

Financial Statements

SMP Automotive Produtos Automotivos do Brasil Ltda.

March 31, 2019
with Independent Auditor's Report

SMP Automotive Produtos Automotivos do Brasil Ltda.

Financial statements

March 31, 2019

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A free translation from Portuguese into English of Independent Auditor's Report on financial statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil

Independent auditor's report on financial statements

The Management and Members

SMP Automotive Produtos Automotivos do Brasil Ltda.

São José dos Pinhais - Paraná

Opinion

We have audited the financial statements of SMP Automotive Produtos Automotivos do Brasil Ltda. (the "Company"), which comprise the statement of financial position as at March 31, 2019, and the statements of profit or loss, of comprehensive income, of changes in equity and of cash flows for the year then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2019, its financial performance and cash flows for the year then ended, in accordance with accounting practices adopted in Brazil.

Basis for opinion

We conducted our audit in accordance with the Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by Brazil's National Association of State Boards of Accountancy (CFC) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting practices adopted in Brazil, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Curitiba (PR), July 5, 2019.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/F-6

A handwritten signature in blue ink, appearing to read 'Ana Andréa Iten de Alcantara', is written over the printed name and title.

Ana Andréa Iten de Alcantara
Accountant CRC-SC025678/O-3-T-PR

SMP Automotive Produtos Automotivos do Brasil Ltda.

Statement of financial position

Years ended March 31

In thousands of reais, unless otherwise stated

	<u>2019</u>	<u>2018</u>
Assets		
Current assets		
Cash and cash equivalents (Note 4)	1,478	2,831
Trade accounts receivable (Note 5)	17,989	50,772
Inventories (Note 6)	38,308	41,406
Taxes recoverable (Note 7)	1,899	752
Advances to suppliers (Note 8)	3,288	4,378
Other receivables	2,047	10,092
	<u>65,009</u>	<u>110,231</u>
Noncurrent assets		
Taxes recoverable (Note 7)	1,986	260
Judicial deposits	2,095	1,853
Other receivables	752	752
	<u>4,833</u>	<u>2,865</u>
Property, plant and equipment (Note 11)	37,696	13,334
Intangible assets (Note 12)	2,063	733
	<u>44,592</u>	<u>16,932</u>
Total assets	<u>109,601</u>	<u>127,163</u>

See accompanying notes.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Statement of financial position

Years ended March 31

In thousands of reais, unless otherwise stated

	<u>2019</u>	<u>2018</u>
Liabilities and equity		
Current liabilities		
Trade accounts payable (Note 13)	45,875	46,376
Loans and financing (Note 14)	8,864	-
Related parties (Note 9)	3,738	11,170
Payroll and related charges (Note 15)	16,614	17,438
Taxes payable	4,898	4,786
Advances from customers (Note 17)	8,880	8,860
Other liabilities (Note 18)	9,012	26,461
	<u>97,881</u>	<u>115,091</u>
Noncurrent liabilities		
Transactions with related parties (Note 9)	80,129	86,303
Provision for contingencies (Note 19)	2,651	2,788
Other liabilities	513	195
	<u>83,293</u>	<u>89,286</u>
Equity (Note 20)		
Capital	390,692	317,125
Funds for future capital increase	15,501	15,501
Accumulated losses	<u>(477,766)</u>	<u>(409,840)</u>
	<u>(71,573)</u>	<u>(77,214)</u>
Total liabilities and equity	<u><u>109,601</u></u>	<u><u>127,163</u></u>

See accompanying notes.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Statement of profit or loss

Years ended March 31

In thousands of reais, unless otherwise stated

	<u>2019</u>	<u>2018 Restated Note 2.20</u>
Revenue (Note 21)	403,063	392,803
Cost of goods sold (Note 23)	(449,583)	(431,359)
Gross loss	(46,520)	(38,556)
Operating expenses		
Selling expenses (Note 23)	(14,345)	(12,643)
General and administrative expenses (Note 23)	(14,101)	(15,313)
Other operating expenses, net (Note 23)	(1,339)	(241)
Operating loss	(76,305)	(66,753)
Finance income	7	15
Finance costs	(6,788)	(6,187)
Foreign exchange difference, net	(6,737)	(18,582)
Finance income (costs) (Note 24)	(13,518)	(24,754)
Loss for the year before deferred income tax	(89,823)	(91,507)
Deferred income and social contribution taxes (Note 10)	-	2,115
Loss for the year	(89,823)	(89,392)
Number of units of interest at end of year	390,692	317,125
(Basic and diluted) loss per thousand units of interest	(0.22)	(0.28)

