www.hwaag.com

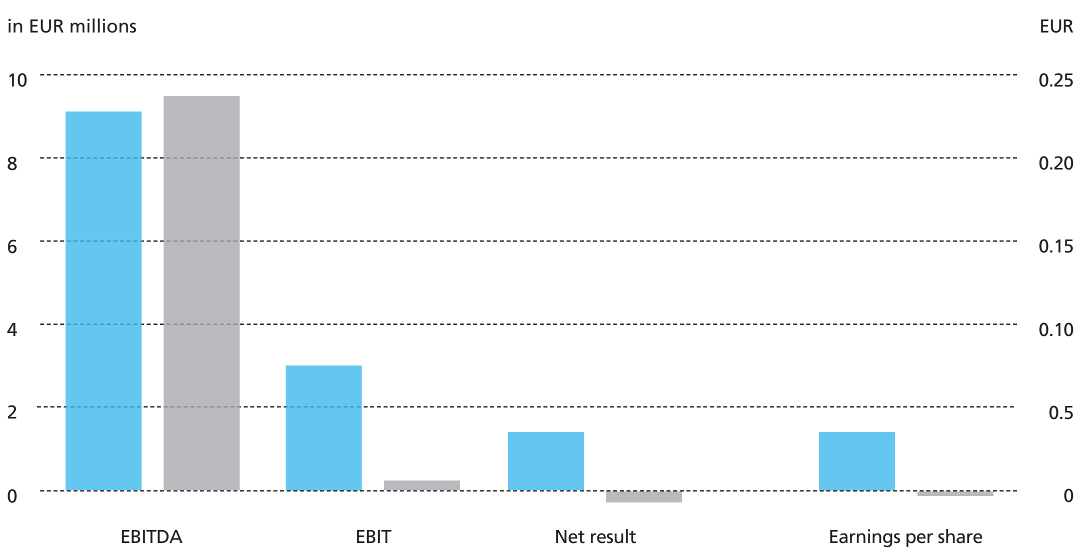
REPORT 17

Motor racing • Vehicles and components

KEY FIGURES

in EUR millions	2017	2016	2015	2014	2013	2012	2011	2010
Umsatzerlöse	95.5	97.4	83.6	64.1	56.0	63.5	63.8	44.9
EBITDA	5.7	3.2	8.1	3.7	7.9	7.7	8.1	6.4
EBITDA-Marge (in %)	5.8	3.3	9.6	5.8	14.1	12.2	12.7	14.3
EBIT	2.8	0.2	5.1	1.4	5.7	5.6	5.9	4.1
EBIT-Marge (in %)	2.9	0.2	6.1	2.2	10.0	8.8	9.3	9.0
Nettoergebnis	1.4	-0.3	3.4	0.7	3.9	3.7	4.1	2.5
Ergebnis pro Aktie (in EUR)	0.28	- 0.06	0.66	0.13	0.75	0.73	0.79	0.49

AT A GLANCE **2017** | 2016



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EVENTS 2018

26 April 2018	Publication of the annual figures for the 2017 financial year
18 May 2018	Publication of the 2017 annual financial statements
28 June 2018	Annual General Meeting of HWA AG in Affalterbach
19 October 2018	Publication of the 2018 half-year report

LETTER TO THE SHAREHOLDERS

Dear HWA AG shareholders,

2017 was a very eventful year for HWA AG. In summer, we were informed that Daimler AG would not continue its motorsports activities in the DTM racing series after 2018. As a full service provider for Daimler AG in the DTM, we were affected by this decision. A significant share of our company's revenue is lost with the end of Daimler AG’s involvement in the DTM. Since this announcement, we have been working hard to compensate for the termination of this motor racing programme. In this regard, we have already taken a step forward. As at the 2018/2019 season, HWA AG is involved as a customer team of VENTURI in the ABB FIA Formula E championship. We aim to continue our success story from the DTM in the Formula E. Of course, the involvement in Formula E will not be able to compensate completely for the volume of the DTM. Thus, we are examining and working on further projects in motor racing. This is a challenge for HWA AG.

2017 was also eventful because due to the unsatisfactory results in the second half of 2016 and the uncompetitive cost structure we decided to implement a programme to optimise and realign individual areas in December 2016. Such a reorganisation concept initially causes uncertainty and unrest in a company. During 2017, the reorganisation concept was successfully completed and has been more efficient overall than we expected. HWA AG is now significantly better positioned and its vertical integration has been substantially reduced. The areas of development services, deployment, testing, construction of racing vehicles as well as after sales and services in motor and customer sport are now at the heart of our business.

The measures implemented have paid off as early as 2017. We even slightly exceeded our planning. We had initially projected gross revenue of EUR 80 to 85 million and an EBIT margin of 2.5%. We achieved gross revenue of EUR 97.5 million. For 2017, our main goal was to return to profitability. With earnings before interest and taxes of EUR 2.8 million, we were well on target here. Net earnings amounted to EUR 1.4 million. After a disappointing 2016, the development of the figures in 2017 was encouraging overall.

In the motor racing (DTM and Formula 3) business unit, sales decreased year-on-year in 2017 in line with planning. The vehicles and vehicle components business unit developed somewhat better than planned, particularly in the second half of the year. Deliveries of the Mercedes-AMG GT3 remained at a good level after substantial increases in the previous years. The cooperation with Mercedes-AMG GmbH was continued with a development contract for the Mercedes-AMG GT4. The first deliveries were made in the final weeks of 2017. There is strong interest in GT4 race cars, which address an even larger target group of amateur and professional drivers and teams. In the area of customer sport, the collaboration with Mercedes-AMG also resulted in further proceeds from the spare parts and service business. The vehicles and vehicles components business unit is developing well overall, with revenue growing significantly for many years.

However, the significant growth in this segment in previous years has resulted in significantly higher working capital. Factors influencing the higher capital requirements include the production of the Mercedes-AMG GT3 and GT4, the parts supply for the AMG customer sports team and other customer projects. I had announced that HWA AG will pay dividends again when it returns to profitability. The Management Board and the Supervisory Board have intensively discussed this issue. In view of the fact that our business is now very capital-intensive and that we are carrying debt, the company has decided not to propose a dividend to the Annual General Meeting. Considering the circumstances and balance sheet of HWA AG as well as further investments and Daimler AG's exit from the DTM, we consider waiving a dividend proposal is a logical and correct consequence.

In 2017, we prepared our consolidated financial statements in line with HGB for the first time. However, there are no prior-year figures. In 2017, the HWA Group generated sales of more than EUR 96 million, EBIT of EUR 1.9 million and net income for the year of EUR 0.5 million.

In 2018, we are anticipating a stable sales trend and a significant earnings upturn for the Group. In the motor racing business unit, sales will stabilise at roughly the same level as in the previous year. Formula 3 engine rental and sales business, which is also part of the Motor Racing segment, will likewise plateau at the previous year's level. The company expects a successful year again in the vehicles and vehicles components business unit. In addition to the ongoing production of the Mercedes-AMG GT3, the first-time large-scale production of the Mercedes-AMG GT4 will lead to higher sales revenue than in the previous year. The spare parts and service business will continue to grow as a result of the large number of vehicles now on the market, similarly contributing significantly to higher sales revenue.

In sporting terms, we naturally intend to floor the accelerator in the final year in the DTM. We are the most successful team in the DTM. Since entering the DTM as a works outfit, the Mercedes-AMG Motorsport DTM team has won ten drivers' titles, 13 team titles and six brand titles. During the same period, Mercedes-AMG Motorsport DTM drivers won more than 180 races and 105 double victories. Against this backdrop, together with our partner, we intend to bid farewell from the DTM in 2018. Thus, we not only have high goals in the DTM, but also high goals in the company as a whole. HWA AG is well prepared to complete 2018 successfully.

We will floor the accelerator to achieve both goals and wish you an informative read of our 2017 annual report.

Yours,

Ulrich Fritz

REPORT OF THE SUPERVISORY BOARD

Dear HWA AG shareholders,

In the 2017 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 2017, the Supervisory Board met four times in the performance of its duties. In these meetings, the current state of the Company's affairs was discussed with the Management Board and explained in detail. The meetings took place on 21 March, 28 June, 11 October and 19 December 2017. All Supervisory Board meetings were attended by all members, with the exception of two meetings, at which for good reasons one member was unable to be present. 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 21 March 2017. The Supervisory Board approved the annual financial statements of HWA AG for the year 2016 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 2017
- Sporting developments and the status in the DTM in 2017
- The liquidity situation, liquidity planning and risk and opportunity management
- The financing structure and further financing and options for HWA AG with regard to future financing
- The establishment of a subsidiary in Australia
- 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 development of the Formula 3 and GT series
- The non-renewal of a Management Board contract
- The diversification of the customer structure and the Company's future strategy
- The implementation of the reorganisation at HWA AG in 2017 and realignment in business processes
- The impact for HWA AG after being informed that Daimler AG will not continue its motorsports activities in the DTM racing series after 2018.
- Possible compensation due to this termination and determination of other opportunities in motor racing for HWA AG
- Future development and the budget for 2018 and medium-term planning of HWA.

