HWA

ENGINEERING SPEED

HALF-YEAR REPORT

2020

INTERIM MANAGEMENT REPORT

DEAR SHAREHOLDERS,

The year 2020 was essentially determined for us all by the global COVID-19 pandemic. Having got off to a positive start to the year in the months of January and February, HWA AG's operations were exposed to the considerable impact of the global lockdown as from March onwards. Even before the advent of COVID-19, HWA AG had already anticipated a considerable decline in revenue in 2020. The Management Board continues to expect a quite considerable easing of the cost burden. Prompted by the losses sustained in 2019, HWA had already implemented a general cost-cutting programme. Given a loss before interest and taxes of EUR 8.9 million in 2019, the company forecasted significant cost savings in 2020, which have also been achieved.

For the year as a whole, the company was cautiously optimistic, predicting EBIT of around EUR 5 million, which nevertheless depended upon the development of the pandemic. Moreover, a generally stable economic environment in the second half of the year also formed part of the assumptions. Traditionally – and now also impacted by COVID-19 – the first six months of the year develop somewhat weaker for HWA. Business is generally essentially determined by a strong second half year. Since a large part of business was rendered impossible in the first half of the year due to the lockdown, for example the racing series with HWA, the months of July and August saw a strong overall recovery across all business lines. Catch-up effects also filtered through here.

Over the course of the year to date, the FIA Formula 2 and FIA Formula 3 racing series, along with the ABB FIA Formula E championship, have been able to take place with a delay and with greater logistics efforts. The spare parts and service business and production for the Mercedes M-AMG GT racing vehicles came to a virtual standstill in the months from March through to June. The start of anticipated and planned development projects was either partly postponed due to the pandemic or their realisation is subject to uncertainty.

Following a recovery at the start of the third quarter, the development of demand was unusually weak in September, above all in the growth segment of Vehicles/Vehicle Components. The project business in particular failed to deliver on management planning. In addition, the visibility has so far remained restricted and order situation subdued in the weeks ahead. Against this backdrop, the EBIT target for 2020 is no longer achievable. An updated forecast is not possible at present. The goal of improving the results compared with 2019, still applies, however, against the backdrop of short-time work and significant cost cutting measures.

1. BACKGROUND INFORMATION ON THE GROUP

LEGAL AND ECONOMIC POSITION OF THE COMPANY IN 2020

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 on 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 two above-mentioned legal entities serve as sales companies for the respective local markets.

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

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

The core business of Motor Racing in the first half of 2020 consisted of participation in the ABB FIA Formula E championship, Season 6, as operations and development team for the Mercedes-Benz EQ Formula E Team, as well as deployment as a FIA Formula 2 and FIA Formula 3 racing team under the name of HWA RACELAB.

The second segment, Vehicles/Vehicle Components, focuses on development, production and other services for the automotive industry and other customer groups. 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. Spare parts and services continue to be provided at the Affalterbach location and worldwide on a localised basis.

RESEARCH AND DEVELOPMENT

Across all its activities and business areas, HWA AG has comprehensive resources at its disposal which it requires for the competitive development of racing vehicles, customer sports vehicles and small-scale series vehicles, as well as 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 commands comprehensive expertise and a wide range of resources for developing electrical and electronic components in racing and small-scale series vehicles, as well as for 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 GT customer sports business, HWA AG has built up an excellent infrastructure which 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 be dedicating special attention to research and development in the future so as to open up new business areas and opportunities, also outside motor sports, as well as to be able to uphold the high standard of all current and future products and the competitive edge this bestows.

The HYRAZE project which HWA AG launched in August 2020 is a good example. As a first step, HYRAZE, with its an innovative concept, is to bring future technologies, such as hydrogen propulsion and emission-free braking, to motorsports and, if appropriate, undergo an assessment for future series production.

2. ECONOMIC REPORT

GENERAL ECONOMIC CONDITIONS

The global economy slumped dramatically in the first half of 2020, with the economic impact of the COVID-19 pandemic proving even stronger than predicted at the start of the crisis.

Not only the industrial sector but also the service industry were severely impacted by the COVID-19 pandemic. The start of April in particular saw industrial production and consumer spending drop significantly compared with previous years, and then subsequently begin to gradually recover after the regional lockdowns were eased.

The global economy currently presents a very disparate picture in terms of the impact of the pandemic. Consequently, the mutual global dependencies are also affected to varying degrees.

