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HWA

ENGINEERING SPEED

20 YEARS
HWA
SINCE 1998

DRIVERS CHAMPION
DTM 2018

TEAM CHAMPION
DTM 2018

MANUFACTURERS CHAMPION
DTM 2018

REPORT18

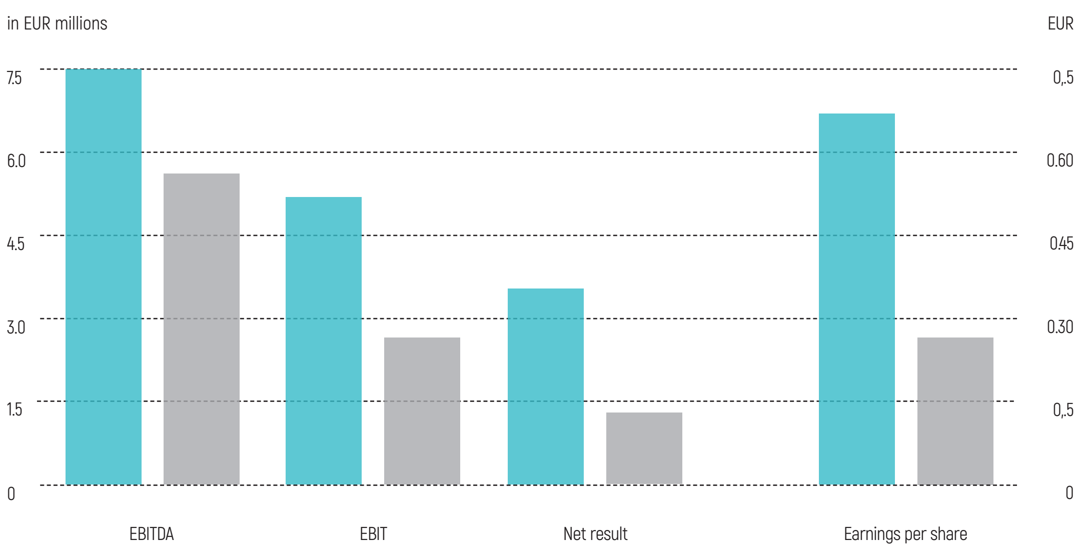
Motor racing · Vehicles and components

GROUP KEY FIGURES

in EUR millions	**2018***	2017	2016	2015	2014	2013	2012	2011
Sales income	101.2	95.5	97.4	83.6	64.1	56.0	63.5	63.8
EBITDA	7.5	5.7	3.2	8.1	3.7	7.9	7.7	8.1
EBITDA margin (in percent)	7.4	5.8	3.3	9.6	5.8	14.1	12.2	12.7
EBIT	5.3	2.8	0.2	5.1	1.4	5.7	5.6	5.9
EBIT margin (in percent)	5.2	2.9	0.2	6.1	2.2	10.0	8.8	9.3
Net result	3.4	1.4	-0.3	3.4	0.7	3.9	3.7	4.1
Earnings per share (in EUR)	0.66	0.28	-0.06	0.66	0.13	0.75	0.73	0.79

*) from 2018 Group key figures

AT A GLANCE **2018** | 2017



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26 April 2019	Publication of the annual figures for the 2018 financial year
15 May 2019	Publication of the 2018 annual financial statements
25 June 2019	Annual General Meeting of HWA AG in Affalterbach
24 October 2019	Publication of the 2019 half-year report

MANAGEMENT BOARD'S LETTER TO SHAREHOLDERS

Dear shareholders,

2018 was a successful year for HWA AG!

In sporting terms, we celebrated huge successes in the DTM. Together with Mercedes-Benz, we were victorious in the drivers', team and manufacturers' championships. Of course, for you as our shareholders, the development of the figures is important. We were also successful in this regard in 2018. HWA AG generated record sales and a significant improvement in earnings. In 2018, we intend to distribute a dividend again.

One year ago, at this point, I held out the prospect to you of a significant increase in earnings and a stable sales performance for 2018. In terms of sales, we slightly exceeded expectations. We also significantly improved all earnings figures. Our measures introduced in previous years, with the aim of increasing profitability, were implemented in 2018. We also forecast an EBIT margin of at least 5% in relation to gross revenue. We just missed the 5% target. However, we are satisfied with the development of our earnings in absolute terms.

For the first time in the company's history, HWA AG generated consolidated sales of more than EUR 100 million in 2018. Group sales amounted to EUR 101.2 million after EUR 96.3 million in the previous year. HWA AG's gross revenue hit a new record high at EUR 112.9 million after posting EUR 97.4 million in 2017. Consolidated EBIT improved from EUR 1.9 million to EUR 5.3 million. This corresponds to an EBIT margin in relation to gross revenue of 4.7%. Consolidated earnings before interest and taxes improved by EUR 0.5 million to EUR 3.4 million.

In 2018, our business was successful in both business units motor racing and vehicles/vehicle components. After more than 30 years of highly successful collaboration with Daimler AG in the DTM, Mercedes-Benz's DTM era with HWA AG came to an end at the close of the financial year. However, we bid farewell in style with a victory in the drivers', team and manufacturers' championship. You will recall that in summer, we were informed that Daimler AG would not continue its motorsports activities in the DTM racing series after 2018. Since then, we have been working hard to compensate for this loss. An important step was made last year. Since the 2018/2019 season, we have been involved as customer team of VENTURI in the ABB FIA Formula E championship. The HWA season start in Formula E was in Riyadh, Saudi Arabia in December 2018. Starting in the 2019/2020 season, we will once again work together with Daimler AG in Formula E. The commitment to Formula E is a great incentive for us because we also, therefore, put the focus on alternative drive technologies and participate in innovations.

Thanks to a new partnership in the FIA Formula 2 championship and entering the FIA Formula 3 championship under its own team, HWA RACELAB has positioned itself as a racing team in various motor racing series. HWA RACELAB will enter the new, international FIA Formula 3 championship starting in the 2019 season. In the FIA Formula 2 championship, we work together with the long-established British motorsport company Arden International Motorsport. We also remain loyal to the DT. As the most successful DTM team of all time, we will also be active in the DTM in 2019. After the successful years with Mercedes-AMG, we intend to open a new chapter in the DTM with R-Motorsport and Aston Martin. In January 2019, we set up a joint venture in collaboration with AF Racing AG, Switzerland. Vynamic GmbH. HWA AG develops and builds the Aston Martin Vantage DTM vehicles on behalf of Vynamic GmbH, and these will then be used by R-Motorsport. R-Motorsport is the exclusive Aston Martin licence team in the DTM from the British manufacturer in the acclaimed touring car series.

Growth at HWA AG is still driven by the vehicles/vehicle components business unit. As in the past, we are working very closely with Daimler AG and Mercedes-AMG GmbH in their customer sports activities in this area. Together with Mercedes-AMG GmbH, we have positioned ourselves as a firm fixture in the GT segment as a whole. The delivery of the Mercedes-AMG GT4 project in 2018 ensured a growing business volume in the vehicles/vehicle components business unit. Parts and service business for the entire product range continued to develop well thanks to the large number of racing vehicles on the market. At the same time, we are working hard to diversify our customer structure. Since summer last year, we have been working with Apollo Automobil and implementing the race car project Apollo IE.

All in all, we have a good basis to develop successfully in 2019. Of course, the loss of significant revenues in motorsports activities in the DTM racing series is a major challenge. We are confident that we will make up for the loss with new sources of revenues. We expect a further increase in sales this year in the vehicles/vehicle components business unit. Overall, within the Group, sales are expected to increase again year-on-year. In accordance with our planning, EBIT is set to improve further in HWA AG's separate financial statements. However, in 2019 consolidated EBIT will be reduced due to the partial consolidation of Vynamic GmbH. The joint venture will post an operational loss in its first year. With Vynamic GmbH, HWA AG has good prospects of further growth in the medium term. In addition to its involvement in the DTM, the aim of the joint venture is the development of a strategic innovation partnership for development projects in motor racing and the automotive industry. Vynamic is responsible for the development and construction of racing cars, including the DTM vehicles and the small-scale series production of high-performance road vehicles.

HWA AG most recently distributed a dividend in 2015. There was no distribution in 2016, as we did not post a profit. The result was positive in 2017. Nevertheless, due to growth, working capital requirements and debt, we decided not to propose a dividend. However, our goal is still the same that we let you as shareholders participate in the success of HWA AG. We will therefore propose a dividend to the Annual General Meeting of 37 cents per share. This means a distribution of around 50% of the profit for the year. We will critically review our previous dividend policy of distributing up to 50% of net profit for the year in the individual financial statements, at least for 2019. This is due to the fact that our results this year will be very different in the consolidated and individual financial statements. The reason for this is the consolidation of Vynamic in the Group. Nonetheless, it is still a fact that shareholders will participate in positive net profit.

Finally, I would like to thank our around 300 employees for their excellent work in 2018. Without them, our great success in the DTM would not have been possible. Thanks to the whole team, we are a strong company in motorsports.

I would like to thank you, dear shareholders, for your loyalty and hope you enjoy reading our 2018 annual report.

Yours,

Ulrich Fritz

Affalterbach, April 2019

REPORT OF THE SUPERVISORY BOARD

Dear HWA AG shareholders,

In the 2018 financial year, the Supervisory Board advised the Management Board comprehensively and performed all the duties incumbent upon it under the law and the company's articles of incorporation. 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. This is based on written and verbal reports of the Management Board to the Supervisory Board. Cooperation between the Boards was marked by detailed and open dialogue. The Management Board informed the Supervisory Board promptly, thoroughly and on a regular basis on all significant aspects for the company and events requiring approval.

The Chairman of the Supervisory Board was also in regular contact with the Management Board outside the regularly scheduled meetings. 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 financial year 2018, 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. These Supervisory Board meetings were held on 18 April, 24 July, 26 September and 18 December 2018. One member of the Supervisory Board was absent at each of the meetings on 18 April, 24 July, 26 September and 18 December. The Supervisory Board's meetings were all held at the Company's headquarters in Affalterbach.

The Supervisory Board's financial statements meeting also took place on 18 April 2018. The Supervisory Board approved the annual financial statements of HWA AG for the year 2017 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 2018
- Sporting developments and the status in the DTM in 2018
- Entry into Formula E from the 2018/2019 season onwards
- The liquidity situation, liquidity planning and risk and opportunity management
- The progress of the various projects in motor racing and vehicles/vehicle components, in particular the production of the Mercedes-AMG GT3 and GT 4 and new projects
- The diversification of the customer structure, the Company's future strategy and review of strategic options with partners
- The impact on HWA AG of ending collaboration with Daimler AG in the DTM racing series and possible compensation
- Stabilising and optimising all company processes
- Future development and the budget for 2019 and medium-term planning of HWA
- Corporate actions and loans of the company
- The establishment of the joint venture Vynamic GmbH with AF Racing AG and the opportunities and risks for this project

Membership of the Management and Supervisory Boards
There were no changes to the Management Board at HWG AG in the 2018 reporting year. Ulrich Fritz was the sole director of the company for the whole of 2018.