See accompanying notes.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Statement of comprehensive income

Years ended March 31

In thousands of reais, unless otherwise stated

	<u>2019</u>	<u>2018</u>
Loss for the year	(89,823)	(89,392)
Total comprehensive income (loss) for the year	<u>(89,823)</u>	<u>(89,392)</u>

See accompanying notes.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Statement of changes in equity

Year ended March 31, 2019

In thousands of reais, unless otherwise stated

	<u>Capital</u>	<u>Future capital contributions</u>	<u>Accumulated losses</u>	<u>Total</u>
March 31, 2017	<u>237,249</u>	<u>15,493</u>	<u>(320,448)</u>	<u>(67,706)</u>
Capital increase (Note 20)	79,876	8		79,884
Loss for the year	-	-	(89,392)	(89,392)
At March 31, 2018	<u>317,125</u>	<u>15,501</u>	<u>(409,840)</u>	<u>(77,214)</u>
Capital increase (Note 20)	73,567	-	-	73,567
Absorption of tax loss (Note 20)	-	-	21,897	21,897
Loss for the year	-	-	(89,823)	(89,823)
At March 31, 2019	<u>390,692</u>	<u>15,501</u>	<u>(477,766)</u>	<u>(71,573)</u>

See accompanying notes.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Statement of cash flows

Years ended March 31

In thousands of reais, unless otherwise stated

	<u>2019</u>	<u>2018</u>
Loss for the year	(89,823)	(89,392)
Reconciliation of loss with cash from operating activities:		
Depreciation and amortization	2,947	786
Allowance for doubtful accounts	2,268	-
Residual cost of property, plant and equipment written off	1,983	31
Residual cost of intangible assets	90	
Interest, monetary and exchange differences on loans from third parties and related parties	(6,174)	15,925
Provision for contingencies	1,019	1,212
Provision for inventories	647	639
	<u>(87,043)</u>	<u>(70,799)</u>
Changes in assets and liabilities		
Trade accounts receivable	30,515	(26,065)
Inventories	2,451	10,274
Taxes recoverable	(2,873)	392
Advances to suppliers	1,090	2,195
Other receivables	7,803	(7,211)
Trade accounts payable	(501)	12,302
Related parties - liabilities	14,465	3,675
Advances from customers	20	(5,783)
Contingencies written off through payment	(1,156)	(1,538)
Other liabilities	(17,843)	13,595
Cash used in operating activities	<u>(53,072)</u>	<u>(68,963)</u>
Net cash used in operating activities	(53,072)	(68,965)
Cash flows from investing activities		
Acquisition of property, plant and equipment	(28,962)	(8,087)
Acquisition of intangible assets	(1,750)	(574)
Net cash used in investing activities	<u>(30,712)</u>	<u>(8,661)</u>
Cash flows from financing activities		
Loans and financing	8,864	-
Payment of capital	73,567	79,876
Net cash from financing activities	<u>82,431</u>	<u>79,876</u>
Net increase (decrease) in cash and cash equivalents	<u>(1,353)</u>	<u>2,252</u>
Cash and cash equivalents at beginning of year	2,831	579
Cash and cash equivalents at end of year	<u>1,478</u>	<u>2,831</u>
Changes in cash and cash equivalents	<u>(1,353)</u>	<u>2,252</u>

See accompanying notes.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements
March 31, 2019
(In thousands of reais)

1. Operations

SMP Automotive Produtos Automotivos do Brasil Ltda. (the “Company”), headquartered in the city of São José dos Pinhais – Paraná, is engaged in the development and manufacture, sale and distribution, import and export of plastic products manufactured using technical injection and painting procedures and of machinery for plastic transformation, and in holding interest in other commercial or civil companies as partner, shareholder or member.

The Company started its production activities in the Industrial Park of Curitiba in the first half of 1999, mainly assisting Renault and Volkswagen/Audi in the supply of bumpers, fenders and other plastic components.

In 2011, the Company increased its production capacity with the implementation of a new plant in the city of Atibaia - São Paulo to meet new Volkswagen supply agreements.

At March 31, 2019, the Company has capital deficiency and has had recurring losses in recent years. Recurring losses and negative net working capital are also due to a decrease in sales volume as a result of a decline in the automotive market. As a consequence, there was a decrease in revenue and in cash flow in relation to prior years. In order to solve this issue, the Company plans to continue its Restructuring Plan in 2019. Through this plan, the Company has sought to reduce costs and implement new projects. Also in 2019, the Company achieved its sales and results goals, which are monitored directly by the Parent Company.