Unprecedented measures to support the economy were implemented in many countries to counteract the steep economic downturn, which has prevented the pandemic from incurring an even more drastic impact.

AUTOMOTIVE MARKET AND OTHER RELEVANT MARKETS

Over the period under review, the global demand for passenger cars dropped to a historically low level and, compared with the year-earlier period, reported a steep decline of around 31%. All relevant sales markets saw volumes decrease in the double-digit percentage range.

In Europe, passenger car sales fell by 39.5% year-on-year. The German market contracted by 34.5% in comparison with the previous year's period, while demand in France slumped by around 39%. The UK market, on the other hand, suffered an even steeper decline of approximately 49%.

Compared with the year earlier period, the US market for passenger cars has shed around 23.5%, with around 6.4 million units sold in the first half of 2020.

Approximately 7.7 passenger cars were sold in China, down 22.5% year-on-year.

The Mercedes-Benz Cars brand sold 879,505 vehicles in total in the first half of 2020, which is 22% less than in the year-earlier period. Mercedes-Benz Cars sold 302,559 vehicles (previous year: 480,086), including 100,556 in Germany. In China, as the largest single market, the plunge in the Mercedes-Benz Cars business was less pronounced, with sales declining relatively moderately by 4% to 327,739 vehicles.

The market for electric mobility in Germany is continuing to grow. Approximately 44,307 electric cars were registered here in the first six months, representing an increase of around 42.7%.

BUSINESS PERFORMANCE AND RESULTS OF OPERATIONS

a. Business development and forecast performance of the company

In economic terms, the company unfortunately did not achieve the targets it had set itself for the 2020 financial year. Particularly in the second quarter of the year, COVID-19 caused a steep decline in revenues from the spare parts and service business which will not be fully compensated in the second half of 2020.

By contrast, the first quarter of 2020 got off to a very good start. A high number of Mercedes M-AMG GT3 MY 2020 vehicles were sold, the relevant upgrading packages were very well received by customers, and all indicators were pointing in a positive direction.

All in all, having generated gross revenue of EUR 30.8 million in the first half of the year, the HWA Group was unable to fulfil the original expectations here.

With regards to sports, the first six months were dominated by COVID-19 which entailed the cancellation of very many racing events all over the world, both in the relevant formula and GT classes.

b. Results of operations

In the first half of 2020, HWA's revenues came in at EUR 29.0 million compared with EUR 67.9 million in the same period in 2019.

Gross revenue dropped from EUR 73.2 million at mid-year 2019 to EUR 30.8 million a year later. In tandem with the downturn in performance, costs also declined. The cost of materials stood at EUR 14.0 million at the end of the first half of 2020 compared with EUR 42.1 million in the first six months of 2019.

Other operating expenses declined from EUR 12.1 million in the previous year to EUR 7.2 million in the reporting period. This is attributable, on the one hand, to the cost cutting programme introduced by the Management Board and, on the other, to the reduction in variable costs, for instance through the temporary cessation of travel activities in motorsports.

Owing to the low level of gross revenue, EBIT was negative at EUR -3.3 million compared with EUR -0.3 million in the year-earlier period.

After interest and taxes, the loss amounted to EUR -3.7 million as against EUR -1.6 million in 2019.

The temporary suspension of the customer sports business in particular, with the sale of spare parts and the services and taking account of the existing fixed costs for the overall infrastructure, resulted in a loss in the first half of 2020.

A change in the inventory valuation is to be noted as a positive effect on earnings amounting to around EUR 2.5 million. The age-related write-downs of inventories was adjusted to the change in HWA's business model with its high proportion of spare parts in the inventories.

c. Net assets and financial position

The Group's total assets decreased from EUR 81.6 million as of 31 December 2019 to EUR 77.6 million in the reporting period.

On the assets side, this was mainly due to the reduction in current assets of EUR 57.2 million as of 31 December 2019, compared with currently EUR 54.9 million.

On the liabilities side, this was accompanied by a reduction in provisions and liabilities, in particular due to banks and suppliers.

Liabilities to banks decreased from EUR 37.7 million to EUR 31.7 million, and supplier liabilities from EUR 9.0 million to EUR 6.1 million.