Under the Company's articles of incorporation the Supervisory Board consists of six members. As at the end of the 2018 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
- Klemens Große-Vehne
- Hussain Ahmad Al Siddiqi

There was one change to the Supervisory Board in 2018. Our esteemed Supervisory Board member, Michal Schmieder, sadly passed away at the beginning of April 2018. At the Annual General Meeting on 25 July 2018, Klemens Große-Vehne was appointed a new member to the Supervisory Board for the remainder of Mr. Schmieder's term, i.e. until the end of the Annual General Meeting that approves the Supervisory Board's actions for the 2019 financial year.

Annual financial statements and audit

By resolution of the Annual General Meeting of 25 July 2018, Treuhand Südwest GmbH Wirtschaftsprüfungsgesellschaft und Steuerberatungsgesellschaft, Karlsruhe, was appointed as statutory auditor of the Company's annual and consolidated financial statements for the 2018 financial year. The statutory auditor audited the 2018 annual and consolidated financial statements and the combined management report prepared by the Management Board and issued an unqualified audit opinion.

The annual financial statements, the consolidated financial statements and the combined management report were presented to 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 and consolidated financial statements. It approved the annual and consolidated financial statements for the 2018 financial year on 26 March 2019. The annual financial statements for 2018 were thereby formally adopted. The Supervisory Board discussed the Management Board's proposal regarding dividend payments with the Management Board in detail and agreed to the Management Board's proposal to use net retained profits.

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 excellent performance in the DTM racing series in 2018 - the last year of DTM collaboration with Daimler AG. 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 2019


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SCHUBERTH
OGI

HWA AG – THE STOCK

The optimistic mood on the capital market at the beginning of the year soured as early as the end of the first quarter of 2018. Thus Germany's leading index DAX started the trading year at 12,898 points on 2 January 2018 and reached its high for the year as early as 23 January with 13,597 points. The DAX declined steadily until it hit a low for the year of 10,279 points on 27 December 2018. In addition to the sluggish economy, the global stock markets were negatively impacted by politics in particular in 2018. This included the increasingly acrimonious statements by the US government regarding global trade and a continuous tightening of US monetary policy as well as hardening fronts between Italy and the EU regarding the draft budget of the member state. The still-unresolved exit of the UK from the European Union also had an unsettling effect.

The DAX's year-end level of 10,5589 points represented a loss of approximately 18.0% compared with the previous year. Germany's mid-cap index, the MDAX, fell by 17.4% in 2017. The SDAX, Germany's small-cap index, dropped by 20.3% in total, while the TecDAX, Germany's technology index, lost only 4.1%. As the successor to the Entry All Share index, in which the HWA AG share was also quoted until the beginning of March 2017, the Scale index posted a decrease of 24.5%, the weakest performance in 2018. The STOXX Europe 600 Automobile & Parts, the index for the European automotive industry, even lost over 28% of its value.

Compared with the losses of the German indices, the HWA share was well able to hold its own in financial year 2018 and thus performed better than the standard German shares. HWA AG stock posted a price decrease of 2.7% in the year under review. On 2 January 2018, the HWA AG share opened the trading year at a price of EUR 15.10. After moving sideways, the HWA AG share hit its high for the year on 14 February 2018. At EUR 15.10, it was still at the level of the opening price for the year. After prices declined slightly, the stock recorded its lowest level of EUR 13.60 on 20 July 2018. Over the further course of the trading year, the HWA AG share achieved an almost full recovery. Its price at the end of the year was EUR 14.70 (all information is based on XETRA prices).

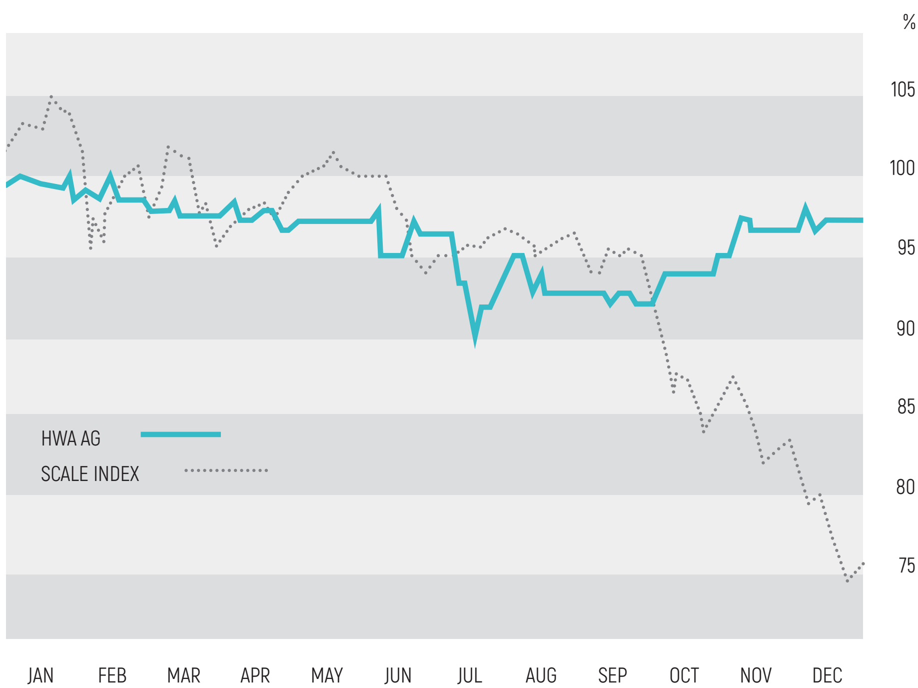
The average daily trading volume of the HWA share (XETRA and floor trading in Frankfurt) was 940 shares on 251 trading days in 2018 (previous year: 942 shares). The share price performance in 2018 resulted in a corresponding adjustment in market capitalisation of around EUR 75 million at the end of the year based on 5,115,000 shares (2017: EUR 77 million).

With the discontinuation of the former Entry Standard by the German Stock Exchange (Deutsche Börse), HWA AG has been listed on the Open Market's Basic Board segment since the start of March 2017.

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 2018
(linked to Scale 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 Annual General Meeting of HWA AG in Affalterbach on 25 July 2018. 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 the central platform for communicating with shareholders and the capital market.

Annual General Meeting 2018

The eleventh Annual General Meeting of HWA AG since the initial stock market listing in 2007 was held on 25 July 2018. Around 45 shareholders met at the Residenzclub in Affalterbach. Of the company's total share capital of EUR 5,115,000 – split into 5.115 million shares – around 3.4 million shares or over 66% of the share capital were represented.

Specifically, a resolution was passed on the appropriation of the net retained profits for the 2017 financial year. In this regard, the management proposed that the reported net retained profits be carried forward to new account. In addition, resolutions were passed in relation to approving the actions of the Management Board (agenda item 3) and the Supervisory Board in individual votes (item 4) and the appointment of Treuhand Südwest GmbH. Wirtschaftsprüfungsgesellschaft und Steuerberatungsgesellschaft, Karlsruhe, as the auditor for the 2018 financial year (item 5). Under item 6, Klemens Große-Vehne was elected as a new member of HWA AG's Supervisory Board. Item 7 made provisions for a change in the remuneration of the Supervisory Board. Item 8 created new Authorised Capital 2018 with the option to exclude subscription rights and amend the articles of incorporation accordingly. A resolution was then passed under item 9 to issue convertible or option bonds with the option to exclude subscription rights, create Contingent Capital 2018 and amend the articles of incorporation accordingly.

The resolutions were all adopted as proposed by the management with significant majorities.

Corporate actions

On 6 December 2018, the Management Board of HWA AG, with the approval of the Supervisory Board, resolved by utilising Authorised Capital 2018 to increase the company's share capital by up to 10% against a cash contribution. To that end, the company's share capital will be increased by simplified exclusion of the shareholders' subscription rights by means of issuing a total of up to 511,500 new ordinary no par value bearer shares from EUR 5,115,000 by up to a nominal amount of EUR 511,500 to up to EUR 5,626,500. The new shares carry dividend rights from the beginning of the financial year 2018. Issue proceeds from the capital increase are to strengthen the equity of HWA AG and create the basis for financing further growth in the area of vehicles and vehicle components.

The new shares will be subscribed to by Aufrecht GmbH and Dörflinger Management & Beteiligungs GmbH ("DMB") as part of a prospectus-free private placement. Aufrecht GmbH is represented by Hans Werner Aufrecht and DMB by Willibald Dörflinger. Both men are already major shareholders at HWA AG and are also members of the company's Supervisory Board. The placement is expected to be completed in the spring of 2019. The placement price was set at EUR 13.87 and was therefore not substantially lower than the current share price of HWA AG. The new shares are to be admitted to trading in the Open Market on the Frankfurt Stock Exchange with concurrent inclusion in the Basic Board segment. The company expects gross issue proceeds of just under EUR 7.1 million from the placement.

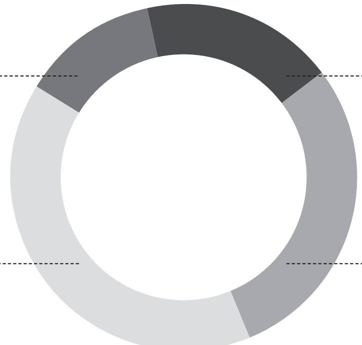
Also on 6 December 2018, the Management Board, with the approval of the Supervisory Board, resolved by utilising Authorised Capital 2018 to increase the company's share capital by up to another 20% against a cash contribution as part of a public offer. HWA AG will offer the shareholders statutory subscription rights for this capital increase. The implementation of the capital increase including further details is expected in the course of 2019. Issue proceeds will serve to both finance future growth in almost all areas of the company as well as to strengthen equity.

Directors' dealings

In addition to the subscription of the capital increase, the members of the Supervisory Board and Management Board demonstrated their confidence in the development of HWA AG in the reporting period via directors' dealings by acquiring shares in HWA AG. Neither members of the Supervisory Board nor Management Board sold shares of HWA AG.

Willibald Dörflinger, Deputy Chairman of the Supervisory Board, reported the acquisition of shares in the company in the amount of EUR 98,000.00.

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.

To the company's knowledge, the shareholder structure of HWA AG did not change with regard to the major shareholders during the course of 2018. 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%. Dörflinger Privatstiftung, which is represented by the Deputy Chairman of the Supervisory Board Willibald Dörflinger, has an equity interest of around 18% in HWA AG, while Nasser Bin Khaled (NBK) Holding, also represented on the Supervisory Board, has an interest of just under 29%. Together, these three shareholders control over 85% of HWA AG's share capital. The information provided on HWA AG's shareholder structure is based on the notification of voting rights for the Annual General Meeting in July 2018. Since the capital increase from December 2018 described above in the amount of 10% of the share capital will not be implemented until 2019, it is not reflected in this shareholder structure.