If needed, members will provide the necessary funds to maintain the Company's financial balance.

The financial statements were approved by the Company's members on June 19, 2019.

2. Summary of significant accounting policies

The significant accounting policies used to prepare these financial statements are described below. These policies have been consistently applied in the years presented, unless otherwise stated.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)
March 31, 2019
(In thousands of reais)

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation

The financial statements have been prepared in accordance with accounting practices adopted in Brazil issued by the Brazilian Financial Accounting Standards Board (CPC) and evidence all significant information specific to the financial statements, and only such information, which is consistent with that used by management in its managing activities. The accounting pronouncements and interpretations that came into effect as of January 1, 2019 had no material impacts on the Company.

The financial statements have been prepared using the historical cost convention.

The preparation of these financial statements requires the use of certain significant accounting estimates, as well as use of judgment by the Company management in the accounting policies application process. Those more complex areas that require higher degree of judgment, and those where the assumptions and estimates are significant for the financial statements, are disclosed in Note 2.19.

2.2 Foreign currency translation

(a) Functional and reporting currency

The items included in the financial statements are measured using the currency of the main economic environment in which the Company operates (“the functional currency”).

The financial statements are presented in Brazilian reais (R\$), which is the Company’s functional currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing on the transaction or evaluation dates, on which the items are remeasured. Exchange gains and losses stemming from the settlement of these transactions and translation at the exchange rate at year-end, referring to monetary assets and liabilities in foreign currency, are recognized in the statement of profit or loss. Exchange gains and losses related to loans and cash and cash equivalents are stated in the statements of profit or loss as finance income or costs.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2019

(In thousands of reais)

2. Summary of significant accounting policies (Continued)

2.3 Cash and cash equivalents

Cash and cash equivalents include cash, bank deposits and other highly liquid short-term investments, maturing within three months and posing insignificant risk of any change in value. The balance is presented net of overdraft facility balances in the statement of cash flows. Overdraft facilities are presented in the statement of financial position as "Loans", in current liabilities.

2.4 Financial assets

2.4.1 Classification

The Company classifies its financial assets as loans and receivables. This classification depends on the purpose for which the financial assets have been acquired. Management determines the classification of the financial assets upon initial recognition.

(a) Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments not quoted in an active market.

They are included in current assets, except for those maturing after 12 months from the statement of financial position date (classified as noncurrent assets). The Company's loans and receivables comprise "Cash and cash equivalents", "Trade accounts receivable" and "Other receivables".

2.4.2 Recognition and measurement

Investments are initially recognized at fair value plus transaction costs for all financial assets not measured at fair value through profit or loss. Financial assets at fair value through profit or loss are initially recognized at fair value, and transaction costs are charged to the statement of profit or loss. Financial assets are derecognized when the rights to receive cash flows from investments have expired or have been transferred; in the latter case, as long as the Company has significantly transferred all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are recorded at amortized cost by using the effective interest rate method.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2019

(In thousands of reais)

2. Summary of significant accounting policies (Continued)

2.4 Financial assets (Continued)

2.4.2 Recognition and measurement (Continued)

Gains or losses arising from changes in fair value of financial assets measured at fair value through profit or loss are presented in the statement of profit or loss, in "Other operating expenses, net", in the period in which they have occurred.

The Company assesses, at the statement of financial position date, if there is any objective evidence of impairment of a financial asset or group of financial assets. The impairment test of trade accounts receivable is described in Note 2.4.4.

2.4.3 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.4.4 Impairment of financial assets

(a) Assets measured at amortized cost

The Company analyzes at the end of each reporting year whether there is any objective evidence of impairment of a financial asset or group of financial assets. An asset or group of financial assets is impaired and impairment losses are incurred only if there is any objective evidence of impairment as a result of one or more events occurring after initial recognition of assets (a "loss event") and such loss event (or events) impacts the estimated future cash flows of the financial asset or group of financial assets, which can be reliably estimated.