Membership of the Management and Supervisory Boards

There were changes to the Management Board at HWG AG in the 2017 reporting year. In 2016, the Supervisory Board appointed Mr Michael Wilson as a new Management Board member with effect from 1 October 2016. This Management Board contract was limited until 30 September 2017. The Supervisory Board has decided not to extend the Management Board contract. Mr Wilson (CTO) therefore left the Management Board of HWA AG as at the end of September 2017.

Ulrich Fritz was a member of the Management Board of HWA AG and Chairman of the Management Board for the whole of 2017.

Since 1 October 2017, Mr Fritz has managed the company as its sole member of the Management Board.

As at the end of the 2017 financial year, the Management Board of HWA AG consisted of the following members:
- Ulrich Fritz, sole member of the Management Board.

Under the Company's articles of incorporation the Supervisory Board consists of six members. As at the end of the 2017 reporting year, the Supervisory Board was made up of the following persons:

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

There were no changes to the Supervisory Board in the whole of 2017. All the above members of the Supervisory Board were elected for a new period in office at the Annual General Meeting in June 2015.

Annual financial statements and audit

By resolution of the Annual General Meeting of 28 June 2017, Treuhand Südwest GmbH Wirtschaftsprüfungsgesellschaft und Steuerberatungsgesellschaft, Karlsruhe, was appointed as statutory auditor of the Company's annual financial statements for the 2017 financial year. The statutory auditor audited the 2017 annual and consolidated financial statements and the combined management report prepared by the Management Board and issued an unqualified audit opinion.

The annual and consolidated financial statements and the combined management report were laid before the members of the Supervisory Board in due time. They were exhaustively discussed in the Supervisory Board's financial statements meeting. The statutory auditor participated in the meeting and reported on the major features of his audit, and was available to answer further questions from the Supervisory Board. The Supervisory Board reviewed the statutory auditor's findings in detail, and approved the auditor's opinion. On the basis of its review, the Supervisory Board had no grounds for objection to the annual and consolidated financial statements. It approved the annual and consolidated financial statements for the 2017 financial year on 18 April 2018. The annual financial statements for 2017 were thereby formally adopted. After in-depth discussions, the Supervisory Board approved the Management Board's proposal not to pay a dividend but instead to carry forward the net retained profits for 2017 to new account.

Supervisory Board's thanks

The Supervisory Board would like to express its thanks to the Management Board and all the Company's staff for their commitment and successful work in the 2017 financial year. 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 2018


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THE HWA AG SHARE

After a good start to the trading year, the DAX rose to 13,000 points in the first half of 2017. The extremely positive development continued over the further course of the reporting year. In 2017, neither risks such as the European elections, the uncertainty surrounding Brexit nor the US government's isolationist and North Korea policy had an impact on investors. The stock exchanges of emerging countries led the rankings of the price increase, but the industrialised nations also recorded a rapid performance. On the home straight in 2017, the markets in Germany and the US lost speed slightly after a strong trading year. Nevertheless, the benchmark index, Dow Jones, generated the largest annual performance in the US since 2013. In 2017, the stock markets in Europe continued their longest winning series to date with the sixth consecutive year of annual profit. The DAX's year-end level of 12,918 points represented an 11.4% increase compared to the previous year. Germany's mid-cap index, the MDAX, rose by 16.5% in 2017. The SDAX, Germany's small-cap index, increased by as much as 23.3%, while the TecDAX, Germany's technology index, rose by as much as 37.4%. 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 rise of 29.5%, the second best performance in 2017 after the TecDAX.

The HWA share did not manage to keep up with the price increases of the German indices in the 2017 financial year and performed in step with the German default values in the DAX. HWA AG stock posted a price increase of 11.8% in the year under review. On 2 January 2017, the HWA AG share opened the trading year at a price of EUR 13.60. After tracking sideways, its lowest level of EUR 13.34 was recorded on 11 August 2017. Following a steady price increase, the HWA share marked its high for the year of EUR 17.50 on 1 August 2017. Its price at the end of the year was EUR 15.08 (all information is based on XETRA prices).

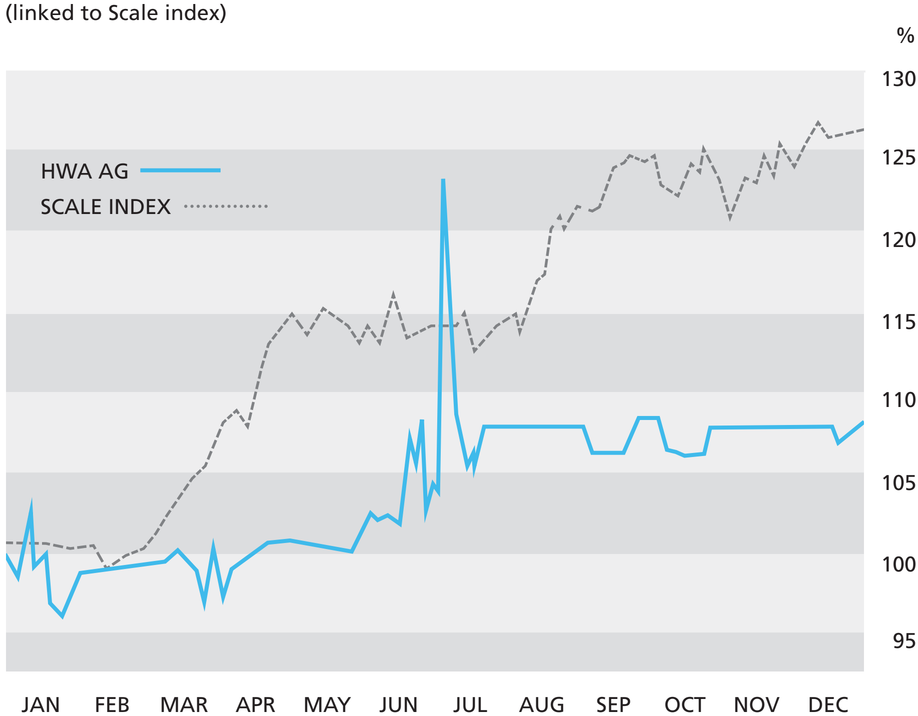
The average daily trading volume of the HWA share (XETRA and floor trading in Frankfurt) was 2,188 shares on 252 trading days in 2017 (previous year: 942 shares). The share price performance in 2017 resulted in a corresponding increase in market capitalisation of around EUR 77 million at the end of the year based on 5,115,000 shares (2016: EUR 72 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 2017
(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 28 June 2017. 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 2017

The tenth Annual General Meeting of HWA AG since the initial stock market listing in 2007 took place on 28 June 2017. Around 60 shareholders attended this event at the Residenzclub in Affalterbach. Of the company's total share capital of EUR 5,115,000 – split into 5,115,000 shares – around 4.7 million shares or roughly 93% of the share capital were represented. We are very pleased with the trust shown by shareholders in the development of our company, especially the smaller ones.

Specifically, a resolution was passed on the appropriation of the net retained profits for the 2017 financial year (agenda item 2). The management had proposed that the reported net retained profits be carried forward to new account for 2017 and that no dividend is to be proposed to the Annual General Meeting. In addition, resolutions were passed in relation to approving the actions of the Management Board (agenda item 3) and the Supervisory Board (agenda item 4) and the appointment of Treuhand Südwest GmbH Wirtschaftsprüfungsgesellschaft und Steuerberatungsgesellschaft, Karlsruhe, as the auditor for the 2017 financial year (agenda item 5). The resolutions were all adopted as proposed by the management with majorities of more than 99% and in the case of item 5 with a majority of 100%.

Events 2018

26 April 2018	Publication of the annual figures for the 2017 financial year
18 May 2018	Publication of the 2017 annual financial statements
28 June 2018	Annual General Meeting of HWA AG in Affalterbach
19 October 2018	Publication of the 2018 half-year report

Shareholder structure

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

HWA AG's shareholder structure did not change in 2017. The company's founder and Chairman of the Supervisory Board, Hans Werner Aufrecht, and his family hold an equity interest in HWA AG of around 40%. The shareholdings of Dörflinger Privatstiftung, which is represented by the Deputy Chairman of the Supervisory Board Willibald Dörflinger, 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 June 2017.

Appropriation of the 2017 net retained profits

HWA AG made no dividend payment for 2016 as the result was negative. In 2017, HWA AG managed to return to profitability. For 2018, the company anticipates sales growth and a significant improvement in results. Growth results in a higher demand for working capital. The company must pre-finance business in the vehicles and vehicle components segment. In addition, the goal is to initially strengthen the viability of HWA AG. Thus, the Management Board and the Supervisory Board will propose to the Annual General Meeting in June 2018 that the 2017 net retained profits be carried forward to new account. In the medium term, HWA AG intends to continue sharing its development with its shareholders by way of a dividend payment, provided the company has achieved appropriate success.

HWA AG – THE COMPANY

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

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

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

Alongside DTM, motorsport at the highest level also determines day-to-day business: HWA AG’s other area of expertise is in the development, manufacture and servicing of Formula 3 racing engines. The racing version of the Mercedes-Benz SLS AMG was also developed and produced by HWA AG – in close cooperation with Mercedes-AMG. 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 first deliveries were made in the final weeks of 2017.

