



HALF-YEAR REPORT 2017



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HIGHLIGHTS AND KEY FIGURES

HIGHLIGHTS OF FIRST HALF OF 2017

- Earnings slightly lower than expected in H1 2017
- Positive EBIT and net profit in H1 2017
- Forecast for year as a whole still achievable
- Reorganisation largely completed
- Motor racing: solid performance despite strong competition
- Vehicles and vehicle components: Mercedes-AMG GT4 development contract

Key balance sheet figures (HGB)	30 June 2017 EUR thousand	30 June 2016 EUR thousand
Cash funds	49	46
Equity	25,739	26,432
Total assets	66,936	62,164
Equity ratio	39%	43%

Key earnings figures (HGB)	1 Jan. 2017 -30 June 2017 EUR thousand	1 Jan. 2016 -30 June 2016 EUR thousand
Sales revenues	45,616	49,048
EBIT	404	917
Net profit for the year	88	497
Earnings per share in EUR	0.02	0.10
Employees as at balance sheet date	294	305

This half-year report has been prepared in accordance with the German Commercial Code (HGB).

INTERIM REPORT

MANAGEMENT

DEAR SHAREHOLDERS,

The business performance of HWA AG was mostly in line with expectations in the first half of 2017. In line with planning, sales decreased. Both EBIT and net profit were slightly lower than planned in the first six months of 2017. EBIT and net profit were slightly positive. In structural terms, the first half of 2017 was dominated by the reorganisation of HWA AG. Owing to the unsatisfactory results in the second half of 2016 and the uncompetitive cost structure, the Management Board had resolved in December 2016 to introduce a programme to optimise and realign individual areas. This reorganisation concept also involved a significant reduction of internal capacity and employment options. At the heart of the concept was the greater concentration of the company's activities on its core competencies, which the Management Board defined in development services, the deployment, testing and construction of racing vehicles, after-sales and services in motor and customer sport. The reorganisation concept resulted in a significant reduction of vertical integration and the downsizing of internal capacity in certain areas that will be contracted out in the future. As at the end of the reporting period, the reorganisation of HWA AG was already largely completed.

In the motor racing (DTM) business unit, the sales volume decreased in the first half of 2017 in line with planning. The decrease is chiefly due to cost savings on the part of the manufacturers for this series. Manufacturers involved in the DTM are endeavouring to reduce their costs for the DTM, including by means of changes in regulations and by using standard components. This will also be reflected in a lower sales volume in this segment in 2017 as a whole.

However, this planned decrease in sales will not be fully reflected in the earnings

contribution, as the company has reacted to this development in good time.

The engine rental/sales business in Formula 3 developed solidly in comparison to the previous year.

In the vehicles and vehicle components business unit, the sales volume stabilised at a high level after strong growth in the preceding years. The successful development in the vehicles and vehicle components business unit is therefore continuing. This segment's development so far in the first half of 2017 has been strongly influenced by a large delivery of the Mercedes-AMG GT3. The cooperation with Mercedes-AMG GmbH in customer sport is still developing positively and has been continued with a new development contract for the Mercedes-AMG GT4. Initial deliveries for the Mercedes-AMG GT4 are scheduled for the second half of 2017.

HWA AG still considers the previous forecast for 2017 to be achievable – however, this target is ambitious and is based on the assumption that projects in the vehicles and vehicle components business unit will be completed on schedule. The Management Board anticipates a total operating performance of between EUR 85m and EUR 90m in 2017. With regard to EBIT, a margin of up to 2.5% is anticipated. The goal is to close 2017 with positive earnings. In order to achieve the target margin for 2017 as a whole, however, earnings will need to post a much stronger development in the second half of 2017 than in the first half.