In absolute terms, equity remained constant compared with 31 December 2019 despite the loss sustained in the first six months. This was achieved by carrying out a capital increase which raised the capital reserves by EUR 3.3 million and subscribed capital by EUR 0.3 million.

The shareholder loan still outstanding increased by EUR 0.1 million during the reporting period due to deferred interest payments.

The cash flow from operating activities is also negative due to the negative consolidated result. Interest income of EUR 3.6 million from the capital increase have eased the burden on the cash flow. Cash and cash equivalents were negative overall at EUR 7.6 million in the reporting period.

Liquidity management ensures that HWA AG and its subsidiaries can satisfy their payment obligations. To this end, the Group incorporates the cash flows from its operating and financing activities into rolling planning.

d. Capital expenditure

Capital expenditure was reduced to the absolute minimum as of 30 June 2020. Over the period up until 30 June, around EUR 0.16 million were invested

e. Employees

As of 30 June 2020, 306 members of staff (30 June 2019: 327) were employed at HWA AG.

f. Capital increase and shareholder structure

A capital increase was carried out in the first half of 2020 for the purpose of strengthening the equity base. As a result of this measure, the number of shares of HWA AG rose from 5,626,500 shares to 5,991,914 in total. The placement price of the new shares was EUR 10.00, which generated proceeds of around EUR 3.6 million.

Following the increase in the share capital, Hans Werner Aufrecht, Chairman of the Supervisory Board, and his family held a stake of 36.5% in HWA AG. Dörflinger Privatstiftung, represented by Mr Willibald Dörflinger, held a share of 26.4% in HWA AG following the capital increase. The Nasser Bin Khaled (NBK) Holding, also represented on the Supervisory Board, held a share of around 24.5% in the company. Together, the three parties control more than 87% of the share capital in HWA AG.

Due to its listing in the Basic Board, HWA AG is not obliged to provide detailed information on its shareholder structure.

3. FORECAST, OPPORTUNITY AND RISK REPORT

The management report contains forward-looking statements that are based on the Management Board's current assessments with regard to future developments. These assessments and statements should not be understood as guarantees that these developments will actually materialise in the future. The future development of HWA AG depends on a number of risks and uncertainties that involve various factors beyond the influence of HWA AG. These are described in the following risk and opportunity report but are not limited solely to the risks described therein. For this reason, the actual results and successes of HWA AG may differ significantly from the forward-looking statements made.

FORECAST

The first half of 2020 has shown on a global basis that planning, estimates and forecasts can relatively swiftly become a mere paper exercise due to facts outside the sphere of influence, namely COVID-19 in this instance.

Following the termination of the DTM commitment and focusing on existing projects and promising new business, COVID-19 led to a sharp decline in revenue and profits in the HWA Group, particularly in the second quarter.

Racing events in GT customer sports did not take place anywhere in the world, which resulted in revenue plunging in the high single-digit million range in the spare parts and service business.

The Motor Racing business has now partly normalised following the full lockdown. The ABB FIA Formula E Season 6 came to an end with a new concept in August, the FIA Formula 3 Season 2020 in September. The FIA Formula 2 Season 2020 will continue to run longer in the second half of 2020. The changed modus operandi in the sequence of seasons has required HWA to factor in revenue losses.

In the Vehicles/Vehicle Component business, got off to a very good start to 2020 with the sale of new Mercedes M-AMG GT3 MY 2020 vehicles and upgrading kits for Mercedes M-AMG GT3 MY 2016 vehicles and looked very promising for a positive start to the season, also for the spare parts and service business. This was virtually brought to a standstill by the global COVID-19 lockdown, however.

In the second half of 2020, HWA anticipates that operations will partly recover in both segments. The shortfall in revenue from the first half-year will nevertheless not be fully compensated even though the GT racing season has been extended worldwide through to December.

Both the revenue target announced of EUR 90.0 million and the EBIT target of EUR 5.0 million will not be achieved. The current macroeconomic situation and therefore also the direct market environment of HWA AG are currently subject to a great deal of uncertainty.

OPPORTUNITIES AND RISKS

As already mentioned, HWA AG was severely hit by the negative effects of COVID-19 in the first half of 2020, and these negative effects are also persisting in the second half of the year. All in all, a significant portion of HWA's revenue potential depends on racing events held in the GT and formula business as well as on development projects.