Motor racing

The motor racing business unit is dominated by participation in the German Touring Car Masters (DTM) racing series. HWA AG runs the official racing team for Mercedes-AMG Motorsport in the DTM as “Mercedes-AMG Motorsport DTM Team”. The portfolio covers all racing operation activities – from the development and construction of the race cars, including the engines, to preparation for and participation in the races. HWA AG is also responsible for supporting and choosing the drivers. The Company works closely with Daimler AG in marketing the brand and all the vehicles, and gaining sponsors. In the reporting period, there were 18 DTM races in five countries.

There was a promising start to the DTM for HWA AG in Hockenheim. Lucas Auer was successful in the first race of the season, taking first place. He took first place again at the first race at the Lausitzring. In Budapest, Paul di Resta was victorious in one race. In Moscow, Maro Engel won the second race. At the Nürburgring, Lucas Auer scored another win in the first race and Robert Wickens celebrated his first victory of the season in the second race.

The DTM is the core market of HWA AG. The Company operates successfully there in collaboration with Mercedes-AMG Motorsport. In total, the brand with the star has been the winner in more than 180 DTM races since 1988. The HWA team succeeded in winning a total of eleven driver titles, nine brand titles and 14 team titles for Mercedes-AMG Motorsport. This impressive record puts Mercedes-AMG Motorsport and HWA ahead of every other manufacturer and team in over 30 years of DTM history. The 2018 season concludes the unprecedented DTM era between Mercedes-Benz and HWA AG.

Outlook – Motor racing

In the 2018 DTM season, Mercedes-AMG Motorsport started with six Mercedes-AMG C 63 DTM race cars. Mercedes-Benz DTM pilots for 2018 include Lucas Auer, Daniel Juncadella, Paul Di Resta, Pascal Wehrlein, Gary Paffett and Edoardo Mortara.

2018 DTM motor racing calendar

4 to 6	May	2018	D	Hockenheimring
18 to 20	May	2018	D	Lausitzring
1 to 3	June	2018	H	Budapest
22 to 24	June	2018	D	Norisring
13 to 15	July	2018	NL	Zandvoort
11 to 12	August	2018	GB	Brands Hatch
24 to 26	August	2018	I	Misano
7 to 9	September	2018	D	Nürburgring
21 to 23	September	2018	A	Spielberg
12 to 14	October	2018	D	Hockenheimring

The DTM is traditionally marked by exciting battles for position and close time differences. In total, 18 race touring cars from Mercedes-AMG, Audi and BMW are competing in the popular touring car series. The high performance density guarantees a gripping race. The 2018 DTM season comprises ten racing weekends. It traditionally starts and ends at the Hockenheimring Baden-Württemberg, Germany. Five of the racing weekends take place in Germany, with five guest appearances by the DTM abroad – in Austria, the Netherlands, Italy, Hungary and England. Two races are held each racing weekend, one on Saturday and one on Sunday. The races on Saturday and Sunday are the same length (55 minutes plus one lap) and each include a qualifying session (20 minutes) and a pit stop.

HWA AG has developed an outstanding reputation in the motor racing business for the development and production of racing engines for Formula 3. The first Mercedes-Benz Formula 3 engine was used back in 2002. Between 2003 and 2012, drivers with Mercedes-Benz engines won seven out of a possible nine driver titles in the Formula 3 European series. In the current FIA Formula 3 European championship, which has been ongoing since 2013, all titles to date have gone to drivers and teams using cars powered by the Mercedes-AMG Formula 3 engine as at the end of 2016. This pattern was broken only in 2017. However, ultimately, no other manufacturer can boast of more titles, victories, pole positions and fastest laps than Mercedes-Benz with the Formula 3 engines developed by HWA so far.

From the 2018/2019 season, HWA AG is involved as customer team of VENTURI in the ABB FIA Formula E championship. The HWA season start in Formula E will be in Riyadh, Saudi Arabia in December 2018.

Vehicles and vehicle components

A series of victories and almost five decades of motor racing at the highest level – HWA AG also applies its extensive expertise profitably in the vehicles and vehicle components business. Highly specialised development contracts for customers from the automotive industry are another strength of the Company. With its expertise, HWA AG is a much sought-after partner for premium suppliers in the industry. In the past, HWA AG has developed and produced top-class sports cars for series production such as the Mercedes-Benz CLK-GTR, the CLK DTM AMG and the SL 65 AMG Black series. Since the end of 2010, when the Company first entered the AMG customer sports segment, more than 100 Mercedes-Benz SLS AMG GT3 cars have been delivered all over the world.

In close cooperation with Mercedes-AMG GmbH, HWA AG drove forward the development of the Mercedes-AMG GT3 follow-up project in 2015. The first race cars were delivered to customer teams at the end of 2015. This project also became a great success with notable victories. In 2017, the track record continued with championship titles in major international GT3 series and an impressive victory at the FIA GT World Cup in Macau. To the end of 2017, 46 overall victories and 93 class wins were achieved out of a total of 240 races. The programme was also further expanded in the US. In the Mercedes-AMG GT3 debut season in the North American IMSA WeatherTech SportsCar Championship, a triple victory was scored with championship titles for driver, team and manufacturer in the demanding Tequila Patrón North American Endurance Cup. From 2018, Mercedes-AMG GT4 is expanding its customer sports range.

Outlook – Vehicles and vehicle components

The intensive AMG customer sports commitment also forms the focus for the vehicle and vehicle components business unit in 2018. Overall, the close cooperation with Mercedes-AMG GmbH in motorsports is continuing. Interest in GT4 race cars is constantly increasing, and an even larger target group of amateur and professional drivers and teams can be reached as a result. AMG customer teams are competing with GT3 vehicles in various racing series around the world in 2018. The global parts supply ensures an optimum and reliable service, which is provided by HWA AG.

Together with Mercedes-AMG, HWA AG is excellently positioned in customer sport and well equipped for the coming years. The company has set itself the goal of enhancing the diversity of its project structure in vehicles and vehicle components with new customers. However, this is a process that takes a significant amount of time before a larger project is commissioned.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COMBINED MANAGEMENT REPORT ON THE ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

1. Legal and economic position of the company in 2017

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 and the US company. The company in Australia was founded in 2017. The company was not included in the consolidated financial statements as it will not become operational until 2018.

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

Activities in the Motor Racing segment mainly focus on participation in the Deutsche Tourenwagen Masters (DTM) motor racing series. HWA AG races under the name “Mercedes-AMG DTM Team”, and handles the full development, design, construction and use of the racing vehicles on behalf of Daimler AG. Its comprehensive range of services also includes racing driver recruitment and management. In addition to the development and production of racing vehicles and components, services also include the development and production of DTM and Formula 3 (racing) engines.

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), the global economic recovery continued to gain momentum in 2017, with growth of 3.7% after 3.2% in the previous year. The rates of expansion in the euro area exceeded expectations in the first half of 2017. For 2017 as a whole, the IMF is forecasting that the rise in gross domestic product (GDP) will be quite pronounced in the advanced economies, in particular the US and Canada, the euro area and

Japan. Growth in these countries was driven by rising domestic consumption. In 2018, global economic growth is expected to continue to benefit from the favourable financing conditions and the economic recovery in the industrialised nations, rising to 3.9%. This represents an increase of 0.2 percentage points against the forecast from October 2017, reflecting the global acceleration in growth and the anticipated impact of the recently approved US tax cuts.

For the euro area, the International Monetary Fund raised its forecasts for 2017 as a whole to 2.4% (0.3 percentage points more than in October 2017) after the first half of the year performed more strongly than expected on a broad front. GDP growth in euro area countries had amounted to 1.8% in 2016. As a result of rising employment, growth was driven by increased consumer spending by private households, business investment and exports. The recovery in the euro area thus stabilised significantly in 2017, and is now set to drop back slightly to 2.2% in 2018. Nevertheless, economic growth for the financial year is therefore 0.3 percentage points higher than the IMF's October forecast. Inflation in the single currency area climbed further in 2017 to 1.5% after 0.2% in the previous year. The International Monetary Fund had forecast 1.7%.

According to the Federal Statistical Office (Destatis), economic output in Germany was up by 2.2% in 2017 after 1.9% in the previous year. This strong push means that the German economy has grown for the eighth year in a row. The positive stimulus was primarily domestic in origin in 2017: private consumer spending in particular was higher than one year previously. German exports likewise continued to climb in 2017, though there was even stronger growth in imports. Incomes increased significantly in the past financial year, even exceeding the rise in corporate and property income. Consumer spending also expanded in step with the trend in income. Inflation rose by an annual average of 1.8% in Germany in 2017, and was thus in line with the European monetary policy target of just under 2%. According to the Kiel Institute for the World Economy, economic growth of 2.5% is expected for Germany in the 2018 financial year.

The economic weakness in the US in the first quarter of 2017 was short-lived, while corporate investment continued to rise, partly in response to the recovery in the energy sector. Economic development in the third quarter exceeded the October forecast. According to the IMF, the US economy therefore grew by 2.3% in 2017, as originally forecast, which was significantly stronger than the previous year's 1.5%. The IMF anticipates growth of 2.7% in 2018, having previously forecast 2.3%. The decision to raise its forecast was sparked by the expected increase in foreign demand and the resolved tax reform, including in particular the cut in corporate tax rates, and the prospects for corporate investment this entails.