SALES AND EARNINGS

In the first six months of 2017, HWA AG generated sales of EUR 45.6m after EUR 49.0m in the first half of 2016. The total operating performance rose slightly from EUR 50.9m to EUR 51.5m. This was attributable to the increase in work in progress and finished goods in the vehicles and vehicle components business unit. EBITDA declined from EUR 2.4m to EUR 1.8m. Depreciation and amortisation of tangible and intangible non-current assets amounted to EUR 1.4m. Earnings before interest and taxes

(EBIT) amounted to EUR 0.4m after EUR 0.9m in the first half of 2016. Net finance costs came to EUR 0.3m. HWA AG generated a profit before taxes of EUR 0.1m after EUR 0.7m in the first half of 2016. Net profit decreased from EUR 0.5m to EUR 0.1m in the first half of 2017.

FINANCIAL POSITION

Compared with the position at 30 June 2016, total assets grew significantly again from EUR 62.2m to EUR 66.9m. This was attributable chiefly to the rise in inventories, particularly as a result of the delivery of the Mercedes-AMG GT3 and the development contract for the Mercedes-AMG GT4. However, equity decreased slightly from EUR 26.4m to EUR 25.7m. HWA AG's equity ratio fell from 43% to 39%.

In the first half of 2017, there was an operating cash outflow of EUR 2.8m, compared with an outflow of EUR 3.6m in the same period last year. The operating cash outflow resulted primarily from the increase in inventories as a result of the Mercedes-AMG GT3 project and the development contract for the Mercedes-AMG GT4 project. For 2017 as a whole, HWA AG anticipates an improvement in the operating cash flow development. There was a cash outflow of EUR 0.2m from investing activities, down on the previous year's level of EUR 0.5m.

Owing to the operating cash outflow, there was also a free cash outflow in the first six months of 2017. HWA AG is aiming for an improvement in free cash flow for the year as a whole. There was a cash inflow of EUR 1.4m from financing activities as a result of taking out loans. In the previous year, this key figure was influenced by the payment of the dividend in June 2016, which amounted to EUR 1.7m. There was no distribution to the shareholders in 2017.

NET ASSETS

Trade receivables rose from EUR 8.9m to EUR 9.4m in the reporting period, while

trade payables decreased from EUR 6.9m to EUR 5.5m. Inventories amounted to EUR 28.5m as at 30 June 2017 after EUR 26.4m in the same period of the previous year. The increase is attributable mainly to the vehicles and vehicle components business unit.

Cash and cash equivalents stabilised at the previous year's level of EUR 0.1m. Liabilities to banks rose from EUR 22.5m to EUR 26.1m.

BUSINESS UNITS

HWA AG is organised as two business units: motor racing and vehicles/vehicle components. 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 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. HWA AG's further expertise in the motor racing segment relates to the development, manufacture and servicing of Formula 3 racing engines.

In its vehicles and vehicle components business, HWA AG focuses on highly specialised development contracts for customers from the automobile industry. With its expertise from decades of motor racing experience, HWA AG is a much sought-after partner for premium suppliers in the automotive 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. In close cooperation with Mercedes-AMG GmbH, HWA AG developed and produced the Mercedes-Benz SLS AMG GT3 and the Mercedes-AMG GT3 over the past six years.

MOTOR RACING

In the motor racing (DTM) business unit, the sales volume will decrease significantly in 2017 in line with planning. The decrease is chiefly due to cost savings on the part of the manufacturers for this

series. All three manufacturers are endeavouring to reduce their costs for the DTM, including by means of changes in regulations and by using standard components, and this will be clearly reflected in HWA AG's sales volume for the first time in 2017.

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

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 touring car series. The high performance density guarantees a gripping race. The 2017 DTM season comprises nine racing weekends. It traditionally starts and ends at the Hockenheimring Baden-Württemberg, Germany. Five of the racing weekends take place in Germany, with four guest appearances by the DTM abroad – in Austria, the Netherlands, Russia and Hungary. Two races are held each racing weekend, one on Saturday and one on Sunday. The races on Saturday and Sunday are the same length (55 minutes plus one lap) and each include a qualifying session (20 minutes) and a pit stop.

