



HALF-YEAR REPORT 2018

HWA
ENGINEERING SPEED

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HIGHLIGHTS AND KEY FIGURES

HIGHLIGHTS OF H1 2018

- Solid sales and earnings performance in H1 2018
- Clearly positive EBIT and net profit in H1 2018
- Forecast for 2018 year as a whole confirmed
- HWA AG sales above target and EBIT slightly below
- Motor racing: Success for Mercedes-AMG DTM team in the DTM
- Vehicles and vehicle components: Mercedes-AMG GT4 delivered
- HWA US generated a profit for the first time by increasing sales in the first half of 2018.
- HWA AUS was founded and did not yet post a profit, despite positive performance.

Key consolidated balance sheet figures (HGB)	1 Jan. 2018 - 30 June 2018 EUR thousand	1 Jan. 2017 - 31 Dec. 2017 EUR thousand
Cash funds	7,056	3,203
Equity	27,551	26,148
Total assets	76,242	69,459
Equity ratio	36%	38%

Key consolidated earnings figures (HGB)	30 June 2018 EUR thousand	31 Dec. 2017 EUR thousand
Sales revenue	55,078	96,260
EBIT	2,176	1,851
Net profit for the year	1,442	537
Earnings per share in EUR	0.28	0.10
Employees as at balance sheet date	296	294

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

INTERIM MANAGEMENT REPORT

DEAR SHAREHOLDERS,

The business performance of HWA AG was in line with our expectations in the first half of 2018. At over EUR 55m sales volume has already reached a high level. The segment vehicles and vehicle components is continuing to experience dynamic growth. Both EBIT and net profit are already positive in H1 2018. HWA AG is almost on target with its key earnings figures.

The company underwent a structural reorganisation in 2017. The various measures are now paying off and cost-cutting measures are also already taking effect. The objectives of the 2017 reorganisation were achieved.

In the motor racing business unit (DTM), we are reporting stable sales and solid profitability for the first six months of 2018. The engine rental/sales business in Formula 3 developed as planned in comparison to the previous year.

We are still experiencing dynamic growth in the vehicles and vehicle components segment. The successful development in the vehicles and vehicle components segment is therefore continuing. The first half of 2018 in this segment, from the delivery of the Mercedes-AMG GT3 to the Mercedes-AMG GT4, is performing as anticipated. Cooperation with Mercedes-AMG GmbH in customer sports continued to develop very well. In this segment, we are also confident that we can maintain the success achieved in the first six months into the second half of the year.

The Management Board of HWA AG anticipates the stable sales performance and a significant upturn in earnings to continue in 2018. 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 the 2017 financial year, we prepared our consolidated financial statements in line with HGB for the first time. Thus the H1 2018 report was also prepared on a Group basis for the first time. However, there are no prior year figures here as at 30 June 2017 and so no comparison can be made.

SALES AND EARNINGS

In the first six months of 2018, HWA AG generated consolidated sales of EUR 55.1m and total operating performance of EUR 58.5m. Positive performance in the vehicles and vehicle components segment is a significant driver of sales. Gross profit totalled EUR 23.1m or over 42%. EBITDA reached EUR 3.3m. Depreciation and amortisation of tangible and intangible non-current assets amounted to EUR 1.1m. Earnings before interest and taxes (EBIT) was EUR 2.2m. The EBIT margin on sales was 4.0%.

Net finance costs came to EUR 0.3m. HWA AG generated a profit before taxes of EUR 1.9m. Net profit for the first half of 2018 was EUR 1.4m.

FINANCIAL POSITION

As at 30 June 2018, total assets amounted to EUR 76.2m. Total assets are driven by inventories, in particular the delivery of the Mercedes-AMG GT3 and the Mercedes-AMG GT4. Equity came to EUR 27.6m as at the reporting date at the end of June, representing an equity ratio of over 36%.

The cash flow statement developed well in the first half of 2018. Cash flow from operating activities amounted to just under EUR 7.1m for the period from January to June 2018. Investments were just EUR 0.1m, which led to a high free cash flow as at the reporting date. In H1 2018, cash flow from financing activities was marked principally by repayment of loans in the volume of EUR 1.4m. For the year as a whole, HWA AG anticipates negative cash flow on account of a further upturn in working capital.

NET ASSETS

Trade receivables totalled EUR 15.5m in the reporting period. Trade payables amounted to EUR 6.6m. Inventories totalled EUR 32.6m. Liquidity was EUR 7.1m as at the end of June 2018. Liabilities to banks rose to EUR 23.6m. There is also a shareholder loan of EUR 3.5m.