According to IMF forecasts, economic output in the People's Republic of China rose by 6.8% in 2017 after 6.7% in the previous year, an increase of 0.2% compared to its original forecast. Aided by political reforms to transform the economy, growth was in line with the Chinese government's targeted range of 6.5% to 7.0%. The International Monetary Fund expects a slower rise in Chinese GDP of 6.6% for 2018 (0.1 percentage points above the October forecast). The IMF anticipates that the Chinese government will continue its expansionary fiscal policy and that demand for exports will rise.

Automotive markets

Demand for passenger cars developed positively around the world in 2017. According to estimates by the German Association of the Automotive Industry (VDA), new vehicle sales worldwide were up by 2% at around 85 million vehicles. However, this figure had been 5% in the previous year, which was largely thanks to very strong market growth in China. Growth in China has since cooled slightly after a strong 2016. Car sales in India grew significantly by 9%, while the Japanese automotive market expanded by 6%. There were very strong increases after an extended weak phase in Russia with growth of 11%. The European market grew slightly and US markets also stabilised.

Global demand for passenger cars remained positive in 2017. There was an increase in the global market volume for the eighth year in a row, even though the momentum slowed compared to the previous year on account of the high market level. Above all, the Chinese and Western European markets once again contributed to global growth. By contrast, sales on the US market were down slightly. Key emerging markets overcame their weak phase and performed significantly better in the past year. The biggest contribution to global market growth once again came from the Chinese market, even though growth was significantly lower than in previous years on account of the already very high level of the previous year. Market growth for the year as a whole was just over 3% overall.

Demand for passenger cars in Europe was slightly higher than the previous year's level. The Western European market has now achieved a solid level again thanks to the recovery of recent years, posting a slight increase on this basis. Most of the core Western European markets expanded again, with only the UK market down by almost 5.7% after the record previous year. Sales figures in Germany were almost 3% higher than in the previous year. The market situation as a whole improved significantly in Eastern Europe. This was mainly due to the Russian market, which experienced a substantial rise of more than 11% after four years of clear declines. Even though the US market for passenger cars and light commercial vehicles cooled slightly compared to the previous year, sales were still at a high level of 17.1 million new cars. While sales of pickups and SUVs climbed further overall, demand for classic sedans was relatively slow. The Japanese market was solid and grew by around 6%. Sales figures in India significantly outperformed the previous year's level. The recovery on the Brazilian market is now underway, rising by 9.4% on the previous year's level.

3.44 million new passenger cars were registered in Germany last year after 3.4 million in the previous year, equivalent to growth of 2.7% according to the Federal Motor Transport Authority. This is the highest level in eight years.

The Mercedes-Benz Cars brand set a new record for sales revenue in 2017, improving by 8% to nearly 2.4 million vehicles. The Mercedes-Benz brand increased its sales by 9% to 2,238,000 vehicles, and was again the highest-selling premium brand in the automotive industry. In Europe, sales by Mercedes-Benz climbed by 5% overall to 911,700 vehicles. Germany outperformed the previous year's level by 2% at 282,600 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 97.5 million in 2017, slightly higher than the previous year's level of EUR 97.4 million. EUR 77.6 million (previous year: EUR 82.0 million) of this relates to Germany and EUR 19.9 million (previous year: EUR 15.4 million) to other countries. HWA US generated sales revenue of USD 1.8 million. Consolidated sales revenue amounts to EUR 96.3 million.

HWA AG's other operating income amounted to EUR 2.3 million and essentially comprises income from the sale of machinery sold as part of the restructuring programme, income from the reversal of write-downs on receivables and the reversal of provisions.

In total, HWA AG's gross revenue for 2017 amounts to EUR 97.5 million as against EUR 100.4 million in the previous year.

The cost of materials declined only minimally by 2.1% from EUR 53.5 million in the previous year to EUR 52.1 million. Key factors influencing the cost of materials included the reduction of internal production areas, 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 53.4%, the cost of materials as a percentage of gross revenue was on par with the previous year's level (53.3%).

The implementation of the restructuring programme in 2017 reduced the average number of employees to 294. This primarily affected the production areas where the headcount was implemented. Personnel expenses thus decreased by EUR 1.0 million in the reporting period from EUR 25.3 million to EUR 24.3 million.

Other operating expenses were down from EUR 18.3 million in the previous year to EUR 15.2 million in the reporting period. The reduction is essentially due to the consumption of the restructuring provision of EUR 1.8 million recognised in the previous year.

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

HWA AG generated EBIT of EUR 2.8 million in 2017 after EUR 0.2 million in the previous year. The EBIT margin was therefore 2.9%. The company had projected an EBIT margin for 2017 in excess of 2.5% with reduced sales revenue. It therefore achieved its advised EBIT margin target. Consolidated EBIT amounts to EUR 1.9 million for 2017 with a margin of 1.9%. 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.

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

Income statement

EUR million (rounded)	2017	2016
Sales revenue	**97.5**	**97.4**
Changes in inventories	-2.3	1.8
Other operating income	2.3	1.1
Gross revenue for the period	**97.5**	**100.4**
Cost of materials	52.4	53.5
Personnel expenses	24.3	25.3
Depreciation, amortisation and write-downs	2.8	3.0
Other operating expenses	15.2	18.3
EBIT	**2.8**	**0.2**
EBIT in %	2.9	0.2

HWA AG's financial result for the 2017 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 2017 amounts to EUR 1.4 million as against EUR -0.3 million in 2016.

The consolidated net profit amounts to EUR 0.7 million.

4. Net assets and financial position

HWA AG's fixed assets declined from EUR 24.6 million to EUR 19.5 million in the 2017 financial year. The key factors behind this reduction were depreciation and the sale of fixed assets in the context of the restructuring. Consolidated fixed assets amount to EUR 19.2 million.

Current assets increased from EUR 43.9 million to EUR 50.0 million.

Trade receivables were up as a result of reporting date effects, including in particular the delivery and invoicing of GT4 vehicles in December. Receivables from affiliated companies rose by EUR 2.8 million as a result of the delivery of spare parts by the parent company HWA AG to the subsidiaries. Inventories declined by EUR 1.3 million from EUR 27.9 million to EUR 26.5 million. The reduction in inventories is essentially due to the increase in payments received on account of orders, the reduction in work in progress and the allocation of payments received on account of orders to inventories. Consolidated current assets amount to EUR 49.3 million.

HWA AG's provisions decreased from EUR 7.6 million to EUR 3.4 million in the financial year. The provision for restructuring of EUR 1.8 million recognised in the 2016 financial year was fully utilised except for an amount of EUR 0.2 million. The Group's provisions amount to EUR 3.4 million.

Liabilities increased slightly from EUR 39.0 million in 2016 to EUR 39.8 million. The largest item under liabilities is bank loans, which amount to EUR 25.0 million at the end of December 2017 as against EUR 27.8 million in the previous year. A loan was raised through a shareholder in 2017. This loan of EUR 3.5 million is reported under liabilities to shareholders. Trade payables rose from EUR 6.7 million to EUR 8.8 million as a result of reporting date effects. The payments received on account of orders of EUR 3.2 million were reclassified to inventories. The Group's liabilities amount to EUR 39.9 million.

HWA AG's total assets declined from EUR 72.2 million in the previous year to EUR 70.3 million. The share of fixed assets decreased from 34.0% to 27.7% as a result of the sale of the villa at Benzstr. 10 and depreciation on fixed assets, which exceeded investments in fixed assets overall. By contrast, the share of current assets in total assets increased from 64.0% to 71.1%. HWA AG's equity ratio climbed from 35.5% to 38.5% as at 31 December 2017 as a result of the lower total assets and net retained profits. Equity rose from EUR 25.7 million in 2017 to EUR 27.1 million. The Group's equity amounts to EUR 26.2 million.

HWA AG had cash and cash equivalents of EUR -3.3 million at the end of the 2017 financial year as against EUR -2.3 million in the previous year. The operating cash flow was negative at EUR 5.4 million in 2017. The positive result and depreciation and amortisation were more than offset by the increase in inventories for the production of the Mercedes-AMG GT4 and the rise in trade receivables as a result of reporting date effects. The cash flow from investing activities is positive at EUR 2.7 million. The proceeds were essentially generated by the sale of the villa owned by HWA AG, which had previously been leased to a hotel operator. Payments for investments essentially relate to technical equipment and machinery as well as operating and office equipment. The cash flow from financing activities was positive at EUR 1.6 million. This was predominantly due to a new shareholder loan of EUR 3.5 million, reduced by the net repayment of loans in the amount of EUR 1.3 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.

5. Capital expenditure

Gross investment amounted to EUR 1,077 thousand in the past financial year (previous year: EUR 1,508 thousand). The breakdown of investment is shown in the following table:

Gross investment	EUR thousand
1. Intangible assets	80
2. Technical equipment and machinery	142
3. Other equipment, operating and office equipment	844
4. Payments on account on fixed assets	11
	1,077

Investments essentially relate to replacements for technical equipment and machinery in addition to operating and office equipment. Investments in intangible assets predominantly related to IT licenses. There were no other significant individual investments in 2017. Investment in technical equipment and machinery of EUR 1,700 thousand is planned for 2018.