Appropriation of the 2018 net retained profits

HWA AG succeeded in returning to profitability in 2018 and in attaining a result that largely met its own objectives. On the basis of previous company dividend policy which states that up to 50% of net profit for the year is to be paid out to shareholders, the Management Board and the Supervisory Board of the company will propose a 2018 dividend of 37 cents per share to the Annual General Meeting. However, the Management Board will review the dividend policy for the more distant future. This is primarily due to the fact that earnings in the single entity statements and the consolidated statements will vary greatly, at least in 2019. The Management Board expects further growth in 2019. An increase in earnings in the single entity financial statements is also expected, whilst earnings in the consolidated statements will be lower due to the joint Venture Vynamic GmbH. The joint venture will post an operational loss in its first year. For the time being, HWA AG will continue to have an increased need for working capital. In addition, the goal remains to continue to strengthen the asset base at HWA AG, for example with the above capital measures. As a general rule, HWA AG intends to continue sharing its development with its shareholders by way of a dividend payment, provided the company has achieved appropriate success.

Events 2019

26 April 2019	Publication of the annual figures for the 2018 financial year
15 May 2019	Publication of the 2018 annual financial statements
25 June 2019	Annual General Meeting of HWA AG in Affalterbach
24 October 2019	Publication of the 2019 half-year report

HWA AG – THE COMPANY

HWA AG is an independent 360° engineering specialist in the fields of motor racing and high-performance cars. Founded in 1998 by Hans Werner Aufrecht, the company is based in Affalterbach and employs around 300 highly-qualified members of staff today. HWA AG offers all its products and services under the corporate slogan ENGINEERING SPEED: The company's objective is to develop the best possible high-quality solutions, in order for its partners and customers to achieve their goals quicker. The portfolio of services ranges from designing all vehicle components to assembling complete cars, together with the relevant logistics, after-sales and support services.

HWA RACELAB is the racing team of HWA AG in motorsport. It brings together experienced specialists for top-level motor racing engineering and related services so that they can be successfully deployed in motorsports. Since the 2018/19 season, HWA RACELAB has been active as a new team in Formula E, expanding HWA's racetrack expertise with a forward-looking scope of operations. HWA RACELAB will also enter the new, international FIA Formula 3 championship in 2019. With 11 driver titles and more than 180 victories as a Mercedes-AMG racing team in the DTM, the company is one of the most successful players in international motorsport. In addition, HWA RACELAB draws on the company's other core competencies, for example in the development, manufacture and servicing of GT cars for customer sports or the building of Formula 3 racing engines.

Founded at the end of 1998 by Hans Werner Aufrecht, H.W.A. GmbH started its business operations 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 division was spun off. It included the Mercedes-AMG DTM team and parts of the vehicles and vehicles components unit as at the end of 2018; 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.

Motorsport at the highest level determines day-to-day business. One major highlight of HWA AG is the development and production of the racing version of the Mercedes-Benz SLS AMG in close cooperation with Mercedes-AMG GmbH. More than 100 SLS AMG GT3 vehicles were produced. In 2016, the racing version of the completely redeveloped Mercedes-AMG GT marked a new era for the Mercedes-AMG

Motorsport customer sport programme. Around 70 Mercedes-AMG GT3 vehicles were produced in the first year alone, resulting in success around the world. The successful cooperation with Mercedes-AMG GmbH was continued with a development contract for the Mercedes-AMG GT4. The entire customer sport programme is a great success for HWA AG.

Vynamic GmbH was founded in January 2019. HWA AG holds a 49% share in the company. The remaining shares are held by AF Racing AG. HWA AG will develop and build the Aston Martin Vantage DTM vehicles on behalf of Vynamic GmbH, and these will then be used by R-Motorsport. R-Motorsport is the exclusive Aston Martin licence team in the DTM from the British manufacturer in the acclaimed touring car series. In addition, the focus of the joint venture is the development of an innovation partnership for development projects in motor racing and in the automotive sector in general.

Motor racing

As at the end of 2018, the motor racing business unit is dominated by participation in the German Touring Car Masters (DTM) racing series. On behalf of Mercedes-AMG Motorsport, HWA AG acted as the "Mercedes-AMG Motorsport DTM Team" in the DTM. The 2018 season concludes the unprecedented DTM era between Mercedes-Benz and HWA AG. It ended perfectly with a title triple: Driver championship and also the team and manufacturer ranking went to the most successful team in the history of the DTM.

HWA AG will remain loyal to the DTM and continues to act as a service provider in the series. At the beginning of 2019, the company founded a joint venture with AF Racing AG, Vynamic GmbH. In cooperation with HWA, aspects including the development, production and use of Aston Martin DTM vehicles under license from Aston Martin Lagonda Ltd. held by AF Racing AG are being implemented.

Since the 2018/2019 season, HWA AG has been involved as customer team of VENTURI in the ABB FIA Formula E championship. The HWA season start in Formula E was in Riyadh, Saudi Arabia in December 2018. The involvement in Formula E will be an important component in motor racing in the future. From the 2019/2020 season, HWA AG will become a partner of Daimler AG in Formula E. The successful cooperation from the DTM will continue in Formula E.

In addition, with its own team HWA RACELAB, HWA AG is involved in both FIA Formula 3 and FIA Formula 2 at the beginning of 2019. HWA AG is active in Formula 2 through a cooperation with Arden International Motorsport Ltd. Both racing series form important stages in the "FIA Formula pyramid" for the promotion and training of younger racers.

Vehicles and vehicle components

A series of victories and 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. This project also became a great success with notable victories. In 2018, Mercedes-AMG GT4 expanded its customer sports range. With a total of 45 titles with AMG GT3 and 13 with AMG GT4 cars, the 2018 motorsport year is one of the most successful in GT customer sports ever. In 2018, a total of 361 drivers and 90 teams competed with Mercedes-AMG GT3 and GT4 vehicles on 86 racetracks worldwide. The associated parts and service business for the entire product range in customer sport will continue to develop well thanks to the large number of racing vehicles on the market.

In 2018, the diversification of the customer structure was also successful. Together with Apollo Automobil Limited, HWA AG is working on a new project. The vehicle project (Apollo IE) was implemented back in 2018 and will continue in 2019.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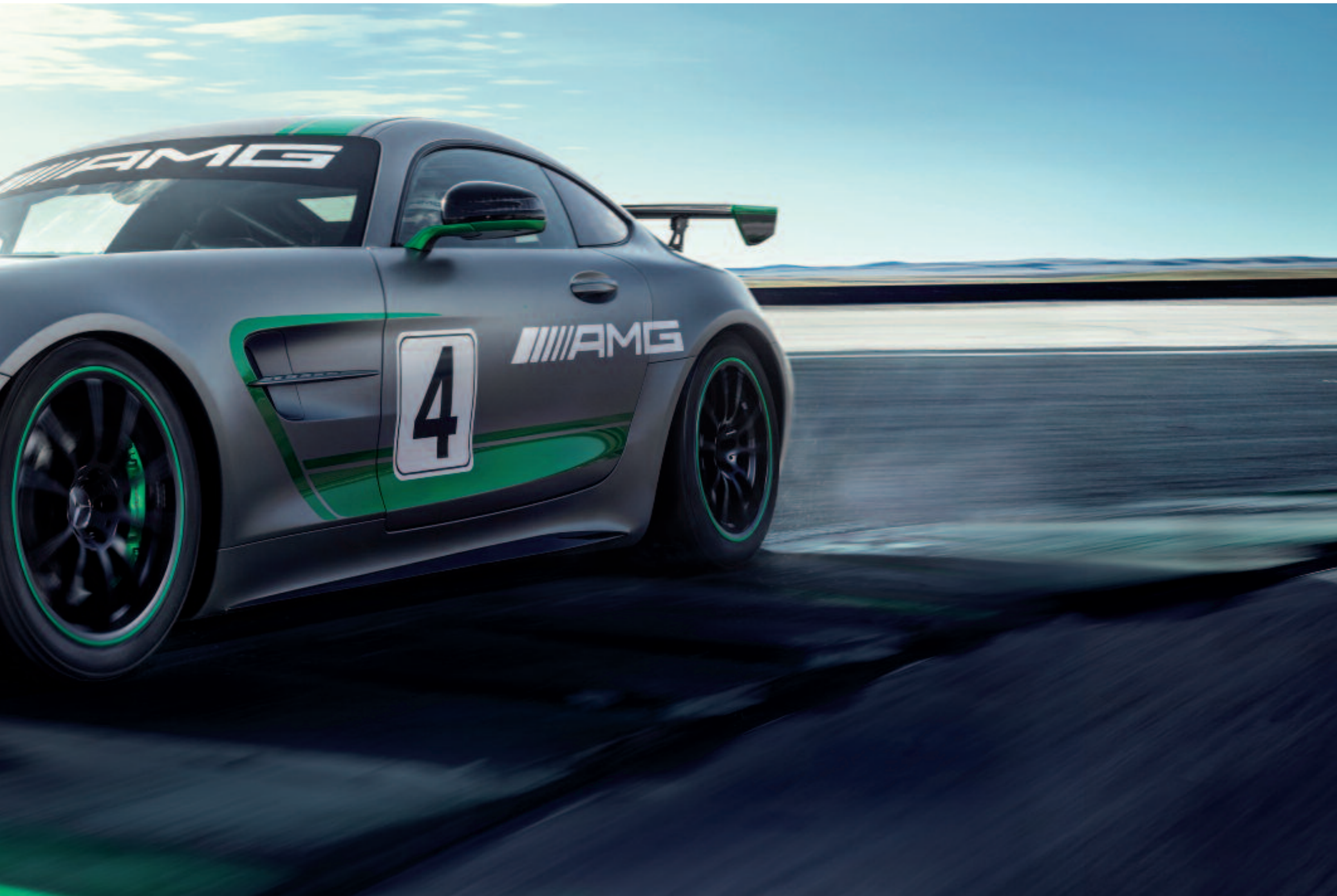
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COMBINED MANAGEMENT REPORT ON CONSOLIDATED FINANCIAL STATEMENT

1. Legal and economic position of the company in 2018

HWA AG was founded in 1998 under the name H.W.A. GmbH. It became a stock corporation (AG) under German law in 2006. The shares of HWA AG have been traded in the Open Market segment of the Frankfurt Stock Exchange since 19 April 2007. The company operates in Germany as an individual entity.

As the parent company, HWA AG, Affalterbach, holds the majority of the voting rights in and exercises joint management over the following legal entities:
- HWA US Inc., Wilmington, Delaware, USA (100%)
- HWA AUS Pty Ltd., Mornington, Victoria, Australia (100%)

The consolidated financial statements include the parent company, the US company HWA US Inc. and, for the first time, the HWA Pty Ltd. company in Australia.

In the two segments in which it operates – Motor Racing and Vehicles/Vehicle Components – HWA AG develops, builds and produces high-performance technological products.

In 2018, activities in the Motor Racing segment focused on the final time the company would participate in the Deutsche Tourenwagen Masters (DTM) motor racing series together with Daimler AG. HWA AG again raced under the name "Mercedes-AMG DTM Team", and handled the full development, design, construction and use of the racing vehicles on behalf of Daimler AG. Its comprehensive range of services also included racing driver recruitment and management. In addition to the development and production of racing vehicles and components, services also included the development and production of (racing) engines.