BUSINESS UNITS

HWA AG is organised as two business units. Motor racing and vehicles and 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 segment, 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 seven years. The successful cooperation with Mercedes-AMG GmbH was continued with a new development contract for the Mercedes-AMG GT4. The first deliveries were made in the final weeks of 2017. The Mercedes-AMG GT4 expands Mercedes AMG GmbH's customer sports range.

MOTOR RACING

In the motor racing business unit (DTM), sales this year will remain at around the same high level as in the previous year, thus meeting expectations. 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. However, it should be noted that sales volumes in this business are relatively low in comparison to DTM.

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.

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.

Things went very well for DTM in H1 2018. As at the season's half-way point, Gary Paffett is leading the drivers' championships, with HWA AG also in the lead in the manufacturers' championship and the team ranking. Out of ten races, we scored wins in six of them with a total of four double victories. HWA AG drivers made the podium in 17 of a possible 30 places. By taking the lead in all championships, we have laid the foundations for a successful end to the season. Races in the second half of the season will take place in Brands Hatch, Misano, Spielberg, at the Nürburgring and at the Hockenheimring.

Daimler AG will not continue its motorsports activities in the DTM racing series after 2018. After more than 30 years of highly successful collaboration in the DTM, Mercedes-Benz's DTM era with HWA AG has come to an end.

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.

Leasing and sales of Formula 3 engines developed in line with expectations in the first half of 2018. Daimler AG's decision to exit the DTM racing series in 2019 also means that Daimler AG will not continue its engine range for the Formula 3 series. HWA AG is looking into whether it will continue this business on its own and offer engines to customers directly.

VEHICLES AND VEHICLE COMPONENTS

The vehicles and vehicle components segment performed well overall in H1 2018. Business performance is dominated by the delivery of the Mercedes-AMG GT3 project and in particular by the delivery of the Mercedes-AMG GT4, which is being produced on behalf of and in close collaboration with Mercedes-AMG GmbH. Over 100 vehicles have been produced in total between the launch of the Mercedes-AMG GT3 project and the end of June 2018. Since the project began, Mercedes-AMG GT4 have completed more than 70 vehicles.

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 in a full financial year 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.

The intensive AMG customer sports commitment also formed the focus for the vehicle and vehicle components business unit in H1 2018. Overall, the close cooperation with Mercedes-AMG GmbH in motorsports is continuing. Interest in GT4 race cars is constantly on the rise. This race car will reach an even larger target group of amateur and professional drivers and teams. 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. The Management Board is working intensely on implementing this. In H1 2018, HWA AG launched a project with Apollo Automobil Limited. The race car project (Apollo IE) will be implemented in 2018 and 2019.

EVENTS AFTER THE BALANCE SHEET DATE

In July 2018, HWA AG announced that it had signed a declaration of intent with AF Racing AG, Niederwil (Switzerland), with both companies agreeing to begin talks on a joint venture enterprise.

The joint venture aims to develop a strategic innovation partnership for development projects in motor racing and in the automotive sector as a whole, with the new company combining the strengths of AF Racing AG and HWA AG. HWA AG specialises in the development and production of race cars and small-scale series production, alongside associated support and after sales services. The target market is benchmark products in motorsports and small-scale series production. Through the joint venture, HWA AG is stepping up its strategic objective of further diversifying its customer structure.

The contractual basis for founding the joint venture is set to be successfully completed in the second half of 2018.

EMPLOYEES

At 30 June 2018, HWA AG had 296 employees, compared with 294 employees a year earlier. Staff levels at HWA AG are expected to increase by the end of the year, reflecting global demand for replacement parts and services in customer sports.

ANNUAL GENERAL MEETING 2018

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

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

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

HWA STOCK

HWA AG stock performed stably in the period from 1 January to 30 June 2018. It started the year at EUR 15.10 and also closed at EUR 14.55 at the end of June in Xetra trading. During the first half of 2018, it marked a high of EUR 15.10 and a low of EUR 14.40. Overall, HWA AG stock is still moving within a very narrow trading margin.

As at the reporting date 30 June 2018, HWA AG's stock market value amounted to approximately EUR 74m.

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 2018

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 2018. The company's founder and Chairman of the Supervisory Board, Hans Werner Aufrecht, and his family hold an equity interest in HWA AG of around 40%. Dörflinger Privatstiftung, which is represented by the Deputy Chairman of the Supervisory Board Willibald Dörflinger, has an equity interest of around 18% in HWA AG, while Nasser Bin Khaled (NBK) Holding, also represented on the Supervisory Board, has an interest of just under 29%. Together, these three shareholders control over 85% of HWA AG's share capital. The information provided on HWA AG's shareholder structure is based on the notification of voting rights for the Annual General Meeting in July 2018. 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 2018

CONSOLIDATED BALANCE SHEET – ASSETS (HGB)