The impairment loss is measured as the difference between the book value of assets and the present value of estimated future cash flows (excluding future credit losses that have not been incurred yet) discounted at the original effective interest rate of financial assets. The book value of the asset is reduced and the loss is recognized in the statement of profit or loss. If a loan or investment held to maturity has a variable interest rate, the discount rate to measure the impairment loss is the current effective interest rate determined according to the contract. As a practical expedient, the Company may measure impairment based on the fair value of an instrument using an observable market price.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2019

(In thousands of reais)

2. Summary of significant accounting policies (Continued)

2.4 Financial assets (Continued)

2.4.4 Impairment of financial assets (Continued)

(a) Assets measured at amortized cost (Continued)

If in a subsequent period the impairment loss decreases and such decrease could be objectively associated with an event that happened after recognition of impairment (e.g., an improvement in the debtor's credit rating), the reversal of this impairment loss previously recognized will be recognized in the statement of profit or loss.

2.5 Trade accounts receivable

Trade accounts receivable correspond to receivables from customers for the sale of goods in the ordinary course of business. If the collection period is equivalent to 12 months or less (or another period within the Company's ordinary operating cycle), the accounts receivable are classified in current assets. Otherwise, they are stated as noncurrent assets.

Trade accounts receivable are initially recognized at fair value and subsequently measured at amortized cost by using the effective interest rate method less Allowance for Doubtful Accounts (ADA) (impairment). In practice, they are usually recognized at the amount billed, adjusted by the provision for impairment, when applicable.

2.6 Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined by the "weighted average cost" inventory measurement method, and the net realizable value corresponds to the estimated selling price less costs to complete and sell.

The cost of finished goods and work-in-process comprises raw material, direct labor, packaging, other direct costs and the respective production overhead (based on normal operating capacity). Inventories are valued at their recoverable amount at the statement of financial position dates; in the event of an impairment loss, they are recognized immediately in profit or loss.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2019

(In thousands of reais)

2. Summary of significant accounting policies (Continued)

2.7 Property, plant and equipment

Property, plant and equipment items are stated at historical acquisition cost less depreciation and any accumulated impairment loss. Historical cost includes expenses directly attributable and required to prepare the assets for the use intended by management.

The Company includes in the carrying amount of a property, plant and equipment item the cost of replacement parts only when it is probable that this cost will provide future economic benefits. The carrying amount of the replaced parts is written off. All other repair and maintenance costs are recorded as expenses for the year, as incurred.

The depreciation of other assets is calculated using the straight-line method to allocate their costs, less residual value, throughout their estimated useful life, as follows:

	Average depreciation rate
Buildings	4%
Machinery and equipment	17%
Furniture and fixtures	10%
Facilities	20%
Leasehold improvements	20%
Other assets	20%

The book value of an asset is immediately discounted to its recoverable amount when the book value exceeds the estimated recoverable amount.

Gains and losses on disposals are determined by comparing profit or loss with book value and are recognized in "Other operating expenses, net" in the statement of profit or loss.

2.8 Judicial deposits

Deposits are presented as a deduction from the value of a corresponding liability set up when there is no possibility that the deposit will be reversed, unless a favorable decision is awarded to the Company.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2019

(In thousands of reais)

2. Summary of significant accounting policies (Continued)

2.9 Intangible assets

Software licenses are stated at historical cost less amortization and accumulated impairment losses. Expenses directly associated with the development of identifiable and unique software, controlled by the Company and which will probably generate economic benefits greater than the costs for more than one year, are recognized as intangible assets. Amortization is calculated using the straight-line method to allocate the cost of licenses throughout the estimated useful life of 5 years.

2.10 Provisions for impairment losses on nonfinancial assets

Assets subject to depreciation or amortization are tested annually for impairment. When there is evidence of impairment loss, the book value of the asset (or cash-generating unit to which an asset has been allocated) is tested. Impairment loss is recognized at the assets' carrying amount exceeding their recoverable amount. The recoverable amount is the higher of the fair value of an asset (or a CGU) less costs to sell and value in use. For impairment testing purposes, assets are grouped at the lowest levels for which there are separately identifiable cash flows (i.e., Cash-Generating Units (CGUs)). Impaired nonfinancial assets other than goodwill are reviewed subsequently for possible reversal of the impairment at each reporting date.

2.11 Trade accounts payable

Trade accounts payable are obligations payable for goods or services acquired from suppliers in the ordinary course of business, and are classified as current liabilities if payment is due within one year or less (or within the usual operating cycle of the business, even if longer). Accounts payable are otherwise stated as noncurrent liabilities.

Trade accounts payable are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. In practice, they are usually recognized at the corresponding invoice amount.

2.12 Provisions

Provisions for contingencies (labor, civil and tax) are recognized when: the Company has a legal or constructive obligation arising from past events; the settlement of which is expected to result in an outflow of resources; and the amount involved has been reliably estimated. Provisions are not recognized for future operating losses.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2019

(In thousands of reais)

2. Summary of significant accounting policies (Continued)

2.12 Provisions (Continued)

When there are a number of similar obligations, the likelihood of settling them is determined taking into account the class of obligations as a whole. A provision is recognized even if the likelihood of settlement related to any one item included in the same class of obligations may be small.