At present, COVID-19 infection figures vary widely in different parts of the world. In European countries where the incidences of infection appeared to be under control, sources of infection are currently breaking out again. HWA AG will have to contend with this, in our view, all-encompassing uncertainty in the coming months and will have to adjust flexibly as and when required.

Determining options and keeping them open is priority number one rather than re-crafting new long-term strategies.

At present, the framework data of the world's most important economies are being determined by COVID-19 and exert a significant influence on HWA AG's sales markets, above all on the automotive market which harbours HWA AG's greatest risks and opportunities.

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.

In the Vehicle/Vehicle Component business, HWA AG with its production of Mercedes M-AMG GT racing vehicles, along with spare parts and service business, will depend to a major extent on global market activities in this area in the second half of 2020.

HWA AG views the HYRAZE League concept study announced in August 2020 as a huge future opportunity. This development project focuses on creating emission-free racing series with racing vehicles powered by hydrogen to support the sustainability concept necessary on a global scale, also including virtual reality. Prestigious partners from the automotive sector and from virtual reality were won, including ADAC, DEKRA, DMSB, Schaeffler and WESA.

In the Motor Racing business, the FIA Formula 3 Season has already come to an end, as has the ABB FIA Formula E Championship Season 6. Only the FIA Formula 2 Season will continue to run in the second half of the year through to December.

In this respect, it will now be important to make preparations and planning for 2021 in order to secure economic and sports success in this area.

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. Specific loan loss allowances have been established for some of the trade receivables reported in the company's balance sheet and classified as a risk at the end of the first half of 2020. Changes that could result from interest rates or market prices constitute a negligible to low potential risk as the majority of business is transacted in euro.

HWA AG uses derivative financial instruments exclusively to hedge the risks of underlying transactions. Exchange rate risks essentially relate to procurement activities in pound sterling. There are no exchange rate hedges in place for procurement activities in pound sterling as of 30 June 2020. Effects anticipated from the completion of Brexit cannot be estimated at the current point in time.

NON-FINANCIAL PERFORMANCE INDICATORS

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

- retain skilled and motivated employees as an attractive and responsible employer,
- develop products that satisfy customer requirements, including in the future
- sustainably increase customer benefit through our offering of products and services and to design production processes with a view to conserving resources.

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

In accordance with the legal requirements, the company has a health and safety specialist who trains employees on occupational health and safety each year, as well as a corresponding fire safety specialist.

HWA AG has an integrated quality management system in place which was developed in line with the DIN EN 9001:2015 standard and successfully audited by DEKRA Certification GmbH.

HWA AG confirms its continued compliance with this standard in annual audits.

In the first half of 2020, the company was additionally certified in accordance with DIN EN ISO 14001:2015 standard as proof of its effective environmental management. The comprehensive ecological commitment of HWA AG has also been meanwhile affirmed by an audit performed by the International Automobile Federation FIA. In the context of the FIA Commission's certification programme for environmental protection and sustainability, HWA AG was certified with a 3-star status. This is the highest accolade awarded by the International Association in this field.

At an operational level, HWA AG also calculates non-financial performance indicators in relation to personnel and quality, which are additionally used to manage the company.

Affalterbach, 27 October 2020

Ulrich Fritz (CEO) Martin Marx (COO)

HWA AG – FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDING 30 JUNE 2020

CONSOLIDATED BALANCE SHEET

			30/06/20	31/12/19
ASSETS		EUR	EUR	EUR
A.	FIXED ASSETS			
I.	**Intangible assets**		**3,923,485**	**4,475,909**
	Internally generated industrial rights	2,786,707		3,142,457
	Purchased concessions, industrial and similar rights and assets, and licenses to such rights and assets	1,136,778		1,333,452
II.	**Tangible assets**			
	1. Land and buildings	11,057,209		11,406,782
	2,. Technical equipment and machinery	1,604,733		1,842,367
	3. Other equipment, operating and office equipment	1,738,941		1,972,792
	4. Prepayments and assets under construction	1,968,674		1,968,674
			16,369,557	**17,190,615**
			20,293,042	**21,666,524**
B.	CURRENT ASSETS			
I.	**Inventories**			
	1. Raw materials, consumables	33,868,219		28,659,622
	2. Work in progress and finished goods	12,797,954		12,058,264
	3. Advance payments	383,665		561,090
	4. Advance payment received on inventories	-579,748		- 488,250
			46,470,090	**40,790,726**
II.	**Receivables and other assets**			
	1. Trade receivables	5,476,048		7,526,430
	2. Other assets	2,033,291		1,714,616
			7,509,339	**9,241,046**
III.	**Cash in hand and at banks**		**890,141**	**7,204,817**
			54,869,570	**57,236,589**
C.	PREPAID EXPENSES AND DEFERRED INCOME		**196,200**	**490,319**
D.	DEFERRED TAX ASSETS		**2,284,409**	**2,183,400**
			77,643,220	**81,576,832**