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 then repeated this victory at the first race at the Lausitzring. In Budapest, Paul di Resta was victorious in one race. The races in Moscow, in Zandvoort and at the Nürburgring took place after 30 June 2017. 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.

Leasing and sales of Formula 3 engines developed solidly in the first half of 2017, meeting the Management Board's expectations.

VEHICLES AND VEHICLE COMPONENTS

The vehicles and vehicle components business unit developed well in terms of sales in the first half of 2017 and stabilised at the previous year's high level. The business performance was once again dominated by the delivery of the Mercedes-AMG GT3 project. This vehicle is being produced on behalf of and in close collaboration with Mercedes-AMG GmbH. As planned, the number of deliveries in the first half of 2017 was very high. This will normalise in the second half of 2017. The first six months of the current year were also influenced by the development contract for the Mercedes-AMG GT4 project. The close collaboration 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. The first deliveries for the Mercedes-AMT GT4 are scheduled for the second half of 2017.

The intensive AMG customer sports commitment also forms the focus for the vehicle and vehicle components business unit in 2017. AMG customer teams are competing with the GT3 vehicle in various racing series around the world in 2017. 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. HWA AG has set itself the goal of enhancing the diversity of its project structure in vehicles and vehicle components with new customers. This is a process that requires a great deal of lead time. HWA AG has already received various different development contracts from other customers. However, these development contracts do not necessarily mean that a new project will be commissioned.

EVENTS AFTER THE BALANCE SHEET DATE

After the balance sheet date, HWA AG was informed in July 2017 that Daimler AG would not continue its motorsports activities in the DTM racing series after 2018. With the end of Daimler AG's involvement in the DTM, HWA AG is likely to lose almost all of its sales in the motor racing business unit from 2019 onwards. The Management Board cannot yet make any statement regarding the effects on earnings in the 2019 financial year. This relates to the fact that HWA AG will take corresponding measures with regard to costs. The forecast for sales and operating earnings (EBIT) for the 2017 financial year is initially unaffected by this discontinuation of DTM activities starting from 2019. However, possible balance sheet effects and resulting effects on earnings in connection with the end of involvement in the DTM cannot be ruled out entirely, although these cannot be quantified at present. The balance sheet effects are not expected to impact cash.

In general, the Management Board is increasingly examining the implementation of other projects in the field of motor racing to at least partially compensate for the decline in sales from 2019 onwards.

The Supervisory Board of HWA AG appointed Michael Wilson as an additional member of the company's Management Board (CTO) as at 1 October 2016. This appointment was initially limited to one year. The Supervisory Board of HWA AG has decided not to extend the Management Board contract with Mr Wilson. Michael Wilson will therefore leave the Management Board of HWA AG as at the end of September 2017. His responsibilities will be allocated to other executives. At present, there are no plans to find a replacement for the position of Chief Technology Officer. Ulrich Fritz (CEO) will therefore manage the company as its sole director starting from October 2017.

EMPLOYEES

At 30 June 2017, HWA AG had 294 employees, compared with 305 employees a year earlier. Staff levels at HWA AG are expected to fall by the end of the year.

ANNUAL GENERAL MEETING 2017

The tenth Annual General Meeting of HWA AG since the initial stock market listing in 2007 took place on 23 June 2017. Around 60 shareholders met at the Residenzclub in Affalterbach. Of the company's total share capital of EUR 5,115,000 – split into 5.115 million shares – around 4.7 million shares or just under 93% of the share capital were represented. We are pleased with the lively interest shown by shareholders, especially the smaller ones.

Specifically, a resolution was passed on the appropriation of the net retained profits for the 2016 financial year. In this regard, the management proposed that the reported net retained profits be carried forward to new account. In addition, resolutions were passed in relation to approving the actions of the Management Board (agenda item 3) and the Supervisory Board in individual votes (item 4) and the appointment of Treuhand Südwest GmbH Wirtschaftsprüfungsgesellschaft und Steuerberatungsgesellschaft, Karlsruhe, as the auditor for the 2017 financial year (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%.