Since the 2018/2019 season, HWA AG has been involved as customer team of VENTURI in the ABB FIA Formula E championship. The HWA season start in Formula E was in Riyadh, Saudi Arabia in December 2018.

The second segment, Vehicles/Vehicle Components, focuses on development, production and other services for the automotive industry. As a highly specialised service provider, HWA AG applies its specific racing expertise to carry out development and production orders for a variety of customers. It also provides spare parts and other services for customers around the world.

2. General economic conditions

According to the International Monetary Fund (IMF), global economic growth cooled off in 2018, falling to 3.7% after 3.8% in the previous year. The IMF is, therefore, standing by its World Economic Outlook (WEO) from October 2018, despite weaker performance in some economies, in particular in Europe and Asia. This forecast already took into account the slight slowdown caused by tariff increases imposed as part of the trade dispute between the US and China. As early as the first six months of 2018, global growth was no longer able to draw on the strong momentum from the second half of 2017 and economic performance faltered, particularly in some major industrialised countries. Nonetheless, the global economy is expected to grow more slowly than was expected last October in both 2019 and 2020 (3.5% and 3.6% respectively). The further adjustment reflects the gloomy sentiment on capital markets as well as weaker economic momentum in H2 2018, including in Germany as a result of new vehicle emissions standards and in Italy due to the budget dispute with the European Union.

The International Monetary Fund lowered its euro area forecasts for 2018 as a whole to 1.8% (0.2 percentage points lower than in October 2018) following an unexpectedly sluggish first half of the year. A drop-off in world trade and declining industrial production were responsible for this, although slower export growth particularly hurt economic performance in the euro area after a sharp upturn in the final quarter of 2017. GDP growth in euro area countries had amounted to 2.4% in 2017. The IMF is anticipating growth to continue to decline by 1.6% in 2019 (0.3 percentage points lower than in autumn 2018) and by 1.7% in 2020. At 1.4%, inflation in the single currency area in 2018 was down on the previous year's figure of 1.5%.

According to the German Federal Statistical Office (Destatis), the German economy grew by 1.5% in 2018, marking the ninth year in a row, although it did lose momentum. The domestic economy generated significant growth momentum in 2018, albeit making far smaller gains than in the last three years. Growth rates for German exports also slackened in comparison to previous years. This decline was owed primarily to non-recurring factors, such as the new WLTP approvals which strained vehicle production and production restrictions caused by low water levels on the Rhine. At 1.9%, average annual inflation in Germany in 2018 was again close to the European monetary policy target of just under 2%. Inflation in 2017 was 1.8%. The Kiel Institute for the World Economy expects to see economic growth of 2.0% for Germany in the 2019 financial year.

The US economy continued its run of robust growth in the second quarter of 2018, with private sector activity still being propped up by significant fiscal stimuli. According to the IMF, the US economy grew by 2.9% in 2018, as forecast in autumn, which was stronger than the previous year's 2.2%. IMF forecasts for the US are unchanged. Growth is set to slow to 2.5% in 2019 and again to 1.8% in 2020 when fiscal stimuli come to an end. Nonetheless, the forecast rate of expansion is also higher than the estimated rate of potential growth for the US economy in the next two years.

According to IMF forecasts, economic output in the People's Republic of China rose by 6.6% in 2018 after 6.9% in the previous year. Growth thus remained in line with the Chinese government's targeted range of 6.5% to 7.0%. Despite fiscal stimulus packages aimed at offsetting the impact of US tariffs, the IMF anticipates a slowdown in the Chinese economy. This will also be driven by tighter banking regulation from financial supervisory authorities in the country. The International Monetary Fund expects to see Chinese economic output rise by 6.2% in both 2019 and 2020, in line with the October forecast.

Automotive markets

Global demand for passenger cars remained very high in the reporting year, although it did fall marginally by about 1% year-on-year. Traditional sales markets in western Europe and the US have now made up for the substantial downturn in volume from the financial crisis in full and recently have been moving sideways only. The Chinese market faltered noticeably over the course of the year, declining slightly on the whole. Markets in other emerging economies performed similarly to the previous year overall.

In Europe, total sales of passenger cars remained largely on par with the previous year. Demand in western Europe also remained stable year on year. Momentum waned in part due to the return to the high market level. In addition, supply bottlenecks squeezed sales figures in the last four months of the year as part of the changeover to the new vehicle approval test procedure (Worldwide Harmonized Light Vehicles Test Procedure or WLTP). The German market did not see any upturn in comparison to the previous year, whereas demand in France rose by around 3%. The UK market, on the other hand, declined by approximately 7%. Thanks to significant growth in central and eastern European EU markets, and in Russia, total sales in eastern Europe remained more or less on par with the previous year's figures. The Turkish market, however, slumped, losing over 30%.

The US passenger car and light commercial vehicle market remained very strong with over 17 million units sold, reflecting the favourable economic climate. Market volume remained unchanged year on year. The trend towards SUVs continued to gain traction in these segments, with sales picking up significantly, although classic sedans once again saw demand decline substantially.

The Chinese passenger cars market reported a slight fall in sales for the first time in decades. The end of tax purchase incentives, which had propped up the market in the last few years, strained demand. Moreover, the increasingly heated trade dispute with the US created uncertainty and caution on the part of car buyers. The market contracted by around 4% in the year as a whole, primarily a result of the weak second half.

Demand for passenger cars in Japan remained solid, more or less unchanged. The Indian market continued its run of growth from the last few years, with sales of passenger cars rising slightly. In Brazil, demand for passenger cars continued to recover, with the market reporting double-digit growth, albeit from a still low level.

3.44 million new passenger cars were registered in Germany last year, equivalent to a 0.2% year-on-year decrease according to the Federal Motor Transport Authority.

The Mercedes-Benz Cars brand set a new record for sales volumes in 2018, improving by 0.4% to nearly 2.38 million vehicles. The Mercedes-Benz brand boosted sales by 1% to almost 2.3 million vehicles. In Europe, Mercedes-Benz Cars sold a total of 982,700 vehicles (previous year: 1,013,800), down on over 1 million in the previous year. Germany and Spain both saw moderate growth, while volumes declined in France and the United Kingdom. In China, the Mercedes-Benz Cars business unit continued its run of success, with sales climbing by 10% to 677,700 vehicles.

3. Business performance and results of operations

Given the significance of the parent company HWA AG to the consolidated financial statements, the separate financial statements of HWA AG are presented below. Information specific to the consolidated financial statements can be found under the relevant items.

HWA AG's sales revenue amounted to EUR 103.5 million in 2018, higher than the previous year's level of EUR 97.5 million as forecast. EUR 82.7 million (previous year: EUR 77.6 million) of this relates to Germany and EUR 20.8 million (previous year: EUR 19.9 million) to other countries. HWA US generated sales of USD 3.1 million and the newly established HWA AUS achieved sales of AUD 0.2 million. Consolidated sales revenue amounts to EUR 101.2 million after consolidation.

HWA AG's other operating income amounted to EUR 1.2 million and essentially comprises EUR 0.61 million in foreign exchange gains, EUR 0.354 million in income from non-cash benefits, EUR 0.18 million in income from insurance compensation and EUR 0.10 million in asset sales.

In total, HWA AG's gross revenue for 2018 amounts to EUR 114.7 million as against EUR 97.4 million in the previous year.

The cost of materials increased by 18.3% from EUR 52.4 million in the previous year to EUR 62.0 million. Key factors influencing the cost of materials included input costs for DTM, the production of the Mercedes-AMG GT3 and GT4, the provision of spare parts for AMG customer sports teams and other customer projects. At 54.0%, the cost of materials as a percentage of gross revenue rose only slightly (previous year: 53.7%).

Other operating expenses were up from EUR 15.2 million in the previous year to EUR 17.9 million in the reporting period. The increase is essentially due to project-related expenses.

Currency gains and losses resulted from exchange rate fluctuations triggered by the UK's upcoming disorderly exit from the European Union and exchange rate fluctuations in the US dollar.

HWA AG generated EBIT of EUR 6.5 million in 2018 after EUR 2.8 million in the previous year. The EBIT margin in relation to gross revenue was 5.7%. Consolidated EBIT amounts to EUR 5.3 million for 2018 with a margin of 4.7%. Intercompany profits arising from sales of goods within the Group were eliminated on consolidation. The EBIT contribution by HWA US was EUR 0.2 million. A key factor influencing earnings at HWA US was the development of the US dollar/euro exchange rate, and the associated effects on purchase costs and selling prices at the US subsidiary.

The EBIT contribution by the newly established HWA AUS was EUR -0.4 million.

HWA AG had projected an EBIT margin of at least 5% for 2018 for the Group. It therefore fell short of its advised EBIT margin target by 0.3%.

HWA AG uses EBIT as its operating result and performance indicator. EBIT is calculated as follows:

Income statement

in million EUR (rounded)	2018	2017
Sales revenue	**103.5**	**97.5**
Changes in inventories	10.0	-2.3
Other operating income	1.2	2.3
Gross revenue for the period	**114.7**	**97.5**
Cost of materials	62.0	52.3
Personnel expenses	26.1	24.3
Depreciation, amortisation and write-downs	2.2	2.8
Other operating expenses	17.9	15.2
EBIT	**6.5**	**2.8**
EBIT in % of total Gross revenue	5.7	2.9

HWA AG's negative financial result for the 2018 financial year was equal to the previous year's figure at EUR -0.6 million (EUR -0.6 million).

Overall, HWA AG's net profit for 2018 amounts to EUR 4.2 million as against EUR 1.4 million in 2017.

Consolidated net profit rose substantially, with net profit/loss for 2018 amounting to EUR 3.4 million, up on EUR 0.5 million in the previous year.

4. Net assets and financial position

HWA AG's fixed assets declined from EUR 19.5 million to EUR 18.6 million in the 2018 financial year. The key factor behind this reduction was the depreciation of fixed assets. Consolidated fixed assets amount to EUR 18.4 million.

Current assets increased from EUR 50.0 million in the previous year to EUR 58.8 million.

Trade receivables declined, as the receivables in the previous year had included a customer invoice relating to the reporting date. Receivables from affiliated companies rose by EUR 2.9 million as a result of the delivery of spare parts by the parent company HWA AG to the subsidiaries. Inventories picked up by EUR 11.2 million from EUR 26.5 million to EUR 37.7 million. This rise in inventories relates essentially to the capitalisation of several customer projects in progress and the build-up of inventories for the production and provision of spare parts for GT4 vehicles. The projects being worked on are reported under "work in progress" and the GT4 materials under raw materials, consumables and supplies. The payments received on account of orders of EUR 4.6 million were deducted from inventories. Consolidated current assets amount to EUR 56.9 million.

HWA AG's provisions rose from EUR 3.4 million to EUR 5.6 million in the financial year. This increase essentially resulted from the EUR 1.7 million upturn in personnel provisions against the previous year figure of EUR 1.1 million. Tax provisions of EUR 1.5 million were also recognised (previous year: EUR 0). The Group's provisions amount to EUR 5.7 million.