EQUITY AND LIABILITIES		EUR	30/06/20 EUR	31/12/19 EUR
A.	EQUITY			
I.	Subscribed capital		5,991,914	5,626,500
II.	Capital reserves		9,871,731	6,583,005
III.	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
IV.	**Difference in equity from currency translation**		**-9,903**	**46,391**
V.	**Retained profits/accumulated losses brought forward**		**12,204,990**	**20,493,782**
VI.	**Net loss**		**-3,703,764**	**-8,288,792**
	Net retained profits / equity		**26,176,468**	**26,282,386**
B.	PROVISIONS			
	1. Tax provisions	6,586		1,563,665
	2. Other provisions	4,130,531		3,711,613
			4,137,117	5,275,278
C.	LIABILITIES			
	1. Liabilities to banks	31,703,622		34,698,725
	2. Trade payables	6,082,025		9,013,376
	3. Loan liabilities to shareholders	3,596,250		3,500,000
	4. Other liabilities of which from taxes EUR 1,712,400 (PY: EUR 524 thousand)	4,272,738		1,214,087
	of which as part of social security EUR 493,198 (PY: EUR 2 thousand)			
			45,654,635	48,426,189
D.	**PREPAID EXPENSES AND DEFERRED INCOME**		**1,675,000**	**1,588,345**
E.	**Deferred tax liabilities**			**4,634**
			77,643,220	**81,576,832**

INCOME STATEMENT

	EUR	01/01 until 30/06/2020 EUR	01/01 until 30/06/2019 EUR
1. Sales revenue	29,030,560		67,868,014
2. Change in finished goods inventories and work in progress	570,548		2,234,314
3. Other own work capitalised	0		2,875,028
4. Other operating income of which income from currency translation EUR 96,895 (PY: EUR 91 thousand)	1,192,690		258,883
		30,793,798	**73,236,239**
5. Cost of materials			
a) Cost of raw materials, consumables and supplies and of purchased merchandise	9,221,884		31,270,321
b) Cost of purchased services	4,736,716		10,795,525
6. Personnel expenses			
a) Wages and salaries	9,711,300		12,256,819
b) Social security and post-employment costs of which for old-age pensions EUR 39,744 (PY: EUR 32 thousand)	1,675,488		1,962,520
7. Depreciation, amortisation and write-downs			
a) of intangible fixed assets and tangible fixed assets	1,533,100		3,969,000
b) of current assets, provided these exceed write-downs customary for the company	0		1,168,423
8. Other operating expenses of which expenses from currency translation EUR 86,764 (PY: EUR 89 thousand)	7,201,650		12,099,595
		34,080,138	**73,522,203**
9. Earnings before interest and tax (EBIT)	0	**-3,286,340**	**-285,964**
10. Other interest and similar income	4		0
11. Interest and similar expenses	-486,039		-296,139
12. Income taxes of which income (PY: expenses) from change in recognised deferred taxes EUR 106,814 EUR 742 thousand)	96,657		-980,478
13. Earnings after taxes		**-3,675,718**	**-1,562,581**
14. Other taxes	-28,046		-28,224
15. Net loss for the year		**-3,703,764**	**-1,590,805**
16. Retained profits brought forward		**12,204,990**	**20,488,461**
17. Net retained profits		**8,501,226**	**18,897,656**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2020

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 "of which" 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 as at 30 June 2020 and cover the period from 1 January to 30 June.

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

Unless otherwise specified, amounts are reported in full euros.

REGISTER INFORMATION

The company has been entered into the commercial register of Stuttgart Local Court under 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 accordance with the principles of full consolidation unless they were not consolidated due to their immateriality. They were included in accordance with Section 290 (2) HGB.
The consolidated financial statements comprise HWA AG and foreign subsidiaries in the United States (HWA US INC.) and Australia (HWA AUS Pty Ltd).