HWA STOCK

HWA AG stock performed stably in the period from 1 January to 30 June 2017. It started the year at EUR 13.95 and also closed at EUR 13.95 at the end of June in Xetra trading. During the first half of 2017, it marked a high of EUR 13.98 and a low of EUR 13.05. Overall, HWA AG stock is still moving within a very narrow trading margin.

As at the reporting date 30 June 2017, HWA AG's stock market value amounted to approximately EUR 71m.

KEY FIGURES AND INFORMATION

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
Share capital	EUR 5,115,000.00
Number of shares	5.115 million
Initial listing	19 April 2007
Listing price	EUR 25.13
Designated sponsor	Oddo Seydler Bank AG

SHAREHOLDER STRUCTURE AS AT 30 JUNE 2017

To the company's knowledge, the shareholder structure of HWA AG did not change with regard to the major shareholders during the first half of 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%. 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. Due to its listing in the Basic Board, HWA AG is not required to disclose information on the shareholder structure.

HWA AG – Financial Statements for the Half-Year Ending 30 June 2017

Balance Sheet – Assets (HGB)

		30 June 2017	30 June 2016
	EUR	EUR	EUR
ASSETS			
A. FIXED ASSETS			
I. Intangible assets			
1. Purchased IT software and licences	600,501.85		378,649.07
2. Prepayments	0.00		355,048.19
		600,501.85	733,697.26
II. Tangible assets			
1. Land and buildings	16,584,315.61		17,512,963.40
2. Technical equipment and machinery	2,299,486.67		2,983,572.71
3. Other equipment, operating and office equipment	1,642,006.48		1,773,673.69
4. Prepayments and assets under construction	2,087,700.69		1,911,536.83
		22,613,509.45	24,181,746.63
III. Financial assets			
Shares in affiliated companies		239,900.20	0.00
		23,453,911.50	24,915,443.89
B. CURRENT ASSETS			
I. Inventories			
1. Raw materials, consumables and supplies	24,195,891.98		22,446,842.44
2. Work in progress	9,088,301.67		3,564,615.76
3. Prepayments	316,822.02		352,773.51
4. Payments received on account of orders	-5,097,750.00		0.00
		28,503,265.67	26,364,231.71
II. Receivables and other assets			
1. Trade receivables	9,382,361.05		8,867,314.10
2. Receivables from affiliated companies	2,531,850.38		0.00
3. Other assets	1,644,481.91		1,363,746.73
		13,558,693.34	10,231,060.83
IV. Cash in hand and at banks		48,636.93	46,090.35
		42,110,595.94	36,641,382.89
C. PREPAID EXPENSES		151,119.83	396,044.02
D. DEFERRED TAX ASSETS		1,220,000.00	211,000.00
		66,935,627.27	62,163,870.80

HWA AG – Financial Statements for the Half-Year Ending 30 June 2017

Balance Sheet – Equity and Liabilities (HGB)

		30 June 2017	30 June 2016
	EUR	EUR	EUR
EQUITY AND LIABILITIES			
A. EQUITY			
I. Subscribed capital		5,115,000.00	5,115,000.00
II. Revenue reserves			
1. Legal reserve	511,500.00		511,500.00
2. Other revenue reserves	1,310,000.00		1,310,000.00
		1,821,500.00	1,821,500.00
III. Net retained profits		18,802,933.15	19,495,087.58
		25,739,433.15	26,431,587.58
B. PROVISIONS			
1. Tax provisions	0.00		472,000.00
2. Other provisions	5,250,609.16		4,803,507.22
		5,250,609.16	5,275,507.22
C. LIABILITIES			
1. Liabilities to banks	26,060,540.57		22,522,966.06
2. Trade payables	5,518,581.56		6,888,444.92
3. Other liabilities	966,462.83		825,365.02
of which taxes: EUR 593,542.48 (PY: EUR 440 thousand)			
		32,545,584.96	30,236,776.00
D. PREPAID EXPENSES		3,400,000.00	220,000.00
		66,935,627.27	62,163,870.80