ASSETS	EUR	30 June 2018 EUR	31 Dec. 2017 EUR
A. FIXED ASSETS			
I. Intangible assets			
Purchased IT software and licences	404,276		523,102
		404,276	523,102
II. Tangible assets			
1. Land and buildings	12,587,043		13,015,533
2. Technical equipment and machinery	2,433,373		1,806,339
3. Other equipment, operating and office equipment	859,095		1,903,857
4. Prepayments and assets under construction	1,984,875		0
		17,864,386	18,710,605
III. Financial assets			
Shares in affiliated companies		0	10,048
		18,268,662	19,243,753
B. CURRENT ASSETS			
I. Inventories			
1. Raw materials, consumables and supplies	22,384,610		28,112,002
2. Work in progress	11,694,172		2,789,344
3. Prepayments	1,444,580		
4. Payments received on account of orders	-2,916,875		-3,224,000
		32,606,487	27,677,345
II. Receivables and other assets			
1. Trade receivables	15,548,086		16,850,290
2. Receivables from affiliated companies	0		639,865
3. Other assets	1,881,765		951,847
		17,429,851	18,442,001
III. Cash in hand and at banks		7,055,622	3,203,462
		57,091,960	49,322,809
C. PREPAID EXPENSES		281,477	304,199
D. DEFERRED TAX ASSETS		599,707	588,233
		76,241,806	69,458,995

CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES (HGB)

EQUITY AND LIABILITIES	EUR	30 June 2018 EUR	31 Dec. 2017 EUR
A. EQUITY			
I. Subscribed capital		5,115,000	5,115,000
II. Revenue reserves			
1. Legal reserve	511,500		511,500
2. Other revenue reserves	1,310,000		1,310,000
		1,821,500	1,821,500
III. Difference in equity from currency translation		-86,931	-29,610
IV. Net retained profits		20,701,116	19,240,682
		27,550,685	26,147,572
B. PROVISIONS			
1. Tax provisions	403,579		646
2. Other provisions	4,583,087		3,413,156
		4,986,666	3,413,802
C. LIABILITIES			
1. Liabilities to banks	23,605,288		28,515,609
2. Loan liabilities to shareholders	3,500,000		3,500,000
3. Trade payables	6,589,643		8,849,983
4. Other liabilities	1,201,524		2,532,029
of which taxes: EUR 426,849 (PY: EUR 1,990 thousand)			
		34,896,455	39,897,621
D. PREPAID EXPENSES		8,808,000	0
		76,241,806	69,458,995

HWA AG – CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2018

Consolidated income statement for the
period from 1 January to 30 June 2018

	EUR	1 Jan. to 30 June 2018 EUR	1 Jan. to 31 Dec. 2017 EUR
1. Sales revenue	55,077,504		96,260,415
2. Change in finished goods and work in progress	2,912,297		-1,295,509
3. Other operating income thereof income from foreign currency translation EUR 160,675 (PY: EUR 514 thousand)	510,685		2,392,929
		58,500,486	97,357,835
4. Cost of materials			
a) Costs of raw materials, consumables and supplies	27,522,016		37,011,158
b) Cost of purchased services	7,343,223		15,845,655
5. Personnel expenses			
a) Wages and salaries	10,950,024		20,915,397
b) Social security costs and cost of old-age pensions of which for old-age pensions EUR 10,400 (PY: EUR 15 thousand)	1,669,248		3,389,325
6. Depreciation and amortisation of tangible and intangible non-current assets	1,098,154		2,851,555
7. Other operating expenses thereof expenses from foreign currency translation EUR 0 (PY: EUR 193 thousand)	7,742,139		15,493,269
8. Profit before interest and tax (EBIT)		2,175,682	1,851,476
9. Other interest and similar income	0		1,287
10. Interest and similar expenses	302,449		602,028
		302,449	-600,741
11. Income taxes of which income from change in recognised deferred taxes EUR 9,800 (previous year: EUR 415 thousand)	394,311		651,085
12. Earnings after taxes		1,478,922	599,650
13. Other taxes		18,488	62,832
14. Net profit for the year		1,460,434	536,818
15. Retained profits brought forward		19,240,682	18,703,863
16. Net retained profits		20,701,116	19,240,682

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2018

General information

These consolidated interim financial statements have been prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB) and the provisions of the German Stock Corporation Act (Aktiengesetz – AktG).

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 interim financial statements cover the period from 1 January 2018 to 30 June 2018. As this is the first time these statements have been produced, there are no comparative figures for the previous period. The figures from the 2017 financial year are therefore used for comparison purposes. The basis for these consolidated interim financial statements is the consolidated financial statements from 31 December 2017.

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

The basis for these consolidated interim financial statements is the consolidated financial statements from 31 December 2017.