HWA AUS Pty Ltd., was founded in Mornington in 2017 to perform on-site services at GT3 racing events and to sell parts for Mercedes AMG GT3 vehicles in Australia. The subsidiary is wholly owned by HWA AG, whose investment amounts to AUD 15 thousand.

6. Employees

Including the Management Board, there were 294 employees on average in the 2017 financial year (previous year: 309):

- 158 Salaried employees
- 136 Wage-earning employees
- 2 Trainees/interns

7. Risks and opportunities

In its economic forecast dated December 2017, the Ifo Institute for Economic Research anticipates that the global economy will continue its very strong expansion in the winter half of 2017/18, though momentum is likely to slow somewhat as time progresses. According to Ifo, the reasons for this are rising capacity utilisation in the advanced economies and the forecast slowdown of the Chinese economy as a result of the central bank's more restrictive policy and high debt in the corporate sector. It feels that the risks to global economic development are largely balanced. It assumes that the Brexit negotiations will not fail and that there will not be a "hard Brexit".

After the recovery – which the German economy has been experiencing since 2013 – accelerated further in 2017, the Ifo Institute believes that the German economy is on its way to a boom in excess of overall economic capacity over the next two years. As a new government has not yet been formed, the Institute is unable to assess the direction of fiscal policy for the near future. However, if the current status quo is maintained, experts predict that the German economy will continue its record trend for the next two years.

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. The global automotive market is set to grow further in 2018.

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 its subsidiary Mercedes-AMG GmbH remain HWA AG's most important clients. The Daimler Group reported record sales, sales revenue and earnings for 2017. According to Daimler AG, its sales, sales revenue and operating earnings are expected to continue to improve slightly in 2018. The prospects are therefore positive. This is a vital foundation for the ongoing cooperation with Daimler AG and Mercedes-AMG GmbH in the field of Vehicles/Vehicle Components activities.

In its report on risks and opportunities in previous years, HWA AG has always stated that cooperation with Daimler in relation to continued motorsport activities (DTM) is of crucial importance to the company. However, the continuation of motorsport activities was ultimately dependent on the strategic orientation of and corresponding decisions made by Daimler AG. 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. With the end of Daimler AG's involvement in the DTM series, the contribution to sales revenue by the Motor Racing segment is expected to diminish from 2019. Alternative projects in the field of motor racing are currently being assessed. This move will have no effect on operating activities for 2018. While, a possible impact on the balance sheet and resulting effects on earnings in connection with the discontinuation of DTM activities cannot be ruled out entirely, the early announcement means that HWA AG can react to this decision in good time in order to at least adjust the cost situation accordingly. At this time, the Management Board cannot comment on the effects on the results of operations in the 2019 financial year. This relates to the fact that alternative projects have not yet been conclusively assessed and that HWA AG will take corresponding precautions with regard to costs.

Sales from leasing and selling Formula 3 engines remain highly dependent on the financial resources of the individual teams. This area of motorsports also hinges on external sponsors, who may prove more reluctant in the face of an economic slowdown. Opportunities exist thanks to the excellent performance of Formula 3 engines in previous years, which gives HWA AG a leading market position in this area.

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. Competition in this field is fierce. HWA AG responded accordingly to the greater price pressure in 2016 and, above all, substantially reduced its previous vertical integration and cut costs. The measures initiated in 2017 are expected to have a positive impact in 2018.

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. The Mercedes-AMG GT3 project was a complete success in 2016 and 2017 as well. HWA AG was awarded a follow-up project, Mercedes-AMG GT4, in 2017. The first deliveries were made at the end of 2017, and will reach their peak in 2018.

Management anticipates further opportunities in being awarded projects that are independent of the Daimler Group and will lead to a diversification of the customer structure. Talks for further projects are at an advanced stage. However, a prerequisite for these projects is that they are financed by the relevant partners. The investments are sometimes quite high and their implementation therefore requires ambition. Thus, projects can fail at a late stage as well. Nonetheless, these projects exclusively entail opportunities for HWA AG as it does not assume any financial risks for them.

Parts and service business for the entire HWA AG product range should continue to develop well thanks to the large number of racing vehicles on the market, which means corresponding opportunities for HWA AG. On the US and Asian markets in particular, spare parts and service business is expected to grow on account of the larger number of vehicles.

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 at the end of 2017 can be classified as somewhat risky. Changes that could result from exchange rates, 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 2017.

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 from 2019 onwards. 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 conclusions as to the extent to which HWA AG is able to retain skilled and motivated employees as an attractive and responsible employer, in addition to developing products that satisfy future customer requirements as well. It also reflects the company's success in sustainably increasing customer benefit with its products and services, and designing production processes so as to conserve resources.

In the area of employee development, work began in 2014 to define measures to improve cooperation within HWA AG as a team. The implementation of the measures was completed in 2017.

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.

11. Business development and forecast performance of the company

In economic terms, the company achieved its goal for the 2017 financial year as communicated. HWA AG had projected gross revenue of between EUR 80 and EUR 85 million with an EBIT margin of around 2.5%. With gross revenue of EUR 97.5 million, HWA AG outperformed this target. HWA AG's EBIT margin was in excess of 2.5%, and it therefore achieved this goal as well. Consolidated gross revenue amounted to EUR 97.4 million with EBIT for the Group of EUR 1.9 million.

In sporting terms, HWA AG had set its sights higher last year. These goals were not entirely achieved. The goal for 2018, the final year of the company's participation in the DTM racing series on behalf of Daimler AG, is to perform better than in 2017 and, if possible, to win the drivers' and team championship. However, this is an ambitious goal given the competition in this racing series.

HWA AG was unable to build on the successes of previous years in the DTM in 2017. Overall, the season was disappointing for HWA AG. The company was unsuccessful in both the DTM drivers' championship and the team ranking.

As in previous years, the cooperation with Mercedes-AMG GmbH in its customer sports activities is developing very positively. The company is also still successful in the field of engines for Formula 3.

HWA AG had forecast a reduction in gross revenue to between EUR 80 and EUR 85 million in 2017. The company had factored in a decline in sales revenue in Motor Racing, which proved accurate. Gross revenue stabilised at a high level in Vehicles/Vehicle Components. This was helped by solid production of the Mercedes-AMG GT3 and a development and production order for the Mercedes-AMG GT4.

Global demand for passenger cars is set to rise again in 2018. Growth of around 2% is expected according to current estimates. The Mercedes-Benz brand is forecasting further growth and new records for 2018.

For 2018, HWA AG expects sales revenue in the Motor Racing segment (DTM) to stabilise at roughly the same level as in the previous year. As in the previous year, HWA AG will be operating all six vehicles directly. Formula 3 engine rental and sales business, which is also part of the Motor Racing segment, will likewise stabilise at the previous year's level.

The company anticipates a significant year-on-year increase in sales revenue in Vehicles/Vehicle Components. In addition to the ongoing production of the Mercedes-AMG GT3, the first-time large-scale production of the Mercedes-AMG GT4 will lead to higher sales revenue than in the previous year. Moreover, the company is also working on new projects in this segment that will contribute to sales revenue as well. Spare parts and service business will continue to grow as a result of the large number of vehicles now on the market, similarly contributing to higher sales revenue.

HWA AG is forecasting an increase in the Group's gross revenue overall in 2018. EBIT is also set to improve significantly year-on-year. An EBIT margin of at least 5% is expected. 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.

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, 29 March 2018

Ulrich Fritz (CEO)

ANNUAL FINANCIAL STATEMENTS HWA AG

Balance sheet as at 31 December 2017

		31.12.2017		31.12.2016	
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		523,101.82			763
II. Tangible assets					
1. Land and buildings	13,015,532.90			17,048	
2. Technical equipment and machinery	1,806,339.26			2,695	
3. Other equipment, operating and office equipment	1,883,116.57			1,807	
4. Prepayments and assets under construction	1,984,875.23			2,019	
		18,689,863.96			23,569
III. Financial assets					
1. Shares in affiliated companies		249,947.76			240
			19,462,913.54		**24,572**
B. Current assets					
I. Inventories					
1. Raw materials, consumables and supplies	28,112,001.68			23,803	
2. Work in progress	1,573,160.69			3,818	
3. Prepayments	0			317	
4. Payments received on account of orders	-3,224,000.00			0	
		26,461,162.37			27,938
II. Receivables and other assets					
1. Trade receivables	16,830,131.58			10,394	
2. Receivables from affiliated companies	3,098,579.79			320	
3. Other assets	951,796.28			2,385	
		20,880,507.65			13,099
III. Cash in hand and at banks		2,658,756.38			5,160
			50,000,426.40		**46,197**
C. Prepaid expenses and deferred income			**304,198.94**		**192**
D. Deferred tax assets			**530,000.00**		**1,230**
			70,297,538.88		**72,191**