HWA AG – FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2017

Income statement for the period from 1 January to 30 June 2017

	EUR	1 Jan. to 30 June 2017 EUR	1 Jan. to 30 June 2016 EUR
1. Sales revenues	45,615,772.72		49,048,036.85
2. Increase in finished goods and work in progress	4,999,164.66		1,433,207.85
3. Other operating income thereof income from foreign currency translation EUR 38,665.40 (PY: EUR 306 thousand)	849,432.38		442,310.57
		51,464,369.76	50,923,555.27
4. Cost of materials			
a) Costs of raw materials, consumables and supplies	21,563,407.53		20,428,531.42
b) Cost of purchased services	8,385,601.09		7,571,451.98
5. Personnel expenses			
a) Wages and salaries	11,155,810.91		11,437,793.97
b) Social security costs and cost of old-age pensions of which for old-age pensions EUR 15,072.98 (PY: EUR 9 thousand)	1,763,289.31		1,731,351.93
6. Depreciation and amortisation of tangible and intangible non-current assets	1,417,555.14		1,471,094.20
7. Other operating expenses thereof expenses from foreign currency translation EUR 61,680.49 (PY: EUR 409 thousand)	6,775,142.24		7,365,681.07
		51,060,806.22	50,005,904.57
8. Profit before interest and tax (EBIT)		403,563.54	917,650.70
9. Other interest and similar income	41.05		0.13
10. Interest and similar expenses	-282,535.15		-195,592.45
		-282,494.10	-195,592.32
11. Income taxes thereof expenses from change in deferred taxes EUR 10,000.00 (PY: EUR -151 thousand)	9,751.60		201,100.00
12. Earnings after taxes		111,317.84	520,958.38
13. Other taxes	23,674.86		23,495.42
14. Net profit for the period		87,642.98	497,462.96
15. Retained profits brought forward		18,715,290.17	18,997,624.62
16. Net retained profits		18,802,933.15	19,495,087.58

HWA AG – FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2017

Cash flow statement for the period from 1 January to 30 June 2017

	1 Jan. to 30 June 2017	1 Jan. to 30 June 2016
	EUR thousand	EUR thousand
1. Cash flow from operating activities		
Net profit for the period	88	497
Depreciation and amortisation of non-current assets	1,418	1,471
Increase (+)/decrease (-) in provisions	-972	1,453
Increase (-)/decrease (+) in inventories, trade receivables and other assets	-3,224	-8,903
Increase (+)/decrease (-) in trade payables and other liabilities	1,001	1,994
Gain (-)/loss (+) on disposal of non-current assets	-76	0
Interest expense (+)/interest income (-)	283	196
Income tax expense (+)/income (-)	0	201
Income taxes paid	-1,347	-546
Cash flow from operating activities	-2,829	-3,637
2. Cash flows from investing activities		
Purchase of intangible fixed assets	-13	-164
Proceeds of disposal of non-current assets	76	0
Investments in property, plant and equipment	-287	-354
Interest received	0	0
Cash flows from investing activities	-224	-518
3. Cash flows from financing activities		
Distributions to shareholders	0	-1,688
Receipts from bank borrowings	3,000	0
Repayment of bank borrowings	-1,310	-798
Interest paid	-283	-196
Cash flows from financing activities	1,407	-2,681
4. Cash funds at end of period		
Changes in cash and cash equivalents (subtotal items 1-3)	-1,646	-6,836
Cash funds at beginning of period	-2,341	-3,807
Cash funds at end of period	-3,987	-10,643
5. Breakdown of cash and cash equivalents		
Cash funds	48	46
Short-term liabilities to banks	-4,035	-10,689
Cash funds at end of period	-3,987	-10,643

HWA AG, Affalterbach

Notes to the Financial Statements as at 30 June 2017

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. In addition, based on the provisions of the German Accounting Directive Implementation Act (BilRUG), revenues that were previously reported under other operating income were now reported under sales revenues. The prior-year figures were adjusted accordingly to ensure comparability.