Provisions are measured at present value of the expenses expected to be required to settle the obligation, using a pretax rate that reflects current market assessments of the time value of money and the specific risks to the liability. An increase in the obligation due to passage of time is recognized as finance costs.

2.13 Current and deferred income and social contribution taxes

Income and social contribution tax expenses for the period include current and deferred taxes. Income taxes are recognized in the statement of profit or loss, except to the extent that they are related to items directly recognized in equity or in comprehensive income (loss). In this case, tax is also recognized in equity or comprehensive income (loss).

Current income and social contribution taxes are determined based on the tax legislation in force, or substantially in force, at the statement of financial position date. Management periodically assesses the positions assumed by the Company in its Corporate Income Tax Returns (DIPJs) regarding situations in which the applicable tax regulation gives rise to different interpretations. The Company records provisions where appropriate, based on the amounts expected to be paid to tax authorities.

Deferred income and social contribution taxes are recognized using the liability method on temporary differences between the tax bases of assets and liabilities and their book values in the financial statements. However, deferred income and social contribution taxes are not recognized where they result from the initial recognition of an asset or liability in a transaction that is not a business combination which, at the time of the transaction, affects neither the accounting profit nor taxable profit (tax loss). Deferred income and social contribution taxes are determined at the tax rates (and tax laws) in force, or substantially in force, at the statement of financial position date, which shall be applied when the respective deferred tax asset is realized or when the deferred tax liability is settled.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2019

(In thousands of reais)

2. Summary of significant accounting policies (Continued)

2.13 Current and deferred income and social contribution taxes (Continued)

Deferred income and social contribution tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences may be used.

Deferred income tax assets and liabilities are offset when there is an enforceable right to offset current tax assets against current tax liabilities and when deferred income tax assets and liabilities are related to income tax levied by the same tax authority on the taxable entity or different taxable entities where there is the intention to settle the balances on a net basis.

2.14 Employee benefits - Profit sharing

A liability account for employee benefits in the form of profit sharing is recognized under "Payroll and related charges". The recognition of this sharing is usually made at the end of the year, when the amount can be reliably measured by the Company. The Company recognizes a provision when it is contractually bound or when there is a past practice that created a constructive obligation.

2.15 Capital

Units of interest are classified into equity.

2.16 Future capital contributions

These correspond to amounts received by shareholders or members to be used as future capital contributions, classified in equity.

2.17 Recognition of revenue from contracts with customers

Revenue comprises fair value of the consideration received or receivable for sale of goods in the ordinary course of the Company's business. Revenue is recognized net of taxes, returns, rebates and discounts.

The company recognizes revenue when the performance obligation is fulfilled.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2019

(In thousands of reais)

2. Summary of significant accounting policies (Continued)

2.17 Recognition of revenue from contracts with customers (Continued)

(a) Sale of goods

The Company develops and manufactures plastic products through injection and painting procedures and sells them to automakers. Sales are recognized when the products are delivered to automakers; at this time, the performance obligation provided for in contracts with customers is satisfied.

(b) Recognition of revenue from mold and tool construction contracts

The Company also develops and sells plastic component injection molds for automotive products through construction contracts.

The construction contract is a contract specifically for the construction of an asset or a combination of assets closely related or interdependent in terms of project, technology and functions or of purpose and end use.

In this type of contract, the Company recognizes a performance obligation satisfied when the Company manages to reliably estimate revenue up to the limit of costs incurred and to the extent it is probable that these costs will be recoverable. The Company considers a performance obligation satisfied at the time materials or services are acquired to develop a project.

Costs incurred in the period and billed in the future to the customer are presented as "construction contracts to be billed" in accounts receivable, provided that their recovery is probable. For this purpose, the sum of costs incurred and profits, net of losses, in each contract, is compared with the advances received from customers. When costs incurred and profits recognized (less recognized losses) exceed customers' total advances, the balance is presented as due by customers of construction contracts, in assets.

The Company conducted an analysis of the impacts on recognition and measurement of the Company's revenues arising from the publication of CPC 47 (IFRS 15) from 01/01/2018, which is presented below:

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2019

(In thousands of reais)

2. Summary of significant accounting policies (Continued)

2.17 Recognition of revenue from contracts with customers (Continued)

(b) Recognition of revenue from mold and tool construction contracts (Continued)

a) Identification of contracts with customers

The Company has assessed the existing contracts with customers and has identified that they have similar characteristics.