		31.12.2017		31.12.2016	
EQUITY AND LIABILITIES	EUR	EUR	EUR	EUR thousand	EUR thousand
A. Equity					
I. Subscribed capital		5,115,000.00			5,115
II. Revenue reserves					
1. Legal reserve	511,500.00			512	
2. Other revenue reserves	1,310,000.00			1,310	
		1,821,500.00			1,822
III. Net retained profits		20,156,081.81			18,715
			27,092,581.81		**25,652**
B. Provisions					
1. Tax provisions		0		1,346	
2. Other revenue reserves		3,402,149.25		6,223	
			3,402,149.25		**7,569**
C. Liabilities					
1. Liabilities to banks		25,015,608.96		27,836	
2. Loan liabilities to shareholders		3,500,000.00		0	
3. Payments received on account of orders		0		2,250	
4. Trade payables		8,846,648.49		6,704	
5. Other liabilities thereof from taxes EUR 1,989,868.30 (previous year: EUR 1,813 thousand)		2,440,550.37		2,180	
			39,802,807.82		**38,970**
			70,297,538.88		**72,191**

Income statement for 2017

			2017	2016
		EUR	EUR	EUR thousand
1.	Sales revenue	97,544,815.76		97,446
2.	Decrease (PY: increase) in finished goods inventories and work in progress	-2,282,589.40		1,809
3.	Other operating income thereof income from foreign currency translation EUR 402,946.62 (previous year: EUR 401 thousand)	2,282,254.56		1,129
			97,544,480.92	**100,384**
4.	Cost of materials			
	a) Costs of raw materials, consumables and supplies, and of purchased merchandise	36,843,061.32		36,600
	b) Cost of purchased services	15,531,498.18		16,930
5.	Personnel expenses			
	a) Wages and salaries	20,907,697.33		21,893
	b) Social security, post-employment and other employee benefit costs thereof for post-employment benefits EUR 27,197.00 (previous year: EUR 19 thousand)	3,388,630.98		3,423
6.	Depreciation and amortisation of tangible and intangible non-current assets	2,849,644.95		3,045
7.	Other operating expenses thereof expenses from foreign currency translation EUR 690,180.31 (previous year: EUR 932 thousand)	15,210,804.93		18,310
			94,731,337.69	**100,201**
8.	Profit before interest and tax (EBIT)		2,813,143.23	183
9.	Other interest and similar income	1,287.20		0
10.	Interest and similar expenses	602,028.40		575
			-600,741.20	**-575**
11.	Income taxes thereof expenses from change in recognised deferred taxes EUR 700,000.00 (previous year: EUR 868 thousand)		708,778.61	-161
12.	Earnings after taxes		1,503,623.42	-231
13.	Other taxes		62,831.78	52
14.	Net income for the year (PY: Net loss for the year)		1,440,791.64	-283
15.	Retained profits brought forward		18,715,290.17	18,998
16.	**Net retained profits**		**20,156,081.81**	**18,715**

Statement of changes in fixed assets 2017

	Acquisition/production cost			
	1.1.2017 EUR	Additions EUR	Transfers EUR	Disposals EUR
I. Intangible assets				
1. Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets	4,404,183.86	80,159.94	0.00	0.00
II. Tangible assets				
1. Land and buildings	30,705,023.93	0.00	0.00	3,522,399.28
2. Technical equipment and machinery	13,058,708.29	97,238.61	45,000.00	2,468,969.59
3. Other equipment, operating and office equipment	13,358,226.85	843,668.74	0.00	11,474.00
4. Prepayments and assets under construction	2,018,875.23	11,000.00	-45,000.00	0.00
	59,140,834.30	**951,907.35**	**0.00**	**6,002,842.87**
III. Financial assets				
1. Shares in affiliated companies	239,900.20	10,047.56	0.00	0.00
	63,784,918.36	**1,042,114.85**	**0.00**	**6,002,842.87**

	Cumulative depreciation and amortisation				Book values	
31.12.2017 EUR	1.1.2017 EUR	Additions EUR	Disposals EUR	31.12.2017 EUR	31.12.2017 EUR	31.12.2016 EUR thousand
4,484,343.80	3,641,183.33	320,058.65	0.00	3,961,241.98	523,101.82	763
27,182,624.65	13,656,506.25	899,550.45	388,964.95	14,167,091.75	13,015,532.90	17,048
10,731,977.31	10,363,914.63	862,756.21	2,301,032.79	8,925,638.05	1,806,339.26	2,695
14,190,421.59	11,551,499.38	767,279.64	11,474.00	12,307,305.02	1,883,116.57	1,807
1,984,875.23	0.00	0.00	0.00	0.00	1,984,875.23	2,019
54,089,898.78	**35,571,920.26**	**2,529,586.30**	**2,701,471.74**	**35,400,034.82**	**18,689,863.96**	**23,569**
249,947.76	0.00	0.00	0.00	0.00	249,947.76	240.00
58,824,190.34	**39,213,103.59**	**2,849,644.95**	**2,701,471.74**	**39,361,276.80**	**19,462,913.54**	**24,572**

NOTES TO THE FINANCIAL STATEMENTS 2017 HWA AG

General information

HWA AG is headquartered in Affalterbach. The company is entered in the register of Stuttgart Local Court under number HRB 721692.

These annual financial statements were prepared in accordance with the provisions of sections 242 et seq. and sections 264 et seq. of the Handelsgesetzbuch (HGB – German Commercial Code) and the relevant provisions of the Aktiengesetz (AktG – German Stock Corporation Act). The provisions governing large companies apply.

The income statement was prepared using the total cost format.

Accounting policies

The following accounting policies remained the main decisive factor in the preparation of the annual financial statements. In contrast to the previous year, advance payments received, which were paid for development projects in particular, were openly offset against inventories to improve clarity and provide better insight into the company's net assets and financial position.

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 departure from the tax regulations, low-value assets with a value of up to EUR 1,000.00 are generally written off immediately and recognised as disposals in the year of addition. Additions to property, plant and equipment are depreciated pro rata temporis.

Shares in affiliated companies are recognised at cost or, in the case of expected permanent impairment, at their lower fair value. 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.

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

Liabilities are recognised at the settlement amount.

Deferred taxes are calculated based on temporary differences (including those not likely to reverse in the foreseeable future) between the carrying amounts of assets, liabilities and accruals for the purposes of financial accounting and their carrying amounts for tax purposes, and on tax loss 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 option provided for under section 274 (1) sentence 2 HGB is exercised and any net tax relief resulting from this is recognised as deferred tax assets.

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.

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.

Shares in affiliated companies

In the United States of America (headquarters: state of Delaware), the subsidiary "HWA US Inc." was founded in 2016 with capital of EUR 239,900.20 (USD 250,000). HWA AG holds a 100% share in this subsidiary. Net earnings in 2017 amounted to EUR -149 thousand (USD -184 thousand), translated at the mean spot rate at the reporting date.

In Australia, the subsidiary "HWA AUS Pty Ltd." was founded in 2017 with capital of EUR 10,047.56 (AUD 15,000). HWA AG holds a 100% share. The annual financial statements for the first (short) financial year have not yet been prepared.

Inventories

To improve the presentation and comparability with other companies, advance payments received were openly offset against inventories. The advance payments received have a remaining term of up to one year.

Receivables and other assets

EUR 0 thousand (previous year: EUR 1,950 thousand) of the trade receivables have an expected remaining term of more than one year.

The receivables from affiliated companies are trade receivables.

Deferred taxes

Deferred tax assets were made up as follows:

	Carrying amount in commercial accounts	Carrying amount in tax accounts	Difference	Effective income tax rate	Deferred taxes 31.12.2017	Deferred taxes 31.12.2016
	EUR thousand	EUR thousand	EUR thousand	%	EUR thousand	EUR thousand
from low-value non-current assets	0	305	305	27	82	119
from receivables (discounting)	2,745	2,810	65	27	18	0
from other provisions	303	193	110	27	30	126
from inventories	0	540	540	27	146	274
Loss carried forward					254	711
					530	**1,230**

In the financial year, deferred taxes were calculated at a tax rate of 27% (previous year: 29%).

Equity and authorised capital

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.

With the approval of the Supervisory Board, the Management Board is until 4 June 2018 authorised to increase the share capital in one or more tranches by a total of EUR 2,557,500 for contributions in cash or in kind.

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 11,320 thousand (PY: EUR 10,821 thousand) have remaining maturities of up to one year and EUR 13,695 thousand (PY: EUR 17,015 thousand) have remaining maturities of more than one year. EUR 4,462 thousand (PY: EUR 6,482 thousand) of the latter category have remaining maturities of more than five years. EUR 8,819 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	7,115
Purchase commitments	20,112

The agreements come to an end between 2018 and 2024.

Derivative financial instruments

An interest rate swap has been taken out to hedge interest rate risk on a variable-rate loan totalling EUR 1.4 million, as follows:

	Base rate	Fixed interest rate	Reference value	Term	Fair value
		%	EUR thousand		EUR thousand
Swap	3-month Euribor	3.57	1,400	30.9.2019	-67

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 530 thousand.

Income statement disclosures

	2017		2016	
	EUR thousand	%	EUR thousand	%
Sales revenues by region				
Germany	77,661	79.62	81,984	84.13
Outside Germany	19,884	20.38	15,462	15.87
	97,545	**100.0**	**97,446**	**100.0**

Other operating income

Prior-period income mainly relates to reversal of impairment losses (EUR 428 thousand) and reversal of liabilities (EUR 257 thousand).