Liabilities increased from EUR 39.8 million in 2017 to EUR 41.2 million. The largest item under liabilities is bank loans, which amount to EUR 25.7 million at the end of December 2018 as against EUR 25.0 million in the previous year. There is also the existing shareholder's loan taken out in 2017. This loan of EUR 3.5 million is reported under liabilities to shareholders. Trade payables rose from EUR 8.8 million to EUR 9.9 million as a result of reporting date effects. The Group's liabilities amount to EUR 41.3 million.

HWA AG's total assets saw an upturn from EUR 70.3 million in the previous year to EUR 78.0 million. The share of fixed assets decreased from 27.7% to 23.8% as a result of depreciation on fixed assets, which exceeded investments in fixed assets overall. By contrast, the share of current assets in total assets increased from 71.1% to 75.4%. HWA AG's equity ratio climbed from 38.5% to 40.1% as at 31 December 2018. Equity rose from EUR 27.1 million in 2018 to EUR 31.3 million. The Group's equity amounts to EUR 29.5 million.

HWA AG had cash and cash equivalents of EUR -4.0 million at the end of the 2018 financial year as against EUR -2.8 million in the previous year. The operating cash flow was positive at EUR 1.5 million in 2018. The positive result and depreciation and amortisation were more than offset by the increase in inventories for the production and provision of spare parts for the Mercedes-AMG GT4. The cash flow from investing activities is negative at EUR 1.267 million. Payments for investments essentially relate to technical equipment and machinery as well as operating and office equipment. The cash flow from financing activities was negative at EUR 1.0 million. Of this, the net repayment of loans accounted for EUR 0.3 million and interest for EUR 0.7 million

Liquidity management ensures that HWA AG and its subsidiaries can satisfy their payment obligations at all times. To this end, the Group incorporates the cash flows from its operating and financing activities into rolling planning. The financing requirements resulting from this are covered using suitable liquidity management instruments.

Low net profit for the year at the Group had a negative impact on operating earnings, which came to EUR 1.00 million in 2018. The primary cause of this is the increase in inventories at subsidiaries.

5. Capital expenditure

Gross investment amounted to EUR 1,384 thousand in the past financial year. (previous year: EUR 1,077 thousand). The breakdown of investment is shown in the following table:

Gross investments	EUR thousand
1. Intangible assets	98
2. Technical equipment and machinery	669
3. Other equipment, operating and office equipment	562
4. Payments on account of fixed assets	55
	1,384

Investments relate to replacements for technical equipment and machinery as well as operating and office equipment, in particular with regard to participation in Formula E. Investments in intangible assets predominantly related to IT licenses. Investments of EUR 1.4 million essentially include project-related investments. Investment in technical equipment and machinery of EUR 2,500 – 3,000 thousand is planned for 2019.

Subsidiaries did not make any material investments.

6. Employees

Including the Management Board, there were 297 employees on average in the 2018 financial year (previous year: 296):

- 167 Salaried employees
- 130 Non-salaried employees
- 2 Trainees/interns

7. Risks and opportunities

According to its economic forecast from December 2018, the Ifo Institute expects the German economy to cool off significantly this year and has lowered its growth forecast for 2019 to 1.1%. In autumn, researchers had still expected GDP to grow by 1.9%. Nonetheless, they do not consider the country at risk of falling into recession. Like most economic research institutes, HWA AG expects the global economy to continue its upswing in 2019, albeit at a far slower pace than in previous years. The rate of world economic growth already weakened slightly at the beginning of 2019 in comparison to the previous year, but overall performance remains solid. Most economic indicators signal that growth momentum will slow again for the eurozone economies in 2019. In light of ongoing robust domestic demand, lower foreign trade is likely to result in growth of around just 1.5%. Leading economic indicators in the US suggest that the economic boom is set to continue. Nonetheless, growth is likely to be somewhat more sluggish than in the previous year as the positive momentum provided by tax cuts comes to an end. All told, economic growth looks set to settle just under the 2.5% mark. In China, the gradual slowdown in economic growth that has set in over the last few years is expected to continue this year, too. On the one hand, uncertainties related to the trade conflict with the US are likely to continue to prove a particular strain. On the other hand, the stimulus package announced by the government should stabilise the economy. All told, GDP is still expected to see solid growth of just over 6%. Although the global economy as a whole should remain robust in 2019, with growth of just under 3%, it will likely expand noticeably more slowly than in the previous year.

The framework data for key world economies have a significant influence on HWA AG's sales markets and, above all, the automotive market – where HWA AG's greatest risks and opportunities lie. Global demand for passenger cars is likely to remain stable year-on-year in 2019. The European market is expected to be on par with the previous year, with Germany, the largest individual market, enjoying stable performance in line with the previous year. A moderate decline is anticipated in the US passenger cars market on account of the high level. The Chinese passenger car market should stabilise again in 2019 after the weaker previous year result and just about keep level with the previous year.

To be able to identify, analyse and assess potential risks as promptly as possible, HWA AG uses an integrated information system that enables management to initiate effective strategies and measures early on.

Daimler AG, and in particular its subsidiary Mercedes-AMG GmbH, remain HWA AG's most important clients in 2019. The Daimler Group expects a further upturn in sales in 2019. Consolidated EBIT is also anticipated to be just under the previous year's figure. Mercedes-Benz Cars aims to continue its course of growth in 2019, with sales reaching a new record high. This is a vital foundation for the ongoing cooperation with Daimler AG and Mercedes-AMG GmbH in the field of Vehicles/Vehicle Components activities.

HWA AG was informed at the end of July 2017 that Daimler AG will not be continuing its motorsport activities in the DTM racing series beyond 2018. From 2019 onwards, the end of Daimler AG's participation in the DTM will entail the loss of what has up until now been a constant source of sales revenue in the Motor Racing segment. This is to be offset by new activities in the Formula E, Formula 2 and Formula 3 racing series and by new participation in the DTM with a new partner.

Entry in the ABB FIA Formula E championship as a customer team of VENTURI in the 2018/2019 season is to be continued and expanded from the 2019/2020 season onwards with Daimler AG.

Thanks to a new partnership in the FIA Formula 2 championship and entering the FIA Formula 3 championship under its own team, HWA RACELAB has positioned itself as a racing team in various motor racing series. It brings together experienced specialists for top-level motor racing engineering and related services so that they can be successfully deployed in motorsports.

HWA RACELAB will enter the new, international FIA Formula 3 championship starting in the 2019 season. In the FIA Formula 2 championship, HWA works together with the long-established British motorsports company Arden International Motorsport. Formula 2 and Formula 3 races are held within the scope of Formula 1 and serve as key tiers of the "FIA Formula pyramid" aimed at promoting young driver talent so as to successfully engage in motor sport at the highest level. HWA RACELAB is one of 10 teams in the newly established FIA Formula 3 championship. Involvement in Formula 3 marks a new chapter for HWA AG. The aim of this is to incorporate the many years of experience as the most successful team in DTM history into this project and score victories in this championship.

In Vehicles/Vehicle Components, HWA AG operates within an intense and keenly contested competitive environment in the context of its involvement in the GT segment at large. HWA AG has so far been very successful in this environment. Together with Mercedes-AMG GmbH, the company has positioned itself as a firm fixture in the GT segment as a whole. Mercedes-AMG GmbH is a strong partner, which means that HWA AG has corresponding opportunities to further increase its business volume.

Mercedes-AMG GmbH and HWA AG established the Mercedes-Benz SLS AMG GT3 and the Mercedes-AMG GT3 on the market over the past eight years. The successful cooperation with Mercedes-AMG GmbH was continued with a development contract for the Mercedes-AMG GT4. The delivery of this vehicle boosted business volume in Vehicles/Vehicle Components in 2018. The delivery of the Mercedes-AMG GT4 will continue in 2019, although production is expected to be lower. Parts and service business for the entire product range will continue to develop well thanks to the large number of racing vehicles on the market. On the US and Asian markets in particular, which are served by HWA AG's sales companies, spare parts and service business is expected to grow on account of the larger number of vehicles. Sales companies HWA US and HWA AUS are therefore expected to perform well. In addition, HWA AG is currently holding promising talks with its most important client to date on further follow-up projects.

As part of withdrawing from the DTM, the Management Board aimed to make up for the loss of sales revenue as quickly as possible. In July 2018, HWA AG announced that it had signed a declaration of intent with AF Racing AG, Niederwil (Switzerland), with both companies agreeing to begin talks on a joint venture enterprise. The joint venture aims to develop a strategic innovation partnership for development projects in motor racing and in the automotive sector as a whole, with the new company combining the strengths of AF Racing AG and HWA AG. HWA AG specialises in the development and production of race cars and small-scale series production, alongside associated support and after sales services. The target market is benchmark products in motorsports and small-scale series production.

The joint venture was established in January 2019 under the name Vynamic GmbH. HWA AG holds a 49% share in the company. The remaining shares are held by AF Racing AG. The joint venture provides HWA AG with excellent opportunities to diversify its customer structure.

Vynamic GmbH is a start-up. HWA AG will develop and build the Aston Martin Vantage DTM vehicles on behalf of Vynamic GmbH, and these will then be used by R-Motorsport. R-Motorsport is the exclusive Aston Martin licence team in the DTM from the British manufacturer in the acclaimed touring car series. Another goal for 2019 is to develop small-scale series production in the area of luxury sports cars. Preparations for this are already in full swing. Provided Vynamic GmbH performs successfully on the market, this will present HWA AG with substantial opportunities for further growth in the medium term.

8. Risk report on the use of financial instruments

In addition to risks concerning sales and sales revenue, financial risks must also be taken into account. Some of the trade receivables reported in the company's balance sheet and classified as a risk at the end of 2018 are lendings for which specific loan loss allowances have been set up. Changes that could result from interest rates or market prices constitute a negligible to low potential risk as the majority of business is transacted in euro.

HWA AG uses derivative financial instruments exclusively to hedge the risks of underlying transactions. Exchange rate risks essentially relate to procurement activities in pounds sterling. The development of this exchange rate is monitored at all times in order to be able to react to any price fluctuations and, if necessary, to hedge the risks with derivative financial instruments. There are no exchange rate hedges in place for procurement activities in pounds sterling as at 31 December 2018.

The company uses derivative financial instruments, specifically interest rate swaps, to hedge interest rates. This does not constitute an accounting risk as the swap is used to hedge the Euribor loan.

The opportunity/risk profile has changed accordingly since the previous year as a result of the discontinuation of DTM activities with Daimler AG. However, the information system implemented is still capable of identifying risks reliably so that countermeasures can be initiated early on.

9. Research and development

Across all its activities and business areas, HWA AG has comprehensive resources at its disposal that it requires for the competitive development of racing vehicles, customer sports vehicles, vehicle assemblies and components. For example, the use of cutting-edge IT solutions in simulation and design work ensures that all developments are state-of-the-art. The company also possesses comprehensive expertise and a wide range of resources for developing electrics and electronics in racing and customer sport vehicles and vehicle components – specifically, independently and individually tailored to the intended application. This includes both creating and programming corresponding control electronics in addition to their simulation and analysis.