The Company is responsible for the overall management of all contracts, including procurement of materials, inventory management, identification and management of subcontractors, manufacture, assembly, testing, packaging and delivery of the final product.

According to the retrospective and prospective analyses of the contract portfolio, revenue from the sale of products manufactured by the Company represents 85% of total revenue, and the sale of tools/molds (including their development) represents 13% of total revenue, and other revenues correspond to 2% of total revenue.

In the analysis performed, a similarity of 98% among contracts was identified. By virtue of this similarity among contracts entered into by the Company, we have considered this sample sufficient and more significant for application of the IFRS 15 concepts and for analysis of possible effects thereof on our financial statements.

b) Identification of Performance Obligations (PO) provided for in contracts with customers

For purposes of identifying performance obligations in the Company's contracts under analysis, 85% of such contracts with customers are satisfied upon delivery of products.

Based on the analysis conducted on the application of CPC 47 (IFRS 15) by the Company, the adoption of this new standard will not bring significant impacts on our financial statements as of January 1, 2018, thus not requiring any prior-year reclassifications to comply with this new standard.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2019

(In thousands of reais)

2. Summary of significant accounting policies (Continued)

2.17 Recognition of revenue from contracts with customers (Continued)

(c) Finance income

Finance income is recognized based on the passage of time, using the effective interest method.

2.18 Leases

Leases in which a significant part of the risks and rewards of ownership is held by lessor is classified as operating leases. Payments made for operating lease arrangements (net of all incentive received from lessor) are recognized in P&L on a straight-line basis over the lease term.

2.19 Critical accounting estimates and judgments

The Company makes future estimates based on assumptions. By definition, accounting estimates are rarely identical to actual results. Estimates and assumptions that pose a significant risk, likely to cause a material adjustment to the book values of assets and liabilities for the next fiscal year, are listed below.

(a) Income and social contribution taxes and other taxes

The Company is subject to income and social contribution taxes. In many operations, the final determination of the tax is uncertain. The Company also recognizes, if necessary, provisions for events in which it is probable that additional tax amounts will be owed. When the final outcome of these matters is different from the amounts initially estimated and recorded, these differences will have an impact on deferred and current tax assets and liabilities in the period in which the definitive amount is determined.

(b) Useful life of property, plant and equipment

The Company periodically reviews the useful life of its property, plant and equipment. This review depends on technical analysis, state of the goods, obsolescence and pattern of use, which are subject to judgment. The Company uses specialists with sufficient technical knowledge to perform these analyses and determine the most appropriate useful life.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2019

(In thousands of reais)

2. Summary of significant accounting policies (Continued)

2.19 Critical accounting estimates and judgments (Continued)

(c) Impairment of property, plant and equipment

The assets used in the Company's activities are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may be impaired based on future cash flows.

If the carrying amount of these assets exceeds their recoverable amount, the net amount is adjusted and their useful life is adjusted to new levels.

(d) ICMS tax benefits

The Company has State VAT (ICMS) incentives granted by the Government of the State of Paraná. The ICMS matching credit of Paraná State, has been used based on and according to conditions pre-determined in article 46-A of Annex III to the ICMS regulation of Paraná State. Currently, SMP also has a legal opinion confirming such credit.

2.20. Correction of misstatement

In 2019, management identified that in 2018 the amount of freight expenses on sales was presented in the general and administrative expenses group; however such expenses relate to selling expenses.

Since this is a reclassification within the operational expense group, management decided to adjust and restate the balances presented in the prior year.

As a consequence, the misstatement was corrected by recalculating each account of the financial statements affected in the prior period, as follows:

	March 31, 2018		
	Restated	Adjustments in 2018 balances	Previously presented
Operating expenses			
Selling expenses (Note 23)	(12,643)	(11,408)	(1,235)
General and administrative expenses (Note 23)	(15,313)	11,408	(26,721)

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)
March 31, 2019
(In thousands of reais)

2. Summary of significant accounting policies (Continued)

2.20. Correction of misstatement (Continued)

The adjustment in question does not materially affect any indicators of the Company as regards the financial ratios commonly observed by management and main users of the financial statements.

