the result of slightly higher than planned sales revenues in the area of motor racing and from higher than expected sales revenues in the Vehicles/Vehicle Components divisions because of the high level of demand for the Mercedes-AMG GT3. However, the EBIT margin was well below the forecast bandwidth of four to six percent. This shortfall was essentially due to the postponement of higher-margin projects, restructuring measures and higher costs.

In the Motor Racing division (DTM), the volume of sales will fall considerably, according to plan, in 2017. The decrease will mainly be the result of cost cutbacks on the part of manufacturers for this series. All 3 manufacturers are making efforts to cut costs for the DTM which will clearly affect HWA AG's sales revenues for the first time in 2017. The planned decrease in sales revenues, however, will not be completely reflected in the profit contribution, since HWA AG has reacted appropriately to this development. The focus on costs, for example, can be seen in the fact that, in the 2017 series, six vehicles will be used in the DTM, compared with eight the previous year. HWA AG will be operating all six vehicles under its own control and, in contrast to previous years, will not be outsourcing the operation to any racing vehicles to external providers.

The engine leasing/sale business in Formula 3, which is also part of the Motor Racing segment, will probably develop steadily.

In the Vehicles/Vehicle Components division, sales revenues will stabilise at a high level after the clear increase in 2016. The production of the Mercedes-AMG GT3 will continue at a good level. The company is also planning to continue projects with other customers in this segment, and these will also have a positive effect on overall performance in 2017. In the spare parts and service business, as a result of the large number of vehicles now in the market, it is expected that sales will develop positively.

Essentially, the outlook for the year is positive. As regards overall performance, however, the company is predicting a decrease to the level of between EUR 80 and EUR 85 million. The main reason for this is the Motor Sports segment. In terms of the EBIT margin, HWA AG is being slightly more cautious in its calculations than in the previous year and conservatively predicting a level of at least 2.5%.

Affalterbach, 17th March 2017



Ulrich Fritz (CEO)



Michael Wilson (CTO)



ANNUAL FINANCIAL STATEMENT

Balance sheet as at 31 December 2016

ASSETS	31.12.2016			31.12.2015	
	EUR	EUR	EUR	KEUR	KEUR
A. Non-current assets					
I. Intangible assets					
1. IT software and licences	763,000.53			428	
2. Payments in advance	0			277	
		763,000.53			705
II. Property, plant and equipment					
1. Land and building	17,048,517.68			17,977	
2. Plant and machinery	2,694,793.66			3,350	
3. Other assets, plant and office equipment	1,806,727.47			1,925	
4. Payments in advance and assets under construction	2,018,875.23			1,912	
		23,568,914.04			25,164
III. Financial assets		239,900.20			0
		24,571,814.77			25,869
B. Current assets					
I. Inventories					
1. Raw materials and supplies	23,803,559.56			18,349	
2. Work in progress	3,818,012.57			2,131	
3. Advance payments	316,822.02			117	
		27,938,394.15			20,597
II. Receivables and other assets					
1. Trade receivables	10,394,401.07			5,847	
2. Receivables from affiliated companies	319,790.06			0	
3. Other current assets	2,384,759.30			920	
		13,098,950.43			6,767
III. Cash in hand and at bank		5,160,057.93			888
		46,197,402.51			28,253
C. Prepayments and accrued income			192,249.52		228
D. Deferred tax assets			1,230,000.00		362
		72,191,466.80			54,711

EQUITY AND LIABILITIES	31.12.2016			31.12.2015	
	EUR	EUR	EUR	KEUR	KEUR
A. Equity					
I. Share capital		5,115,000.00			5,115
II. Revenue reserves					
1. Statutory reserve	511,500.00			512	
2. Other reserve	1,310,000.00			1,310	
		1,821,500.00			1,822
III. Retained earnings		18,715,290.17			20,685
		25,651,790.17			27,622
B. Provisions					
1. Provisions for taxation		1,346,600.00		472	
2. Other provisions		6,222,767.69		3,351	
		7,569,367.69			3,823
C. Liabilities					
1. Amounts due to bank		27,836,250.00		17,327	
2. Payments received on account of orders		2,250,000.00		0	
3. Trade payables		6,704,127.45		4,927	
4. Other liabilities thereof taxes EUR 1,813,115.55 (2015: KEUR 668)		2,179,931.49		1,012	
		38,970,308.94			23,266
		72,191,466.80			54,711