Interest expenses

Interest expenses include expenses from discounting provisions in the amount of EUR 45 thousand (PY: EUR 0 thousand).

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
- Hussain Ahmad Al-Siddiq, Deputy Chief Executive Officer

The remuneration of the Supervisory Board for the purposes of section 113 of the German Stock Corporation Act (AktG) amounted to EUR 24 thousand.

Management Board

- Ulrich Fritz — CEO, Chairman of the Management Board
- Michael Wilson — CTO (until 30 September 2017)

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	136
Salaried staff	158
	294
Apprentices	2
	296

Report on events after the balance sheet date

HWA AG has been informed that Daimler AG will not continue its motorsports activities in the DTM racing series after 2018. In the DTM, HWA AG acts as a full-service provider for Daimler AG. With the end of Daimler AG's involvement in the DTM series, the contribution to sales revenue by the Motor Racing segment is expected to diminish from 2019. Alternative projects in the field of motor racing are currently being assessed. At this time, the Management Board cannot comment on the effects on the results of operations in the 2019 financial year. This relates to the fact that alternative projects have not yet been conclusively assessed and that HWA AG will take corresponding precautions with regard to costs.

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 2017 financial year on an aggregated basis.

	EUR thousand
Auditing services	56.0
Other services	14.5
	70.5

Proposal for the appropriation of net profit

In agreement with the Supervisory Board, the Management Board proposes carrying forward the net retained profits to new account.

Affalterbach, 13 April 2018

The Management Board

Ulrich Fritz (CEO)

AUDITOR'S REPORT

We have audited the annual financial statements – comprising the balance sheet, income statement and notes – including the accounting and the management report of HWA AG, Affalterbach, for the financial year from 01 January 2017 to 31 December 2017. The accounting and the preparation of the annual financial statements and the management report in accordance with the provisions of the German Commercial Code are the responsibility of the company's legal representatives. Our responsibility is to express an opinion on the annual financial statements including the accounting and on the management report based on our audit.

We have carried out our audit of the annual financial statements in accordance with Section 317 HGB and in compliance with the German principles for the proper auditing of financial statements adopted by the German Institute of Auditors (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with the applicable financial reporting framework and in the management report are detected with reasonable assurance. In stipulating the audit procedures, knowledge of the operating activities and of the economic and legal environment of the company as well as expectations regarding possible errors are taken into account. As part of the audit, the effectiveness of accounting-related internal control systems and evidence for the disclosures in the accounting, annual financial statements and the management report were assessed predominantly on the basis of spot checks. The audit includes assessing the accounting policies applied and significant estimates made by the legal representatives as well as evaluating the overall presentation of the annual financial statements and the management report. We are of the opinion that our audit provides a sufficiently sound foundation for our assessment.

Our audit did not lead to any objections.

According to our assessment based on the findings obtained from the audit, the financial statements comply with the legal provisions and convey, with due regard for the principles of proper accounting, a true and fair picture of net assets, financial position and result of operations at HWA AG, Affalterbach. The management report is consistent with the annual financial statements, complies with the legal provisions, conveys an accurate picture of the company's position overall and presents the opportunities and risks of future development accurately.

Karlsruhe, 16 April 2018

TREUHAND SÜDWEST GMBH
Wirtschaftsprüfungsgesellschaft
und Steuerberatungsgesellschaft

Dr. Heilgeist	Retzbach
German public auditor	German public auditor
(Wirtschaftsprüfer)	(Wirtschaftsprüfer)


DEKRA
53
ADAC
DEKRA
3
ADAC
DEKRA
3
ADAC
Hankook


DEKRA
3
ADAC


Deutsche


DEKRA
3
maxg


PREMA
DEKRA
3
ADAC

CONSOLIDATED FINANCIAL STATEMENTS 2017

Consolidated balance sheet as at 31 December 2017

		31.12.2017	
ASSETS	EUR	EUR	EUR
A. Fixed assets			
I. Intangible assets			
1. Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets		523,102	
II. Tangible assets			
1. Land and buildings	13,015,533		
2. Technical equipment and machinery	1,806,339		
3. Other equipment, operating and office equipment	1,903,857		
4. Prepayments and assets under construction	1,984,875		
		18,710,604	
III. Financial assets			
1. Shares in affiliated companies		10,048	
			19,243,754
B. Current assets			
I. Inventories			
1. Raw materials, consumables and supplies	28,112,002		
2. Work in progress	2,789,344		
3. Advance payments received for inventories	-3,224,000		
		27,677,345	
II. Receivables and other assets			
1. Trade receivables	16,850,290		
2. Receivables from affiliated companies	639,865		
3. Other assets	951,847		
		18,442,002	
III. Cash in hand and at banks		3,203,462	
			49,322,809
C. Prepaid expenses and deferred income			**304,199**
D. Deferred tax assets			**588,233**
			69,458,995

			31.12.2017	
EQUITY AND LIABILITIES		EUR	EUR	EUR
A.	**Equity**			
	I. Subscribed capital		5,115,000	
	II. Revenue reserves			
	1. Legal reserve	511,500		
	2. Other revenue reserves	1,310,000		
			1,821,500	
	III. Difference in equity from currency translation		-29,610	
	IV. Retained profits/accumulated losses brought forward		18,703,863	
	V. Net profit for the year		536,819	
				26,147,572
B.	**Rückstellungen**			
	1. Tax provisions		646	
	2. Other provisions		3,413,156	
				3,413,802
C.	**Liabilities**			
	1. Liabilities to banks		25,015,609	
	2. Loan liabilities to shareholders		3,500,000	
	3. Trade payables		8,849,983	
	4. Other liabilities thereof from taxes EUR 1,989,868		2,532,029	
				39,897,621
				69,458,995

Consolidated income statement 2017

		31.12.2017	
		EUR	EUR
1.	Sales revenue	96,260,415	
2.	Decrease in finished goods inventories and work in progress	-1,295,509	
3.	Other operating income thereof income from foreign currency translation EUR 513,613	2,392,929	
			97,357,835
4.	Cost of materials		
	a) Cost of raw materials, consumables and supplies, and of purchased merchandise	37,011,158	
	b) Cost of purchased services	15,845,655	
5.	Personnel expenses		
	a) Wages and salaries	20,915,397	
	b) Social security, post-employment and other employee benefit costs thereof for post-employment benefits EUR 27,197	3,389,325	
6.	Amortisation and write-downs of intangible fixed assets and depreciation and write-downs of tangible fixed assets	2,851,555	
7.	Other operating expenses thereof expenses from foreign currency translation EUR 898,726	15,493,269	
			95,506,359
8.	Profit before interest and tax (EBIT)		1,851,476
9.	Other interest and similar income	1,287	
10.	Interest and similar expenses	602,028	
			-600,741
11.	Income taxes thereof expenses from change in recognised deferred taxes EUR 414,917		651,085
12.	Earnings after taxes		599,650
13.	Other taxes		62,832
14.	Net profit for the year		536,818
15.	Retained profits brought forward		18,715,290
16.	**Net retained profits**		**19,252,108**

Cash flow statement for 2017

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

Cash funds break down as follows:

	Year under review	Previous year
	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 consolidated fixed assets in 2017

	Acquisition/production cost			
	1.1.2017 EUR	Additions EUR	Transfers EUR	
I. Intangible assets				
1. Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets	4,404,184	80,160	0	
II. Tangible assets				
1. Land and buildings	30,705,024	0	0	
2. Technical equipment and machinery	13,058,708	120,240	45,000	
3. Technical equipment and machinery	13,358,227	843,669	0	
4. Prepayments and assets under construction	2,018,875	11,000	-45,000	
	59,140,834	**974,909**	**0**	
III. Financial assets				
1. Shares in affiliated companies	0	10,048	0	
	63,545,018	**1,065,117**	**0**	

		Cumulative depreciation and amortisation				Book values
Disposals EUR	31.12.2017 EUR	1.1.2017 EUR	Additions EUR	Disposals EUR	31.12.2017 EUR	31.12.2017 EUR
0	4,484,344	3,641,183	320,059	0	3,961,242	523,102
3,522,400	27,182,624	13,656,506	899,550	388,965	14,167,091	13,015,533
1,844,664	11,379,284	10,363,915	865,018	1,676,727	9,552,206	1,827,078
11,474	14,190,422	11,551,498	767,280	11,474	12,307,304	1,883,118
0	1,984,875	0	0	0	0	1,984,875
5,378,538	**54,737,205**	**35,571,919**	**2,531,848**	**2,077,166**	**36,026,602**	**18,710,604**
0	10,048	0	0	0	0	10,048
5,378,538	**59,231,597**	**39,213,102**	**2,851,907**	**2,077,166**	**39,987,844**	**19,243,754**

Statement of changes in equity in 2017

	Subscribed capital	Legal reserves
	EUR	EUR
1.1.2017	5,115,000	511,500
Equity increases/decreases	0	0
Appropriation to/withdrawals from reserves	0	0
Distribution	0	0
Currency translation	0	0
Other changes	0	0
Changes in the consolidated group	0	0
Consolidated net profit for the year	0	0
31.12.2017	**5,115,000**	**511,500**

Equity of parent company					
Revenue reserves					
Other 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 reported in 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	0
0	0	0	0	0	0
0	0	-30,046	0	0	-30,046
0	0	0	-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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2017

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 of the Group and the consolidated companies corresponds to the calendar year.