Unless otherwise specified, all amounts are reported in full euros.

Register information

The company operates as HWA AG. The company is headquartered in Affalterbach. The company is entered in the commercial register of Stuttgart Local Court under 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 foreign subsidiaries (HWA US Inc. and HWA AUS PTY Ltd.). HWA AUS was included in the scope of consolidation for the first time.

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 pursuant to section 301 (1) HGB. All assets and liabilities of the subsidiary are then recognised at their fair value at the acquisition date or at the date when a controlling influence is obtained. Any positive difference that arises when the acquisition costs are offset against the revalued equity attributable to the parent company is reported as goodwill under intangible assets and is amortised over the respective useful life.

HWA AUS PTY Ltd., until now classified as an immaterial subsidiary, was included in the consolidated financial statements for the first time. In accordance with section 301 (2) sentence 3 HGB, the initial consolidation of HWA AUS PTY Ltd. took place as at 1 January 2018. As in the initial consolidation of HWA US, there was no difference or goodwill.

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 the decisive factor in the preparation of the annual financial statements.

The separate financial statements of the consolidated company in the consolidated group were included in HWA AG's consolidated interim financial statements in accordance with legal provisions using uniform accounting methods.

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

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

Depreciation of property, plant and equipment is performed on a straight-line basis over its expected useful life. In accordance with tax regulations, low-value assets with a value of up to EUR 800 are written off immediately and recognised as disposals in the year of addition.

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.

In **deferred items**, incoming and outgoing payments for financial years after the balance sheet date are neutralised in terms of the income statement for the past financial year.

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. Resulting currency translation differences are reported within Group equity after reserves in the item "Difference in equity from currency translation".

Consolidated balance sheet disclosures

List of shareholdings

In the United States of America (Wilmington/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." (Mornington/Victoria) was founded in 2017 with capital of EUR 10,047.56 (AUD 15,000). HWA AG holds a 100% share. The company was fully consolidated in the consolidated financial statements.

In China, the joint venture GCC was formed with a local partner. HWA AG holds a 30% share, with no capital contribution necessary. The company was not included in the consolidated financial statements as it has no significant influence.

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

Deferred taxes

Deferred tax assets were made up as follows:

	Deferred tax assets EUR	Deferred tax liabilities EUR
Tangible assets	64,000	
Inventories	427,800	
Trade receivables	21.8556	2,953
Tax loss carryforwards	59,005	
Provisions	30,000	
Not offset	602,660	2,953
Of which short-term		
Closing	-2,953	-2,953
Carrying amount	599,707	0

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 was 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 9,320 thousand have remaining maturities of up to one year and EUR 14,285 thousand have remaining maturities of more than one year. EUR 4,780 thousand of the latter category have remaining maturities of more than five years. EUR 7,244 thousand was secured by charges on real property.

The liabilities to shareholders 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 2,221 thousand in 2018 and EUR 5,601 thousand in total over the entire term. 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
Swap	3-month Euribor	3.57	EUR 1,400 thousand	30 Sept. 2019	- 41

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 600 thousand.

Consolidated income statement disclosures

Sales revenue

Sales revenue breaks down as follows:

	2018 EUR thousand
Sales revenues by region	
Germany	44,786
Outside Germany	10,292
	55,078

Other operating income

Prior-period income relates mainly to income from the disposal of fixed assets (EUR 87 thousand), reversal of provisions (EUR 63 thousand) and income from exchange rate gains including currency translations (EUR 161 thousand).

Interest expenses

The total amount of interest paid during the reporting year for liabilities to banks comes to EUR 302 thousand. Interest expenses include expenses from discounting provisions in the amount of EUR 8 thousand.

Income taxes

Taxes on income include income from deferred tax assets in the amount of EUR 10 thousand.

Income tax expenses amounted to EUR 404 thousand in the 2018 financial year. Income tax of EUR 1 million was paid in the year under review.

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 (deceased 5 April 2018)
- 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 86 thousand.

Management Board

- Ulrich Fritz, CEO, Chairman of the Management Board

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

Employees

Average number of employees during the financial year:

Non-salaried staff	136
Salaried staff	158
	<hr/>
	294
Apprentices	2
	<hr/>
	296
	<hr/> <hr/>

One person was employed outside Germany.

Report on events after the balance sheet date

At the Annual General Meeting on 25 July 2018, resolutions were passed on creating new Authorised Capital 2018. This provides the option of excluding subscription rights, amending the articles of incorporation accordingly and issuing convertible or option bonds. In addition, there is the option of excluding subscription rights, creating Contingent Capital 2018 and amending the articles of incorporation accordingly with the required majority.

Affalterbach, 28 September 2018

The Management Board



Ulrich Fritz

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