PRINCIPLES OF CONSOLIDATION

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

Capital is consolidated in accordance with the revaluation method. All assets and liabilities of the subsidiary are then recognised at their fair value at the acquisition date or at the date when a controlling influence is obtained. Any positive difference which 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.

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

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

ACCOUNTING POLICIES

The following accounting policies were the decisive factor 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.

Internally generated intangible assets are recognised at their production cost and amortised over their expected useful lives.

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.

Tangible assets are 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 their expected useful life. In accordance with the tax regulations, low-value assets with a value of up to EUR 800.00 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 average cost or at net realisable values, whichever is lower.

Finished goods inventories and work in progress are valued at cost of production, including direct material, labour and other costs, as well as 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. The changed framework conditions in motorsports in the financial year 2020 were taken into account and the methodology of applying valuation discounts brought in line with the market.

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, material 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 cost of acquisition or at fair value, whichever is lower.

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 account of anticipated future price and cost increases. In accordance with Section 253 (2) sentence 1 HGB, material 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 carry-forwards. 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 under Section 274 (1) sentence 2 HGB is exercised where permitted and any resulting overall tax relief is recognised as a deferred tax asset.

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

Where valuation units as defined under 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 as of 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 in the statement of changes in fixed assets.

DEVELOPMENT WORK

HWA AG mainly performs development work as part of customer orders. In 2019, development costs of EUR 3,557 thousand for the R4T engine were capitalised under internally generated intangible assets for the first time. The company sees a wide range of opportunities to use this in-house development in motorsports in various different racing classes in the future, and therefore considers the prospects for future sources of income to be good.

Other than this, no costs were incurred for in-house developments. Smaller development projects also are not recognised due to their lack of materiality. As such, all recognised development expenses were capitalised.

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 239,900.20 (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 company was fully consolidated in the consolidated financial statements.

INVENTORIES

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

Adjusting inventories downwards led to a reduction in devaluations of around EUR 2,500 thousand through profit and loss.

RECEIVABLES AND OTHER ASSETS

EUR 636 thousand (previous year: EUR 1,284 thousand) of the trade receivables have an expected remaining term of more than one year.

DEFERRED TAXES

Deferred taxes result from the following items:

	30/06/2020		31/12/2019	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
	EUR thousand	EUR thousand	EUR thousand	EUR thousand
From fixed assets				
- internally created intangibles assets		753		848
- tangible assets	12	0	20	3
from inventories	226		909	
from receivables		12		12
from loss carry-forwards	2,846		2,022	
from other provisions	104		100	
from unrealised gains/adjustment	-139	0		9
Without netting	**3,049**	**765**	**3,051**	**873**
Of which current	0	0	283	27
Netting	-765	-765	-868	-868
Carrying amount	**2,284**	**0**	**2,183**	**5**

The capitalisation of deferred taxes on loss carry-forwards was waived in the financial year 2020. Deferred taxes were calculated at a tax rate of 27% in the financial year (previous year: 27%).

EQUITY AND AUTHORISED CAPITAL

Based on the resolution at the Annual General Meeting on 25 July 2018, a total of 365,414 new no par value bearer shares were issued, via a capital increase in the first half of 2020, which raised the share capital by EUR 365,414. The share capital is now divided into 5,991,914 no par value bearer shares, each with a pro rata amount of EUR 1.00 in the share capital. Based on the subscription price of EUR 10.00 per share, EUR 3,289 thousand was allocated to capital reserves.

In addition, the Annual General Meeting on 25 July 2018 resolved to authorise the Management Board, with the approval of the Supervisory Board, to issue - in one or more instalments - convertible or option bonds (bonds) as either registered or convertible bonds, dated or undated, up to a total of EUR 50,000,000 until 24 July 2023 and to grant the bearers or creditors of such bonds conversion or option rights to no-par value shares of the company with a pro rata amount of share capital of up to EUR 2,557,500.00 in accordance with the more detailed conditions of the respective option or convertible bonds (bond conditions).

For the purpose of information, we herewith disclose that HWA AG's Annual General Meeting on 28 July 2020 resolved the cancellation of the existing Authorised capital and the creation of new Authorised Capital with the option of excluding the subscription right. Since then the Management Board has been authorised, with the approval of the Supervisory Board, to issue new bearer shares - in one or more instalments - up to a total of EUR 2,996,957.00, which is 50% of the current share capital of EUR 5,991,914.00, against cash or contributions in kind over the period up until 27 July 2025.