Income statement for the year ended 31 December 2016

	EUR	2016 EUR	2015 KEUR
1. Sales revenues	97,445,617.49		83,576
2. Increase (2015: decrease) in inventories of finished goods and work in progress	1,808,750.66		-2,596
3. Other operating income thereof income from foreign currency translation EUR 401,011.86 (2015: KEUR 159)	1,129,594.84		2,572
		100,383,962.99	83,552
4. Raw materials			
a) Expenses for raw materials and supplies	36,599,648.71		22,366
b) Expenses for external services	16,929,703.55		12,878
5. Staff costs			
a) Wages and salaries	21,893,273.98		20,829
b) Social security and pension contributions thereof pension contributions EUR 19,283.43 (2015: KEUR 17)	3,422,734.62		3,156
6. Depreciation and amortisation of tangible and intangible non-current assets	3,045,000.08		3,010
7. Other operating expenses thereof expenses from foreign currency translation EUR 931,569.43 2015: KEUR 321)	18,310,295.29		16,222
		100,200,656.23	78,461
8. Earnings before interest and taxes (EBIT)		183,306.76	5,091
9. Other interest and similar income	0.19		8
10. Interest and similar expenses	574,595.32		365
		-574,595.13	-357
11. Income tax expense thereof income from the change in deferred taxes of EUR 868.000.00 (2015: KEUR 249)		-160,825.80	1,289
12. Earnings after taxes		-230,462.57	3,445
13. Other taxes		51,871.88	47
14. Loss for year (2015: profit for year)		-282,334.45	3,398
15. Profit brought forward from previous year		18,997,624.62	17,287
16. Retained earnings		18,715,290.17	20,685

Cash flow statement 2016

	2016 EUR	2015 EUR
Net profit for the year (consolidated net income / -loss, including minority interests)	-282,334.45	3,398,440.98
+/- Depreciation / appreciation of non-current assets	3,045,000.08	3,010,131.06
+/- Increase / decrease in provisions	2,872,044.10	1,598,842.12
+/- Other non-cash items		-1,411,957.39
-/+ Increase / decrease in inventories, trade receivables and other assets that are not attributable to investing or financing activities	-12,545,269.36	-8,573,548.92
+/- Increase / decrease in trade payables and other liabilities that are not attributable to investment or financing activities	5,194,124.36	-1,309,440.79
-/+ Gains / loss on disposal of non-current assets	0	-301,769.50
+/- Interest expenses / interest income	574,595.32	365,186.08
+/- Income tax expense / income	6,600.00	1,288,926.68
-/+ Income tax payments	-1,092,000.00	-1,091,926.68
= Cash flow from operating activities	-2,227,239.95	-3,027,116.36
- Investments in intangible assets	-385,737.62	-487,432.52
+ Receipts from disposals of property, plant and equipment	0	425,000.00
- Investments in property, plant and equipment	-1,122,440.32	-1,488,908.25
- Investments in financial assets	-240,000.00	0
= Cash flow from investing activities	-1,748,177.94	-1,551,340.77
+ Proceeds from the issuance of bonds and bank borrowings	10,000,000.00	0
- Payments for the repayment of bonds and bank borrowings	-2,295,000.00	-2,107,500.00
- Interest paid	-574,595.32	-365,186.08
- Dividends paid to shareholders of the parent company	-1,687,950.00	0
= Cash flow from financing activity	5,442,454.68	-2,472,686.08
Changes in cash and cash equivalents	1,467,036.79	-7,051,143.21
+ Cash and cash equivalents at beginning of year	-3,807,072.40	3,244,070.81
= Cash and cash equivalents at end of year	-2,340,035.61	-3,807,072.40
+ Liquid assets	5,160,057.93	888,340.34
+ Current liabilities to banks	-7,500,000.00	-4,695,412.74
= Cash and cash equivalents at end of year	-2,339,942.07	-3,807,072.40

Non-current assets movement statement for the year ended 31 December 2016

	Acquisition and construction costs			
	1.1.2016 EUR	Additions EUR	Transfers EUR	Disposals EUR
I. Intangible assets				
1. IT software and licences	3,741,536.79	385,737.62	276,909.45	0.00
2. Payments in advance	276,909.45	0.00	-276,909.45	0.00
	4,018,446.24	385,737.62	0.00	0.00
II. Property, plant and equipment				
1. Land and buildings	30,705,023.93	0.00	0.00	0.00
2. Plant and Machinery	12,856,019.11	202,689.18	0.00	0.00
3. Other assets, plant and office equipment	12,777,772.09	812,412.74	0.00	231,957.98
4. Payments in advance and assets under construction	1,911,536.83	107,338.40	0.00	0.00
	58,250,351.96	1,122,440.32	0.00	231,957.98
III. Financial assets				
Shares in affiliated companies	0.00	239,900.20	0.00	0.00
	62,268,798.20	1,748,078.14	0.00	231,957.98