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 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.

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

Investments in property, plant and equipment totalling EUR 300 thousand were made in the financial year. There were no significant disposals in the first half of 2017.

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 2016 amounted to EUR -11 thousand (USD -12 thousand), translated at the mean spot rate at the reporting date.

Inventories

To improve the presentation and comparability with other companies, advance payments received were openly offset against inventories. There were no advance payments received in the previous year. The advance payments received have a remaining term of up to one year.

Receivables and other assets

EUR 1,600 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
	EUR thousand	EUR thousand	EUR thousand	%	EUR thousand
from low-value non-current assets	0	342	342	29	99
from other provisions	338	195	143	29	41
from inventories	0	275	275	29	80
Loss carried forward					<u>1,000</u>
					<u><u>1,220</u></u>

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, restructuring measures, expected losses from onerous contracts, holiday entitlements, anniversary benefits and employee incentives.

Liabilities

Of the liabilities to banks, EUR 10,355 thousand (PY: EUR 12,984 thousand) have remaining maturities of up to one year and EUR 15,705 thousand (PY: EUR 9,539 thousand) have remaining maturities of more than one year. EUR 5,573 thousand (PY: EUR 1,921 thousand) of the latter category have remaining maturities of more than five years. EUR 9,588 thousand was secured by charges on real property.

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

Collateral has been provided for the 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	10,885
Purchase commitments	9,436

The agreements come to an end between 2017 and 2022.

Derivative financial instruments

An interest rate swap has been taken out to hedge interest rate risk on a variable-rate loan totalling EUR 2.1m, as follows:

	Base rate	Fixed interest rate %	Reference value	Term	Fair value EUR thousand
Swap	3-month Euribor	3.57	EUR 2,100 thousand	30 Sept. 2019	-100

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 1,220 thousand.

Income statement disclosures

	H1 2017		H1 2016	
	EUR thousand	%	EUR thousand	%
Sales revenues by region				
Germany	35,081	76.9	39,890	81.3
Outside Germany	10,535	23.1	9,158	18.7
	<u>45,616</u>	<u>100.0</u>	<u>49,048</u>	<u>100.0</u>

Based on the redefinition of sales revenues in section 277 (1) of the German Commercial Code (HGB), rental income of EUR 60 thousand was reclassified from other operating income to sales revenues in the previous year to improve comparability.

Other operating income

Prior-period income mainly relates to reversal of provisions (EUR 459 thousand) and reversal of impairment losses (EUR 152 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 13 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 first half of 2017:

Non-salaried staff	165
Salaried staff	<u>144</u>
	309
Apprentices	<u>2</u>
	<u><u>311</u></u>

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, HWA AG is likely to lose almost all of its sales in the motor racing business unit from 2019 onwards. The Management Board cannot yet make any statement regarding the effects on earnings in the 2019 financial year. This relates to the fact that HWA AG will take corresponding measures with regard to costs.

Affalterbach, 29 September 2017

signed:

The Management Board

Ulrich Fritz (CEO)

Michael Wilson (CTO)

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Publisher:

HWA AG
Benzstrasse 8
71563 Affalterbach, Germany

Investor relations

HWA AG
Benzstrasse 8
71563 Affalterbach, Germany

Contact:

Tel.: +49 (0) 07144 – 8717 – 279

Fax: +49 (0) 07144 – 8718 – 111

e-mail: ir@hwaag.com

www.hwaag.com