PROVISIONS

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

A claim for damages against HWA AG brought before the Heilbronn District Court was dismissed in its entirety. The plaintiff has filed an appeal with Stuttgart Higher Regional Court. The possibility of the appeal proceedings being successful is estimated as low, which is why no provision has been formed.

LIABILITIES

Of the liabilities to banks, EUR 17,510 thousand (previous year: EUR 17,112 thousand) have remaining maturities of up to one year and EUR 14,194 thousand (previous year: EUR 17,586 thousand) have remaining maturities of more than one year. EUR 11,090 thousand (previous year: EUR 3,894 thousand) of the latter category have remaining maturities of more than five years. An amount of EUR 9,768 thousand has been 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 is customary in the industry and where required by law and by contract.

CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

There are payment obligations under rental and leasing agreements amounting to EUR 7,177 thousand. The agreements come to an end between 2020 and 2025. The lessor or landlord bears all risks. The purchase commitment stands at EUR 11,308 thousand.

DERIVATIVE FINANCIAL INSTRUMENTS

There were no longer any derivative financial instruments as at the end of the reporting date.

Distribution restriction

Due to capitalising internally generated intangible assets and deferred taxes, EUR 4,318 thousand is subject to a bar on distribution in accordance with Section 248 (2) HGB.

CONSOLIDATED INCOME STATEMENT DISCLOSURES

SALES REVENUE

Sales revenue breaks down as follows:

	2020 EUR thousand
Sales revenues by region	
Domestic	13,891
Outside Germany	15,139
	29,031

OTHER OPERATING INCOME

Prior-period income essentially relates to the non-cash benefits of private car use and currency effects.

OTHER OPERATING EXPENSES

Other operating expenses of EUR 7,202 thousand mainly consist of operating expenses (EUR 1,870 thousand), sales and administrative expenses (EUR 1,485 thousand), other personnel expenses (EUR 633 thousand) and miscellaneous other expenses (EUR 3,214 thousand).

INTEREST EXPENSES

The total amount of interest paid on bank loans during the reporting period amounted to EUR 486 thousand.

Income taxes

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

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

Taxes on income mainly relate to the results of ordinary business activity.

Taxes on income increased the consolidated result by EUR 97 thousand. Taxes on income include income from deferred taxes amounting to EUR 107 thousand.

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

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

	EUR thousand	in %
Earnings before tax	**-3,800**	
Relevant tax rate		27.0%
Expected tax expense	-1,027	
Deviation from tax base		
Balance sheet items not recognised for tax purposes	15	-0.4%
Difference tax carrying amounts	1	0.0%
Changes in tax rates		
Foreign tax rates	-9	0.2%
Recognition and measurement of deferred tax assets		
Not recognised	983	-25.8%
Impairment of deferred taxes on loss carry-forwards	-59	1.6%
Non-periodic effects		
Other	**0**	**0.0%**
Current tax expense	**-97**	
Effective tax rate		**2.5%**

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

OTHER DISCLOSURES

THE SUPERVISORY BOARD

- Hans Werner Aufrecht, businessman, Chairman
- Willibald Dörflinger, entrepreneur, Deputy Chairman
- Gert-Jan Bruggink, equestrian show jumper
- Hussain Ahmad Al-Siddiq, Deputy Chief Executive Officer
- Klemens Große-Vehne, entrepreneur
- Simone Stegmaier, tax consultant (as from 28/06/2020)

The remuneration of the Supervisory Board for the purposes of Section 113 of the German Stock Corporation Act (AktG) amounted to EUR 76 thousand.

MANAGEMENT BOARD

- Ulrich Fritz, CEO, Chairman of the Management Board
- Martin Marx, COO, Management Board

The disclosure of the total remuneration of the Management Board pursuant to Section 285 no. 9 letters a and b HGB was waived in accordance with Section 286 (4) HGB.

EMPLOYEES

Average number of employees during the financial year:

Non-salaried staff	117
Salaried staff	190
	307
Trainees	1
	308

Two people were employed outside Germany.

Affalterbach, 27 October 2020

The Management Board

Ulrich Fritz (Vorstandsvorsitzender) Martin Marx (Vorstand)