Consequently, the financial statements segments changed were the following:

- ✓ Statement of profit or loss
- ✓ Note on Expenses by nature

2.21 New or revised pronouncements first-time adopted in 2018 and IFRS not yet in effect at December 31, 2018

IFRS 9 – Financial instruments

Issued in July 2014, IFRS 9 Financial Instruments (CPC 48 – Financial Instruments) gathers the three aspects of the project for accounting for financial instruments: classification and measurement, impairment of assets and hedge accounting.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018. With the exception of hedge accounting, retrospective application is required; however, comparative information is not mandatory. For hedge accounting, requirements are generally applied prospectively, with some limited exceptions.

The Company conducted a detailed impact assessment of the three aspects of IFRS 9. This assessment is based on information currently available and may be subject to changes arising from reasonable and sustainable information available to the Company in 2018, when it adopted IFRS 9.

The Company has not identified any significant impact on the statement of financial position and on the statement of changes in equity.

The Company showed no increase in the provision for losses, resulting in a positive impact on equity.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)
March 31, 2019
(In thousands of reais)

2. Summary of significant accounting policies (Continued)

2.21 New or revised pronouncements first-time adopted in 2018 and IFRS not yet in effect at December 31, 2018 (Continued)

IFRS 15 – Revenue from contracts with customers

Under IFRS 15, issued in May 2014 and amended in April 2016, revenues are recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Full retrospective application or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

The Company adopted the new standard using the prospective method from January 1, 2018, with no significant financial impacts in its financial statements.

IFRS 16 – Leases

Under this new standard, lessees will have to recognize future lease payment liabilities and the right of use of the leased asset for practically all lease contracts, including operating leases. Certain short-term contracts or low-value contracts may be out of this new standard scope. The criteria for lease measurement and recognition in the financial statements of lessors are substantially maintained. IFRS 16 is applicable for annual periods beginning on or after January 1, 2019 and supersedes CPC 06 – Leases and the corresponding interpretations.

The Company will adopt the new standard on its effective date. Management is evaluating the impacts of its adoption.

There are no other standards or interpretations not yet effective that could have a significant impact on the Company financial statements.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)
March 31, 2019
(In thousands of reais)

3. Financial risk management

3.1 Financial risk factors

The Company's activities expose it to various financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company has and follows a risk management policy that guides it in matters concerning its transactions, and requires the diversification of transactions and counterparties. Based on this policy, the nature and the general position of financial risks are regularly monitored and managed in order to assess P&L and the financial impact on cash flow. Credit limits and the counterparties' hedge quality are also periodically reviewed.

The risk management policy was defined by management. Under the terms of this policy, market risks are hedged when supporting the corporate strategy is deemed necessary or when maintaining the financial flexibility level is required.

Management analyzes and reviews information related to risk management, including significant policies, procedures and practices applied to such management.

(a) Market risk

(i) Interest rate risk

This risk refers to the possibility of the Company incurring losses due to fluctuations in interest rates that would increase finance costs relating to loans and financing raised in the market.

At March 31, 2019, there is no indebtedness with financial institutions.

(ii) Currency risk

This risk arises from the possibility that the Company may incur losses due to exchange rate fluctuations that decrease nominal values or increase fundraising.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)
March 31, 2019
(In thousands of reais)

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Currency risk (Continued)

The Company had assets and liabilities denominated in foreign currency in the amounts described below, at March 31, 2019 and March 31, 2018 (in thousands of reais):

	2019			2018		
	Foreign currency			Foreign currency		
	Euro	Dollar	Total	Euro	Dollar	Total
Liabilities						
Trade accounts payable (Note 13)	1,986	3,560	5,546	1,485	1,972	3,457
Trade accounts payable to related parties (Note 9)	120	3,618	3,738	9,828	1,342	11,170
Loans – Related parties (Note 9)	80,129	-	80,129	86,303	-	86,303
Net exposure	<u>82,235</u>	<u>7,178</u>	<u>89,413</u>	<u>97,616</u>	<u>3,314</u>	<u>100,930</u>

The Company did not take out any hedge for such currency exposure.

(b) Credit risk

The Company's sales policy considers the credit risk level to which the Company is willing to be exposed in the course of its business. The selection of customers and monitoring of sales deadlines by business segment and individual position limits are procedures adopted in order to minimize default issues in accounts receivable.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient net funds to meet its financial commitments, as a result of any mismatch in maturities or volumes between expected receivables and payables.

Future receipt and disbursement assumptions are established to manage cash liquidity in local and foreign currency and are monitored on a daily basis by the treasury department.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2019

(In thousands of reais)

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

Below is the aging list of the Company's financial liabilities, corresponding to the remaining period in the statement of financial position until the contractual maturity date. The amounts disclosed in the table consist of contractual undiscounted cash flows.