To be able to guarantee a suitable level of service for its global customers in the customer sports area, HWA AG has built up an excellent infrastructure that has worked superbly over the years and allows the thorough testing and maintenance of vehicles on the race track, in-house or directly on-site.

HWA AG will continue to dedicate special attention to research and development in future so as to be able to uphold the high standard of its products and the competitive edge this bestows. Good planning and targeted investment in this area will ensure the appropriate support for this approach.

10. Non-financial performance indicators

In addition to its financial performance indicators, HWA AG's enterprise value is largely defined by non-financial performance indicators. These concern the company's relationships with its customers and employees in addition to its technology position. Taken together, this information allows us to draw conclusions as to the extent to which HWA AG is able

- to retain skilled and motivated employees as an attractive and responsible employer.
- to develop products that satisfy customer requirements, including in the future.
- to sustainably increase customer benefit with its products and services, and to design production processes so as to conserve resources.

HWA AG is convinced that these aspects represent the essential building blocks needed to successfully position itself amongst the competition in future.

In terms of employee development and health care management, HWA AG has introduced and implemented various measures to promote the health of its employees and help them effectively achieve their full potential. These measures include annual feedback sessions between managers and employees, subsidising the use of electric bikes and organising various sporting activities at in-house fitness areas and outdoors.

In accordance with the legal requirements, the company has a health and safety specialist who trains employees on occupational health and safety 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. DEKRA conducted a system audit 9001:2015 in 2018, which HWA AG passed.

11. Business development and forecast performance of the company

In economic terms, the company almost achieved its goal for the 2018 financial year as communicated. HWA AG had forecast an increase in the Group's gross revenue overall and an EBIT margin of at least 5% in 2018. HWA AG's separate financial statements projected steady sales and a significant improvement to earnings before interest and taxes (EBIT). With gross revenue of EUR 114.7 million, HWA AG outperformed this target. HWA AG's EBIT margin was over 6.5%. Consolidated gross revenue amounted to EUR 112.9 million with EBIT for the Group of EUR 5.3 million and an EBIT margin of 4.7%. HWA AG therefore met its Group margin target in absolute figures, although the relative EBIT margin as a ratio of EBIT to gross revenue remained 0.3% below the 5% target.

In sporting terms, HWA AG met expectations in full. The goal for 2018, the final year of the company's participation in the DTM racing series on behalf of Daimler AG, was to perform better than in 2017 and, if possible, to win the drivers', team and manufacturers' championship. All goals were met, with victories in all stages. After more than 30 years of highly successful collaboration with Daimler AG in the DTM, Mercedes-Benz's DTM era with HWA AG has come to an end. Cooperation with Mercedes-AMG GmbH in its customer sports activities is still ongoing and is developing very positively, as in previous years.

HWA AG is making its Formula E debut in the 2018/2019 season, with the team already preparing for Daimler AG entering Formula E as a works outfit in the 2019/2020 season.

HWA AG had forecast an increase in gross revenue in 2018, budgeting for stable sales revenue in Motor Racing that was then exceeded. The company forecast growth in Vehicles/Vehicle Components that partially materialised. This was helped by factors including high production of the Mercedes-AMG GT4 and new customer projects signed in 2018.

Global demand for passenger cars is likely to stabilise at the high previous year level in 2019. The Mercedes-Benz brand expects sales to continue rising in this financial year.

In Motor Racing, HWA AG expects sales revenue in 2019 to be similar to that of 2018. As part of this, the 2019 financial year should see the first significant sales generated from participation in the Formula E racing series. In addition to sales revenue in Formula E, HWA AG will also provide development and other services for Vynamic GmbH in the DTM. HWA AG will also participate in the Formula 3 and Formula 2 racing series in conjunction with a cooperation partner, generating further sales. These activities should offset the decline in sales revenue from DTM participation with Daimler AG.

The company anticipates a year-on-year increase in sales revenue in Vehicles/Vehicle Components. Production of the Mercedes-AMG GT4 is set to continue in 2019. Moreover, the company is also working on additional projects moving away from Daimler AG that will contribute to sales revenue as well. The spare parts and service business will grow as a result of the large number of vehicles now on the market, similarly contributing to higher sales revenue.

HWA AG is forecasting another increase in the Group's gross revenue overall in 2019. This is impressive given the complete loss of sales revenue with Daimler AG in the DTM. Increased sales revenue is anticipated through the subsidiaries in the US and Australia this year. HWA AG's sales revenue there is essentially generated by its after-sales business. The newly founded joint venture Vynamic GmbH will also have a positive impact on boosting gross revenue. Consolidated EBIT is expected to decline year on year. Group EBIT was significantly influenced by the joint venture Vynamic GmbH's proportional EBIT in 2019. The contribution to EBIT is expected to be negative in the first year of cooperation, but this should then be more than offset in the following years. This means that the EBIT margin will deteriorate markedly in comparison to the previous year. The Management Board considers the prospects for 2019 good, despite challenges in the automotive industry. Uncertainties in the global political environment are unlikely to deteriorate further.

At present, the holding in Vynamic GmbH is to be consolidated using proportionate consolidation. Sales and the result are consolidated accordingly with 49% in the HWA AG Group. Vynamic GmbH expects sales to reach into the double-digit millions in 2019. The company will likely report a negative result in its first year, with a positive earnings contribution planned for 2020 onwards.

A steady trend in sales revenue compared to the previous year is expected in the separate financial statements of HWA AG. The EBIT margin should improve significantly compared to the previous year.

Affalterbach, 26 March 2019

Ulrich Fritz (CEO)


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CONSOLIDATED FINANCIAL STATEMENT 2018

Balance sheet as at 31 December 2018

	31.12.2018			31.12.2017	
ASSETS	EUR	EUR	EUR	EUR thousand	EUR thousand
A. Fixed assets					
I. Intangible assets					
1. Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets		402,695			523
II. Tangible assets					
1. Land and buildings	12,158,553			13,016	
2. Technical equipment and machinery	2,034,974			1,827	
3. Other equipment, operating and office equipment	1,715,211			1,883	
4. Prepayments and assets under construction	2,039,462			1,985	
		17,948,200			18,711
III. Financial assets					
1. Shares in affiliated companies		0			10
			18,350,895		**19,244**
B. Current assets					
I. Inventories					
1. Raw materials, consumables and supplies	30,165,950			28,112	
2. Work in progress	15,029,532			2,789	
3. Prepayments	633,376			0	
4. Payments received on account of orders	-4,575,859			-3,224	
		41,252,999			27,677
II. Receivables and other assets					
1. Trade receivables	11,204,794			16,850	
2. Receivables from affiliated companies	0			640	
3. Other assets	1,497,222			952	
		12,702,016			18,442
III. Cash in hand and at banks		2,989,008			3,204
			56,944,023		**49,323**
C. Prepaid expenses and deferred income			**310,700**		**304**
D. Deferred tax assets			**905,631**		**588**
			76,511,249		**69,459**

		31.12.2018		31.12.2017	
EQUITY AND LIABILITIES	EUR	EUR	EUR	EUR thousand	EUR thousand
A. Equity					
I. Subscribed capital		5,115,000			5,115
II. Revenue reserves					
1. Legal reserve	511,500			512	
2. Other revenue reserves	1,310,000			1,310	
		1,821,500			1,822
III. Difference in equity from currency translation		-46,039			-30
IV. Retained profits/accumulated losses brought forward		19,183,732			18,704
V. Net profit for the year		3,391,855			537
			29,466,048		**26,148**
B. Provisions					
1. Tax provisions		1,519,846		1	
2. Other provisions		4,186,802		3,413	
			5,706,648		**3,414**
C. Liabilities					
1. Liabilities to banks		25,694,997		25,016	
2. Loan liabilities to shareholders		3,500,000		3,500	
3. Trade payables		10,083,151		8,849	
4. Other liabilities - thereof from taxes EUR 564,186.06 (previous year: EUR 1,990 thousand) - thereof relating to social security EUR 2,262.01 (previous year: EUR 1.2 thousand) - thereof to shareholders EUR 940,000 (previous year: EUR 0 thousand)		2,060,405		2,532	
			41,338,553		**39,897**
			76,511,249		**69,459**

Consolidated income statement for 2018

		EUR	31.12.2018 EUR	Previous year EUR thousand
1.	Sales revenue	101,236,731		96,260
2.	Decrease in finished goods inventories and work in progress	10,308,970		-1,295
3.	Other operating income	1,386,694		2,393
			112,932,395	**97,358**
4.	Cost of materials			
	a) Cost of raw materials, consumables and supplies and of purchased merchandise	43,323,041		37,011
	b) Cost of purchased services	17,885,654		15,846
5.	Personnel expenses			
	a) Wages and salaries	22,795,640		20,915
	b) Social security and post-employment costs - thereof for old-age pensions EUR 21,770 (PY: EUR 27 thousand)	3,446,297		3,389
6.	Amortisation and write-downs of intangible fixed assets and depreciation and write-downs of tangible fixed assets	2,249,730		2,852
7.	Other operating expenses	17,971,832		15,493
			107,672,194	**95,506**
8.	Profit before interest and tax (EBIT)		5,260,201	1,852
9.	Other interest and similar income	43,799		1
10.	Interest and similar expenses	682,905		602
			-639,106	**-601**
11.	Income taxes - thereof expenses from change in recognised deferred taxes EUR 317,398 (previous year: EUR 415)		1,204,077	651
12.	Earnings after taxes		3,417,018	600
13.	Other taxes		25,163	63
14.	Net profit for the year		3,391,855	537
15.	Retained profits brought forward		19,183,732	18,704
16.	**Net retained profits**		**22,575,587**	**19,241**

Cash flow statement for 2018

		2018	2017
		EUR thousand	EUR thousand
	Net profit/loss for the financial year	+3,392	+537
+	Depreciation and amortisation of non-current assets	+2,250	+2,851
-	Decrease in other provisions	+773	-2,819
	Other non-cash expenses	+409	+421
-	Changes related to exchange rates	-96	0
-	Increase in inventories, trade receivables and other assets not related to investing or financing activities	-7,821	-9,031
+	Increase in trade payables and other liabilities not related to investing or financing activities	+352	+2,543
-	Gain on disposal of fixed assets	-99	-483
+	Interest expenses	+639	+601
+	Income tax expenses	+1,204	+651
-	Income tax payment	-1	-255
	Cash flow from operating activities	**+1,002**	**-4,984**
+	Proceeds from disposals of tangible fixed assets	+117	+3,830
-	Purchase of intangible fixed assets	-98	-80
-	Purchase of tangible fixed assets	-1,285	-1,020
-	Purchase of long-term financial assets	0	-10
	Cash flow from investing activities	**-1,266**	**+2,720**
	Proceeds from bank borrowings	+3,000	+3,000
	Proceeds from owners	0	+3,500
	Repayment of bank borrowings	-3,321	-4,321
	Interest paid	-683	556
	Cash flow from financing activities	**-1,004**	**+1,623**
	Net change in cash funds	**-1,268**	**-641**
	Change in cash funds due to exchange rate effects	0	+198
	Change in cash funds due to changes in the consolidated group	+54	-14
	Cash funds at beginning of period	-2,797	-2,340
	Cash funds at end of period	-4,011	-2,797