The consolidated financial statements were prepared for the first time in the year under review. For this reason, there are no prior-year figures. Where prior-year data are used to calculate figures in the statement of changes in fixed assets, the statement of changes in equity and the cash flow statement, these are the data of the parent company HWA AG.

We prepared the consolidated income statement using the total cost (nature of expense) method.

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 one foreign subsidiary (HWA US INC.).

In accordance with section 296 (2) HGB, companies with a low business volume were not included in the consolidated financial statements, as they are neither individually nor collectively material for the presentation of the Group's net assets, financial position and result of operations. This applied to the Australian subsidiary in the 2017 financial year.

Principles of consolidation

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

Capital consolidation is performed using the revaluation method, under which all assets and liabilities of the subsidiary are 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. In accordance with section 301 (2) sentence 3 HGB, the initial consolidation of HWA US Inc. took place as at 1 January 2017. There was no difference or goodwill.

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

Receivables and liabilities, sales revenue, income and expenses, and intercompany profits and losses in inventories within the consolidated group were eliminated.

Accounting policies

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

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

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 departure from the tax regulations, low-value assets with a value of up to EUR 1,000.00 are generally written off immediately and recognised as disposals in the year of addition. Additions to property, plant and equipment are depreciated pro rata temporis.

Shares in affiliated companies are recognised at cost or, in the case of expected permanent impairment, at their lower fair value. 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.

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

Liabilities are recognised at the settlement amount.

Deferred taxes are calculated based on temporary differences (including those not likely to reverse in the foreseeable future) between the carrying amounts of assets, liabilities and accruals for the purposes of financial accounting and their carrying amounts for tax purposes, and on tax loss 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 option provided for under section 274 (1) sentence 2 HGB is exercised and any net tax relief resulting from this is recognised as deferred tax assets.

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

In the United States of America (headquarters: state of Delaware), the subsidiary "HWA US Inc." was founded in 2016 with capital of EUR 240 thousand (USD 250 thousand). HWA AG holds a 100% share in this subsidiary. The company was fully consolidated in the consolidated financial statements.

In Australia, the subsidiary "HWA AUS Pty Ltd." was founded in 2017 with capital of EUR 10,047.56 (AUD 15,000). HWA AG holds a 100% share. The annual financial statements for the first (short) financial year have not yet been prepared. The company was not included due to its immateriality.

Inventories

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

Receivables and other assets

EUR 0 thousand of the trade receivables have an expected remaining term of more than one year.

The receivables from affiliated companies are trade receivables.

Deferred taxes

Deferred tax assets were made up as follows:

	Carrying amount in commercial accounts	Carrying amount in tax accounts	Difference	Effective income tax rate	Deferred taxes 31.12.2017
	EUR thousand	EUR thousand	EUR thousand	%	EUR thousand
from low-value non-current assets	0	296	296	27	80
from receivables (discounting)	2,744	2,810	66	27	17
from other provisions	300	193	107	27	29
from inventories	0	522	522	27	141
Loss carried forward					321
					588

Equity and authorised capital

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.

With the approval of the Supervisory Board, the Management Board is until 4 June 2018 authorised to increase the share capital in one or more tranches by a total of EUR 2,557,500 for contributions in cash or in kind.

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 11,320 thousand have remaining maturities of up to one year and EUR 13,695 thousand have remaining maturities of more than one year.

EUR 4,462 thousand of the latter category have remaining maturities of more than five years. EUR 8,819 thousand was secured by charges on real property.

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

Trade payables and other liabilities have a remaining term of up to one year.

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

Contingent liabilities

Other financial commitments

There are payment obligations under rental and leasing agreements in the amount of EUR 3,733 thousand in 2018 and EUR 7,115 thousand in total over the entire term. The agreements come to an end between 2018 and 2024. All risks remain with the lessor.

Derivative financial instruments

An interest rate swap has been taken out to hedge interest rate risk on a variable-rate loan totalling EUR 1.4 million, as follows:

	Base rate	Fixed interest rate	Reference value	Term	Fair value
		%	**EUR thousand**		**EUR thousand**
Swap	3-month Euribor	3.57	1,400	30.9.2019	-67

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 530 thousand.

Consolidated income statement disclosures

Sales revenue

Sales revenue breaks down as follows:

Sales revenues by region	**EUR thousand**
Germany	77,660
Outside Germany	18.600
	96.260

Other operating income

Prior-period income mainly relates to reversal of impairment losses (EUR 428 thousand) and reversal of liabilities (EUR 257 thousand).

Other operating expenses

Other operating expenses consist of operating expenses (EUR 2,575 thousand), administrative expenses (EUR 7,351 thousand), other personnel expenses (EUR 3,822 thousand) and miscellaneous other expenses (EUR 1,745 thousand). Miscellaneous other expenses mainly comprise valuation allowances on receivables (EUR 224 thousand) and price losses including currency valuations (EUR 690 thousand). They also include prior-period expenses of EUR 180 thousand.

Interest expenses

The total amount of interest paid during the reporting year for liabilities to banks comes to EUR 484 thousand. Interest expenses include expenses from discounting provisions in the amount of EUR 45 thousand.

Income taxes
Taxes on income include expenses from the reversal of deferred tax assets in the amount of EUR 642 thousand.

Income tax expenses amounted to EUR 9 thousand in the 2017 financial year. In the reporting year, income taxes of EUR 1,347 thousand were paid, which were recognised as a provision in the previous year.

These also included 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.

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
- Hussain Ahmad Al-Siddiq, Deputy Chief Executive Officer

The remuneration of the Supervisory Board for the purposes of section 113 of the German Stock Corporation Act (AktG) amounted to EUR 24 thousand..

Management Board
- Ulrich Fritz — CEO, Chairman of the Management Board
- Michael Wilson — CTO (until 30 September 2017)

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	136
Salaried staff	159
	295
Apprentices	2
	297

One person was employed outside Germany.

Report on events after the balance sheet date
HWA AG has been informed that Daimler AG will not continue its motorsports activities in the DTM racing series after 2018. In the DTM, HWA AG acts as a full-service provider for Daimler AG. With the end of Daimler AG’s involvement in the DTM series, the contribution

to sales revenue by the Motor Racing segment is expected to diminish from 2019. Alternative projects in the field of motor racing are currently being assessed. At this time, the Management Board cannot comment on the effects on the results of operations in the 2019 financial year. This relates to the fact that alternative projects have not yet been conclusively assessed and that HWA AG will take corresponding precautions with regard to costs.

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 2017 financial year on an aggregated basis.

	EUR thousand
Auditing services	56.0
Other services	14.5
	70.5

Proposal for the appropriation of net profit

In agreement with the Supervisory Board, the Management Board proposes carrying forward the net retained profits of the parent company HWA AG to new account.

Affalterbach, 13 April 2018

The Management Board

Ulrich Fritz (CEO)

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by HWA AG, Affalterbach – consisting of the balance sheet, the income statement, the notes, the cash flow statement and the statement of changes in equity – and the combined Group management report for the financial year from 1 January 2017 to 31 December 2017. The preparation of the consolidated financial statements and the combined Group management report in accordance with the provisions of the German Commercial Code is the responsibility of the company's legal representatives. Our task is to provide an assessment of the consolidated financial statements and the Group management report based on our audit.

We have carried out our audit of the consolidated financial statements in accordance with Section 317 HGB and in compliance with the German principles for the proper auditing of financial statements adopted by the German Institute of Auditors (IDW). They state that the audit is to be planned and carried out in such a way that inaccuracies and breaches that would have a material effect on the presentation of the picture of the net assets, financial position and result of operations conveyed by the consolidated financial statements, compiled in compliance with the principles of proper accounting, and by the Group management report can be recognised with sufficient certainty. In stipulating the audit procedures, knowledge of the operating activities and of the economic and legal environment of the Group as well as expectations regarding possible errors are taken into account. As part of the audit, the effectiveness of accounting-related internal control systems and evidence for the disclosures in the consolidated financial statements and the Group management report were assessed predominantly on the basis of spot checks. The audit encompassed an assessment of the annual financial statements of the companies included in the consolidated financial statements, the definition of the consolidated group, the accounting and consolidation principles applied and the material estimates by the legal representatives as well as an appreciation of the overall presentation of the consolidated financial statements and the combined Group management report. We are of the opinion that our audit provides a sufficiently sound foundation for our assessment.

Our audit did not lead to any objections.

According to our assessment based on the findings obtained from the audit, the consolidated financial statements comply with the legal provisions and convey, with due regard for the principles of proper accounting, a true and fair picture of the Group's net assets, financial position and result of operations. The combined Group management report is consistent with the consolidated financial statements, conveys an accurate picture of the position of the Group overall and presents the opportunities and risks of future development accurately."

Karlsruhe, 16 April 2018

TREUHAND SÜDWEST GMBH
Wirtschaftsprüfungsgesellschaft
und Steuerberatungsgesellschaft

Dr. Heilgeist	Retzbach
German public auditor	German public auditor
(Wirtschaftsprüfer)	(Wirtschaftsprüfer)

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