	Accumulates depreciation and amortisation				Carrying values		
	31.12.2016 EUR	1.1.2016 EUR	Additions EUR	Disposals EUR	31.12.2016 EUR	31.12.2016 EUR	31.12.015 KEUR
	4,404,183.86	3,313,702.02	327,481.31	0.00	3,641,183.33	763,000.53	428
	0.00	0.00	0.00	0.00	0.00	0.00	277
	4,404,183.86	3,313,702.02	327,481.31	0.00	3,641,183.33	763,000.53	705
	30,705,023.93	12,727,608.42	928,897.83	0.00	13,656,506.25	17,048,517.68	17,977
	13,058,708.29	9,505,963.53	857,951.10	0.00	10,363,914.63	2,694,793.66	3,350
	13,358,226.85	10,852,793.79	930,669.84	231,964.25	11,551,499.38	1,806,727.47	1,925
	2,018,875.23	0.00	0.00	0.00	0.00	2,018,875.23	1,912
	59,140,834.30	33,086,365.74	2,717,518.77	231,964.25	35,571,920.26	23,568,914.04	25,164
	239,900.20	0.00	0.00	0.00	0.00	239,900.20	0.00
	63,784,918.36	36,400,067.76	3,045,000.08	231,964.25	39,213,103.59	24,571,814.77	25,869

NOTES 2016

General comments

HWA AG is based in Affalterbach. The company is entered in the register of the Stuttgart Local Court under no. HRB 721692.

This annual financial statement was prepared according to the provisions of Articles 242 et seq. and Articles 264 et seq. of the German Commercial Code (HGB) and the relevant provisions of the German Companies Act (AktG). The regulations for large joint stock companies apply.

The profit and loss account is prepared according to the total costs method.

Accounting and valuation principles

In the preparation of the annual financial statement, the following accounting and valuation principles continued essentially to be definitive.

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.

Tangible fixed assets are recorded at cost of acquisition / manufacturing costs and, where subject to wear, are reduced by planned depreciation.

Tangible fixed assets are amortised over their expected useful lives on a straight-line basis. Low-value assets up to a value of EUR 1,000.00 are, in deviation from the tax regulations, depreciated immediately and recorded as disposals in the year of acquisition. Depreciations on acquisitions in tangible fixed assets are undertaken on a pro rata temporis basis.

Inventories of **raw materials and consumables** are recognized 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 detectable risks in the **inventory assets** resulting from slow-moving stocks, reduced usability and lower replacement costs are taken into account by appropriate write-downs.

Apart from the standard commercial retentions of title, the stocks are free from any rights of third parties.

Receivables and other assets are shown at the nominal value. For risks attaching to individual items, specific provisions are made; general credit risk is the subject of general provisions.

Other securities and liquid funds are shown at their acquisition costs or their lower applicable value.

Other provisions take account of all uncertain liabilities and possible losses from pending transactions. They are shown in the sum of the settlement value necessary on the basis of reasonable commercial judgment taking into consideration any expected future deviations in prices and costs. Major long-term provisions are discounted with the average market interest rate of the last seven years corresponding to their remaining term according to Art. 253 Para.2 sentence 1 HGB.

Liabilities are recognised at their settlement value.

Deferred taxation is calculated based on temporary differences or more or less permanent differences between the carrying amounts of assets, liabilities and accruals for the purposes of financial accounting and their carrying values for tax purposes, and on tax loss carry forwards. 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. Use is made of the option under Art. 274 Para. 1 sentence 2 HGB and the resultant tax relief is shown as a deferred tax asset.

Foreign currency assets and liabilities are converted using the average spot exchange rate on the day of the transaction. Assets and liabilities with a remaining term of one year or less are basically shown at the average spot exchange rate on the balance sheet date. Assets and liabilities with a remaining term of more than one year are shown at the average spot exchange rate on the balance sheet date, taking into account the realisation and imparity principle.

If **hedge accounting** according to Art. 254 HGB is applied, the following accounting and valuation principles are applicable: Derivative financial instruments are used within HWA AG solely for hedging purposes. Economic hedging relationships are executed for accounting purposes by the creation of valuation units. The countervailing positive and negative value changes are shown gross in the profit and loss account.

Notes on the balance sheet

Capital assets

Changes in individual capital asset categories, including depreciation and amortisation for the period under review, are shown in the capital assets movement schedule.

Holdings

In the United States of America (registered office: State of Delaware), the subsidiary company, "HWA US Inc." was founded in 2016 with a capital of EUR 239,900.20 (USD 250,000). HWA AG holds 100% of the shares in this. The annual financial statement for the first (part) financial year has not yet been prepared.

Receivables and other assets

Of the trade receivables, KEUR 1,950 have a probable remaining term of more than one year.

Receivables from associated companies are trade receivables.

Deferred taxes

The deferred tax assets are the result of the following situation:

	Valuation base trade balance	Valuation base tax balance	Difference	Effective in come tax rate	Deferred taxes
	KEUR	KEUR	KEUR	percent	KEUR
Capital assets (low-value assets)	0	409	409	29	119
Other provisions	630	195	435	29	126
Stocks	0	945	945	29	274
Loss carried over					711
					1,230

Deferred taxes were created for the first time in the financial year. In the previous year, KEUR 96 was set aside for differences in capital assets and KEUR 266 for reserves. The tax rate continues to be 29%.