Cash funds break down as follows:

	2018	2017
	EUR thousand	EUR thousand
Cash funds	3,203	5,160
Liabilities to banks	-6,000	-7,500
Total	**-2,797**	**-2,340**

Statement of changes in fixed assets 2018

	Acquisition/production cost				
	1.1.2018 EUR	Additions EUR	Transfers EUR	Disposals EUR	Currency translation EUR
I. Intangible assets					
Purchased concessions, industrial and similar rights and assets, and licences in such rights and asset	4,484,344	98,093	0	0	0
II. Tangible assets					
1. Land and buildings	27,182,624	0	0	0	0
2. Technical equipment and machinery	11,379,284	668,591	0	624,305	1,074
3. Other equipment, operating and office equipment	14,190,422	562,694	0	3,079,740	0
4. Prepayments and assets under construction	1,984,875	54,587	0	0	0
	54,737,205	**1,285,873**	**0**	**3,704,045**	**1,074**
III. Financial assets					
Shares in affiliated companies	10,048	0	-10,048	0	0
	59,231,597	**1,383,966**	**-10,048**	**3,704,045**	**1,074**

Cumulative depreciation and amortisation						Book values	
31.12.2018 EUR	1.1.2018 EUR	Additions EUR	Disposals EUR	Currency translation EUR	31.12.2018 EUR	31.12.2018 EUR	31.12.2017 EUR thousand
4,582,437	3,961,241	218,499	0	0	4,179,740	402,696	523
27,182,624	14,167,092	856,980	0	0	15,024,072	12,158,552	13,016
11,424,644	9,552,206	461,609	624,305	160	9,389,670	2,034,974	1,827
11,673,376	12,307,305	712,641	3,061,781	0	9,958,165	1,715,210	1,883
2,039,462	0	0	0	0	0	2,039,462	1,985
52,320,106	**36,026,603**	**2,031,230**	**3,686,086**	**160**	**34,371,907**	**17,948,199**	**18,711**
0	0	0	0	0	0	0	10
56,902,543	**39,987,844**	**2,249,730**	**3,686,086**	**160**	**38,551,648**	**18,350,895**	**19,244**

Statement of changes in equity in 2018

	Subscribed capital	Legal reserves
	EUR	EUR
1 Jan. 2017	5,115,000	511,500
Equity increases/decreases	0	0
Appropriation to/withdrawals from reserves		0
Distribution		
Currency translation		
Other changes		
Changes in the consolidated group	0	0
Consolidated net profit for the year		0
31 Dec. 2017	5,115,000	511,500
Equity increases/decreases	0	0
Appropriation to/withdrawals from reserves		0
Distribution		
Currency translation		
Other changes		
Changes in the consolidated group	0	0
Consolidated net profit for the year		0
31 Dec. 2018	5,115,000	511,500

Equity of parent company

Revenue reserves: Other revenue reserves	Revenue reserves: Total	Difference in equity from currency translation	Retained profits/ accumulated losses brought forward	Consolidated net profit/loss for the year attributable to the parent company	Equity in accordance with consolidated balance sheet
EUR	EUR	EUR	EUR	EUR	EUR
1,310,000	1,821,500	0	18,997,625	-282,334	25,651,791
0	0				0
0	0		0		0
			0		0
0	0	-30,046			-30,046
			-282,334	282,334	0
0	0	0	-11,427	0	-11,427
0	0	436	0	536,818	537,254
1,310,000	1,821,500	-29,610	18,703,864	536,818	26,147,572
0	0				0
0	0		0		0
			0		0
0	0				0
			536,818	-536,818	0
0	0	8,152	-56,950	0	-48,798
0	0	-24,581	0	3,391,855	3,367,274
1,310,000	1,821,500	-46,039	19,183,732	3,391,855	29,466,048


HWA RACELAB
ENGINEERING
SPEED

Julius Bär
HWA
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MAHLE
MICHELIN


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RACELAB
#FANBOOST
sparco
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WORKWEAR


#ADDIRIYAHE
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ITW
SCHINDLER
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ABB
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HWA
RACELAB


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ABB
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

General information

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

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

The financial year for the Group and for consolidated companies covers the period from 1 January 2018 to 31 December 2018.

The consolidated balance sheet and the consolidated income statement are structured in accordance with sections 294 et seq. HGB. The notes to the consolidated interim financial statements have been created in line with the provisions of sections 313 and 314 HGB. The income statement was prepared using the total cost (nature of expense) method in accordance with section 275 (2) HGB.

Unless otherwise specified, amounts are reported in full euros.

Register information

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

Consolidated group

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

The consolidated financial statements include HWA AG and subsidiaries in the United States (HWA US INC.) and Australia (HWA AUS Pty Ltd), which have the same reporting date as the consolidated financial statements.

HWA AUS Pty Ltd., until now classified as an immaterial subsidiary, was included in the consolidated financial statements for the first time in the 2018 financial year. In accordance with section 301 (2) sentence 3 HGB, the initial consolidation of HWA AUS Pty Ltd. took place as at 1 January 2018. There was no difference or goodwill. The effects of this change to the consolidated Group on the net assets, financial position and results of operations of the Group are immaterial.

Principles of consolidation

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

Capital is consolidated in accordance with the revaluation method. All assets and liabilities of the subsidiary are then recognised at their fair value at the acquisition date or at the date when a controlling influence is obtained. Any positive difference that arises when the acquisition costs are offset against the revalued equity attributable to the parent company is reported as goodwill under intangible assets and is amortised over the respective useful life.

In addition, the carrying amount of goodwill is tested for impairment on an annual basis, as well as during the year if there are indications of possible impairment. If goodwill impairment is identified, an unscheduled write-down is performed.

Receivables and liabilities between affiliated companies in the consolidated Group are eliminated in full.

Income and expenses between affiliated companies in the consolidated Group are eliminated in full. If there is still purchased merchandise on hand as at the end of the reporting period, intercompany profits included in this are eliminated.

Accounting policies

The following accounting policies were instrumental in the preparation of the Group financial statements.

The annual financial statements of the companies included in the consolidated financial statements of HWA were prepared in line with uniform accounting policies.

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

Property, plant and equipment is recognised at cost of acquisition or construction and depreciated where appropriate.

Depreciation of property, plant and equipment is performed on a straight-line basis over its expected useful life. In accordance with tax regulations valid from 2018 onwards, low-value assets with a value of up to EUR 800.00 were written off immediately and recognised as disposals in the year of addition. In previous years, a limit of EUR 1,000.00 on low-value assets was applied under commercial law, in departure from tax regulations. The effects of the change on the net assets, financial position and results of operations are immaterial. Additions to property, plant and equipment are depreciated pro rata temporis.

Shares in affiliated companies were recognised at cost in the previous year. If the reasons for permanent impairment cease to exist, the impairment is reversed.

Inventories of **raw materials, consumables and supplies** are capitalised at the lower of average cost or net realisable values.

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

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

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

Receivables and other assets are recognised at their nominal value. For risks attaching to individual items, specific provisions are made; general credit risk is the subject of general provisions. In accordance with section 253 (4) HGB, significant long-term receivables and other assets are discounted using the relevant average market interest rate for the past seven financial years in line with their remaining term.

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

Disbursements prior to the closing date that represent expenses for a specific period thereafter are recognised as **prepaid expenses**.

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

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

Liabilities are recognised at the settlement amount.

The acquisition cost of **assets and liabilities denominated** in foreign currencies is translated at the mean spot rate at the transaction date. Assets and liabilities with remaining terms of one year or less are generally measured using the mean spot rate at the balance sheet date. Assets and liabilities with a remaining term of more than one year are recognised at the mean spot rate at the balance sheet date, taking account of the realisation and imparity principle.

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

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

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

Consolidated balance sheet disclosures

Fixed assets
The development of the individual items of fixed assets is presented along with the related depreciation and write-downs in the financial year in the statement of changes in fixed assets.

List of shareholdings
HWA AG holds a 100% interest in HWA Inc., based in the state of Delaware, USA. The company was fully consolidated in the consolidated financial statements.

HWA AG holds a 100% interest in HWA Aus Pty Ltd, based in the state of Victoria, Australia. The company was fully consolidated in the consolidated financial statements for the first time in 2018.

Inventories
Advance payments received are openly offset against inventories and have a remaining term of up to one year.

Receivables and other assets
EUR 684 thousand (previous year: EUR 0 thousand) of the trade receivables have an expected remaining term of more than one year.

Deferred tax assets
The surplus of assets was recognised here. Details on the item are given under income taxes.

Equity and authorised capital of the AG

The share capital is divided into 5,115,000 no-par-value bearer shares with a pro rata amount of the share capital of EUR 1.00.

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

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

On the basis of the Management Board's proposal, on 18 December 2018 the Supervisory Board resolved to issue 511,500 new, no par value bearer shares with a nominal value of EUR 1.00 per share against a cash contribution. The subscription price per share is set at EUR 13.87. Statutory shareholder subscription rights were excluded. Aufrecht GmbH in Affalterbach and Dörflinger Management & Beteiligungs GmbH based in Vienna were authorised to subscribe the shares. The shares are securitised after proceeds from the capital increase are received in full.

Provisions

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

Liabilities

Of the liabilities to banks, EUR 10,171 thousand (PY: EUR 11,320 thousand) have remaining maturities of up to one year and EUR 15,524 thousand (PY: EUR 13,696 thousand) have remaining maturities of more than one year. EUR 5,743 thousand (PY: EUR 4,462 thousand) of the latter category have remaining maturities of more than five years. EUR 8,621 thousand was secured by charges on real property.

The loan liabilities to shareholders exist in the form of a loan with a remaining term of more than one year.

As in the previous year, trade payables and other liabilities have a remaining term of up to one year.

Collateral has been provided for these liabilities to the usual extent as customary in the industry and where required by law.

Contingent liabilities and other financial commitments

	EUR thousand
Obligations under service, rental and leasing agreements	4,659
Purchase commitments	19,354

The agreements come to an end between 2019 and 2024.

There were no contingent liabilities as at the end of the reporting date.

As at the end of the reporting date, there was a payment obligation of EUR 49,000 outstanding to Vynamic GmbH, the company established in accordance with the Articles of Association dated 18 December 2018. This was satisfied on 23 January 2019.

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

	Base rate	Fixed interest rate	Reference value	Term	Fair value
		%	EUR thousand		EUR thousand
Swap	3-month EURIBOR	3.57	700	3.9.2019	-20

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

Distribution restriction
The recognition of deferred tax assets means that under section 268 (8) HGB there is a restriction on distributions of EUR 382 thousand.

Consolidated income statement disclosures

Sales revenue
Sales revenue breaks down as follows:

	2018	2017
	EUR thousand	EUR thousand
Sales revenues by region		
Germany	82,706	77,660
Outside Germany	18,531	18,600
	101,237	**96,260**

Other operating income

Other income essentially relates to income from currency translation of EUR 732 thousand (previous year: EUR 513 thousand). It also includes income from insurance compensation (EUR 178 thousand) and income from non-cash benefits (EUR 354 thousand).

Other operating expenses

Other operating expenses consist of operating expenses (EUR 4,518 thousand), sales and administrative expenses (EUR 9,283 thousand), other personnel expenses (EUR 2,675 thousand) and miscellaneous other expenses (EUR 992 thousand). Miscellaneous other expenses mainly comprise valuation allowances on receivables (EUR 293 thousand). There are also expenses from currency translation (including currency valuations) in the amount of EUR 541 thousand (PY: EUR 899 thousand).

Interest income

Interest income of EUR 44 thousand relates to the discounting of a receivable.

Interest expenses

The total amount of interest paid during the reporting year for liabilities to banks comes to EUR 683 thousand.

Income taxes

Deferred taxes are calculated using the balance sheet liability method if there are differences between assets, liabilities and accruals for the purposes of financial accounting and their carrying amounts for tax purposes, which will reverse again over time.

Deferred taxes result from differences between the carrying amounts of fixed assets, inventories, trade receivables and provisions for the purposes of financial accounting and those for tax purposes. Only temporary differences were recognised to calculate deferred taxes. The weighted Group tax rate is 26.2%.

Recognised deferred taxes resulting from temporary differences break down as follows:

	31.12.2018	
	Deferred tax assets EUR thousand	**Deferred tax liabilities EUR thousand**
Intangible assets	3	
Tangible assets	47	3
Inventories	798	
Trade receivables		7
Tax loss carryforwards	30	
Provisions	55	17
Total	**933**	**27**
Set-off	-27	-27
Carrying amount	906	0

Taxes on income relate primarily to income from ordinary operating activities.

Taxes on income reduced consolidated net profit by EUR 1,204. Taxes on income include income from deferred tax assets in the amount of EUR 317 thousand.

This also includes deferred taxes resulting from temporary differences between the amounts recognised in the tax accounts and in the commercial accounts. Deferred taxes are calculated based on the tax rates applicable in the individual countries.

Tax expenses included in the consolidated financial statements comprise the following::

	EUR thousand	Percent
Earnings before tax	**4,596**	
Relevant tax rate		27.0%
Expected tax expense	1,242	
Deviation from tax base		
Write-downs on items not recognised for tax purposes	255	5.5%
Difference tax carrying amounts	272	5.9%
Expenses not deductible for tax purposes	56	1.2%
Changes in tax rates		
Trade tax	-42	-0.9%
Recognition and measurement of deferred tax assets		
Impairment of deferred tax assets	-694	-15.1%
Not recognised	70	1.5%
Reversal of impairment losses	14	0.3%
Non-periodic effects		
Taxes from previous years	30	0.7%
Other	**1**	**0.0%**
Current tax expense	**1,204**	
Effective tax rate		**26.2%**

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

Other disclosures

The Supervisory Board

- Hans Werner Aufrecht, businessman, Chairman
- Willibald Dörflinger, entrepreneur, Deputy Chairman
- Gert-Jan Bruggink, equestrian show jumper
- Rolf Krissler, tax adviser
- Michael Schmieder, businessman (deceased 5 April 2018)
- Hussain Ahmad Al-Siddiq, Deputy Chief Executive Officer
- Klemens Große-Vehne, entrepreneur (from 25 July 2018)

The remuneration of the Supervisory Board for the purposes of section 113 of the German Stock Corporation Act (AktG) amounted to EUR 162 thousand.

Management Board

- Ulrich Fritz, CEO, Chairman of the Management Board

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

Employees

Average number of employees during the financial year:

Non-salaried staff	167
Salaried staff	130
	297
Apprentices	2
	299

Two people were employed outside Germany.

Report on events after the balance sheet date

The capital increase resolved on 18 December 2018 was implemented in Q1 2019. The shares were securitised after they had been fully paid in by the authorised signatories.

The joint venture Vynamic GmbH, based in Affalterbach, was established on 18 December 2018. It was entered in the Commercial Register on 28 January 2019 under HRB 768008. HWA holds a 49% share in Vynamic GmbH. The company's equity was increased to EUR 4,100,000.00 in 2019 and was fully paid in by both shareholders in the first quarter of 2019.

Remuneration of the auditor

The table below shows the fees incurred for services by the auditor Treuhand Südwest GmbH, Wirtschaftsprüfungsgesellschaft und Steuerberatungsgesellschaft, Karlsruhe, for the 2018 financial year on an aggregated basis.

	EUR thousand
Auditing services	42.6
Other assurance services	15.1
Other services	2.4
	60.1

Proposal for the appropriation of net profit

In agreement with the Supervisory Board, the Management Board proposes to distribute 50% of HWA AG's net profit for the year to shareholders, with 50% to be carried forward to new account.

Affalterbach, 26 March 2019

The Management Board

Ulrich Fritz (CEO)

AUDITOR'S REPORT

To HWA AG, Affalterbach
Report on the audit of the consolidated financial statements and the combined management report

Audit opinions
We have audited the consolidated financial statements of WA AG, Affalterbach and its subsidiaries (the Group), comprising the consolidated balance sheet as at 31 December 2018, the income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the financial year from 1 January 2018 to 31 December 2018, and the notes to the consolidated financial statements, including the presentation of the accounting policies and valuation principles. In addition, we have audited the Group management report of HWA AG, Affalterbach, which is combined with the management report of the parent company, for the financial year from 1 January 2018 to 31 December 2018.

In our opinion, based on the findings of our audit,

- the attached consolidated financial statements comply in all material respects with the requirements of German commercial law and give a true and fair view of the Group's net assets and financial position as at 31 December 2018, and of its results of operations for the financial year from 1 January 2018 to 31 December 2018, in accordance with the German principles of proper accounting.

- the attached combined management report as a whole presents an accurate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal regulations and suitably presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the content of the parts of the Group management report listed in the annex.

Pursuant to Section 322(3) sentence 1 HGB, we state that our audit has not led to any reservations with regard to the compliance of the consolidated financial statements or the combined management report.

Basis for the audit opinions
We conducted our audit of the consolidated financial statements and the combined management report in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors - IDW). Our responsibility according to these regulations and standards is described in further detail in the "Responsibility of the auditor for the audit of the consolidated financial statements and the combined management report" section of our auditor's report. We are independent of the Group company in compliance with the provisions of German commercial and professional law and have fulfilled our other German professional obligations in compliance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions regarding the consolidated financial statements and the combined management report.

Responsibility of the legal representatives for the consolidated financial statements and the combined management report

The legal representatives are responsible for preparing the consolidated financial statements, which in all material respects comply with the requirements of German commercial law, and for the consolidated financial statements giving a true and fair view of the net assets, financial position and results of operations of the Group in accordance with the German principles of proper accounting. Furthermore, the legal representatives are responsible for the internal controls that, in accordance with the German principles of proper accounting, they deemed necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

When preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's status as a going concern. In addition, they have a responsibility to disclose matters related to the status as a going concern, if relevant. They are also responsible for accounting on the basis of the going concern principle, unless prevented by actual or legal circumstances.

Moreover, the legal representatives are responsible for preparing the combined management report, which as a whole provides an accurate view of the Group's position and is consistent with the consolidated financial statements in all material respects, complies with German legal regulations and suitably presents the opportunities and risks of future development. The legal representatives are also responsible for the arrangements and measures (systems) that they considered necessary to enable the preparation of a combined management report in compliance with the applicable German legal regulations and to allow sufficient, suitable evidence to be provided for the statements in the combined management report.

Responsibility of the auditor for the audit of the consolidated financial statements and the combined management report

Our objective is to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an accurate view of the Group's position and is in all material respects consistent with the consolidated financial statements and with the findings of the audit, complies with German legal regulations and suitably presents the opportunities and risks of future development, and to issue an auditor's report containing our audit opinions regarding the consolidated financial statements and the combined management report.

Reasonable assurance is a high level of assurance but not a guarantee that an audit carried out in compliance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) will always uncover a material misstatement. Misstatements can result from transgressions or inaccuracies and are deemed material if it could be reasonably expected that they would individually or together influence the financial decisions made by users on the basis of the consolidated financial statements and combined management report.

We exercise due discretion during the audit and maintain a critical attitude. In addition, we identify and evaluate the risk of material misstatements, whether due to fraud or error, in the consolidated financial statements and the combined management report, plan and implement audit procedures in response to these risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk that material misstatements are not uncovered is higher in the case of transgressions than in the case of inaccuracies, as transgressions can entail fraudulent collaboration, falsifications, deliberate omissions, misleading depictions or the suspension of internal controls.

- the attached combined management report as a whole presents an accurate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal regulations and suitably presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the content of the parts of the combined management report listed in the annex.

- we gain an understanding of the internal control system relevant for the audit of the consolidated financial statements and of the arrangements and measures relevant for the audit of the combined management report in order to plan audit procedures that are appropriate given the circumstances, but not with the aim of providing an audit opinion regarding the effectiveness of these systems.

- we evaluate the appropriateness of the accounting policies used by the legal representatives and the reasonableness of the estimated values presented by the legal representatives and the associated disclosures.

- we draw conclusions about the appropriateness of the going concern principle applied by the legal representatives and, on the basis of the audit evidence obtained, whether there is material uncertainty regarding events or circumstances that could cause significant doubt about the Group's ability to continue as a going concern. If we come to the conclusion that there is material uncertainty, we are obliged to call attention to the associated disclosures in the consolidated financial statements and in the combined management report in the auditor's report or, if these disclosures are inappropriate, to modify our respective audit opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our auditor's report. However, future events or circumstances may mean that the Group is no longer a going concern.

- we evaluate the overall presentation, the structure and the content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events such that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with the German principles of proper accounting.

- we gather sufficient and reasonable evidence for the company's accounting information or operating activities within the Group in order to issue an audit opinion on the consolidated financial statements and combined management report. We are responsible for leading, supervising and carrying out the audit of the consolidated financial statements. We accept sole responsibility for our audit opinion.

- we evaluate the consistency of the combined management report with the consolidated financial statements, its legality and the view it gives of the position of the Group.

- we conduct audit procedures regarding the forward-looking disclosures made by the legal representatives in the combined management report. On the basis of sufficient appropriate audit evidence, we examine the significant assumptions underlying the legal representatives' forward-looking disclosures in particular and evaluate the appropriateness of the derivation of the forward-looking disclosures from these assumptions. We do not provide a separate audit opinion regarding the forward-looking disclosures or the underlying assumptions. There is a considerable, unavoidable risk that future events will differ significantly from the forward-looking disclosures.

Topics for discussion with those responsible for monitoring include the planned scope and scheduling of the audit as well as significant audit findings, including any deficiencies in the internal control system that we find during our audit.

Karlsruhe, 26 March 2019

TREUHAND SÜDWEST GMBH

Wirtschaftsprüfungsgesellschaft und Steuerberatungsgesellschaft

Schülj	Retzbach
German public auditor	German public auditor
(Wirtschaftsprüfer)	(Wirtschaftsprüfer)

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