Authorised share capital

The share capital is divided into 5,115,000 bearer shares, each participating at EUR 1.00 in the share capital.

The Management Board is authorised, with the agreement of the Supervisory Board, to increase the company's share capital once or several times until 4 June 2018 by up to a total of EUR 2,557,500.00 (authorized capital) in return for a cash or non-cash contribution.

The balance sheet profit contains a profit carry-over in the sum of KEUR 17,287.

Provisions

Other Provisions have been created essentially for outstanding invoices, restructuring measures, possible losses from pending transactions, holiday entitlements, anniversary payments and employee bonuses.

Liabilities

Of the liabilities to banking institutions, KEUR 10,821 (prev.yr.: KEUR 6,990) have a remaining term of up to one year and KEUR 17,015 (prev.yr.: KEUR 10,337) have a remaining term of more than one year. KEUR 6,482 (prev.yr.: KEUR 2,606) have a remaining term of more than 5 years. KEUR 9,588 are secured by liens on property.

The down-payments received, trade payables and other liabilities have a remaining term of up to a year, as in the previous year.

Securities exist for the liabilities to the normal extent as is normal in the industry or as required under the law.

Other financial obligations

	KEUR
Payment obligations from service, rental and leasing agreements	14,418
Purchase commitment	9,073

The contracts end between 2017 and 2025.

To finance replacement investments in the areas of Technical Equipment and Machinery, in 2016 (sale and lease-back) leasing agreements with a total volume of KEUR 869 were concluded. The agreements are associated with cash outflows in the sum of KEUR 900 which are given under the payment obligations from the service, rental and leasing agreements. This is offset by the company's use of the assets over the term.

Restriction on distributions

As a result of the recognition of deferred tax assets, there is, according to Art. 268 Para. 8 HGB, a restriction on distributions of KEUR 1,230.

Notes on the income statement

	2016		2015	
	KEUR	%	KEUR	%
Sales revenues by regions				
Domestic	81,974	84.12	70,811	84.7
Foreign	15,472	15.88	12,765	15.3
	97,446	100.0	83,576	100.0

Because of the redefinition of sales revenues in Art. 277 Para. 1 HGB, the sales revenues also contain rental revenues in the sum of KEUR 130 in the reporting year for the first time.

Other operating revenues

Income relating to prior years is essentially due to the release of value adjustments (KEUR 260).

Other information**Employees**

Average number of people employed during the financial year:

Non-salaried staff	146
Salaried staff	161
	307
Trainees	2
	309

Boards: Supervisory Board

- Hans Werner Aufrecht, merchant Chairman
- Willibald Dörflinger, businessman Deputy chairman
- Gert-Jan Bruggink, professional athlete (riding)
- Rolf Krissler, tax advisor
- Michael Schmieder, businessman
- Hussain Ahmad Al-Siddiq, deputy chief executive officer

The remuneration of the Supervisory Board according to Art. 113 AktG was KEUR 23.

Boards: Management Board

- Ulrich Fritz CEO, Chairman of the Board
- Michael Wilson CTO, since 1 October 2016

The obligation to disclose the total remuneration for the Executive Board according to Art. 285 no. 9 letter a and b HGB was waived according to Art. 286 Para. 4 HGB.

Derivative financial instruments

To hedge the interest on a variable interest loan in a total amount of EUR 2.1 million, an interest swap has been concluded:

	Basic rate	Fixed rate	Reference value	Term	Market value
		percent	KEUR		KEUR
Swap	3-Month-EURIBOR	3.57	2,100	30.9.2019	-141

A valuation unit was created with the loan to be secured, since this is a pure hedging transaction.

Auditor's fee

	KEUR
Auditing services	30.0
Other services	13.0
	43.0

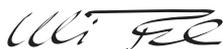
Supplementary report

There are no events of particular significance which have occurred after the end of the financial year and which are not included either in the profit and loss account or in the balance sheet.

Recommended distribution of profits

In agreement with the Supervisory Board, the Management Board proposes that the profits should be carried forward.

Affalterbach, 17 March 2017



Ulrich Fritz (CEO)



Michael Wilson (CTO)

AUDIT OPINION

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of HWA AG, Affalterbach, for the fiscal year from January 1, to December 31, 2016. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's legal representatives. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We have conducted our audit of the annual financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that inaccuracies and infringements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of HWA AG, Affalterbach, in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks relating to the future development.

Karlsruhe, 17 March 2017

TREUHAND SÜDWEST GMBH
Wirtschaftsprüfungsgesellschaft
und Steuerberatungsgesellschaft

Dr Heilgeist
Auditor

Retzbach
Auditor



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