	<u>Less than one year</u>	<u>From one to two years</u>	<u>From two to five years</u>	<u>Total</u>
March 31, 2019				
Trade accounts payable	45,875	-	-	45,875
Loans and financing	8,864	-	-	8,864
Related parties (liabilities)	3,738	64,719	15,410	83,867
Other accounts payable	39,404	2,651	513	42,568
March 31, 2018				
Trade accounts payable	46,376	-	-	46,376
Related parties (liabilities)	11,170	72,068	14,235	97,473
Other accounts payable	57,545	2,788	195	60,528

3.2 Capital management

The Company's objectives in managing its capital are to safeguard its ability to continue as a going concern in order to provide return to its shareholders and benefits to other stakeholders, as well as to maintain an adequate capital structure to reduce such cost.

The Company maintains a high level of indebtedness with related parties and capital deficiency. As mentioned in Note 1, the Company receives financial support from its members, if necessary.

	<u>2019</u>	<u>2018</u>
Total related-party loans	80,129	86,303
Total loans and financing	8,864	-
Less: cash and cash equivalents and financial assets	(1,478)	(2,831)
Net debt	87,515	83,472
Total equity	(71,573)	(77,214)

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2019

(In thousands of reais)

3. Financial risk management (Continued)

3.3 Financial instruments by category

	Loans and receivables
At March 31, 2019	
Assets as per statement of financial position	
Cash and cash equivalents (Note 4)	1,478
Trade accounts receivable (Note 5)	17,989
	19,467
	Other financial liabilities
At March 31, 2019	
Liabilities as per statement of financial position	
Trade accounts payable (Note 13)	45,875
Loans and financing (Note 14)	8,864
Related parties (Note 9)	83,867
	138,606
	Loans and receivables
At March 31, 2018	
Assets as per statement of financial position	
Cash and cash equivalents (Note 4)	2,831
Trade accounts receivable (Note 5)	50,772
	53,603
	Other financial liabilities
At March 31, 2018	
Liabilities as per statement of financial position	
Trade accounts payable (Note 13)	46,376
Related parties (Note 9)	97,473
	143,849

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2019

(In thousands of reais)

4. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include:

	<u>2019</u>	<u>2018</u>
Cash and banks	1,478	2,831
	<u>1,478</u>	<u>2,831</u>

Cash equivalents refer to regular trade accounts receivable available in current account for use.

5. Trade accounts receivable

	<u>2019</u>	<u>2018</u>
Domestic trade accounts receivable	17,212	49,758
Foreign trade accounts receivable	66	75
Construction contracts to be billed (Note 21)	<u>3,451</u>	<u>1,411</u>
Less: Allowance for doubtful accounts	(2,740)	(472)
Trade accounts receivable, net	<u>17,989</u>	<u>50,772</u>

The aging list of these accounts receivable is as follows:

	<u>2019</u>	<u>2018</u>
Falling due	7,448	16,659
Overdue within 30 days	2,322	3,692
Overdue from 31 to 60 days	1,085	483
Overdue from 61 to 90 days	-	4,217
Overdue for more than 90 days	<u>9,874</u>	<u>26,193</u>
	<u>20,729</u>	51,244
Allowance for doubtful accounts	(2,740)	(472)
	<u>17,989</u>	<u>50,772</u>

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2019

(In thousands of reais)

5. Trade accounts receivable (Continued)

Changes in the allowance for doubtful accounts are as follows:

	<u>2019</u>	<u>2018</u>
Previous balance	(472)	(472)
Accounts receivable written off in the year as uncollectible	(2,268)	-
Closing balances	<u>(2,740)</u>	<u>(472)</u>

The allowance was calculated based on the credit risk analysis, which includes the history of losses, the individual situation of customers, the situation of the economic group to which they belong, as well as receivables overdue for more than 180 days.

The recognition and derecognition of allowance for doubtful accounts were recorded in the statement of profit or loss as "Other operating expenses, net". The amounts charged to provisions/allowances are generally derecognized when recovery of funds is not expected.

Trade accounts receivable overdue for more than 180 days refer basically to the projects Spoiler T-cross (R\$3,423), Small GP (R\$2,201) and other projects (R\$2,378) for which an allowance has been recognized (R\$911). The balances have not yet been settled, since the vehicles are undergoing quality tests in the automakers (phase called baumuter) and are monitored by the engineering function for the approval process.

6. Inventories

	<u>2019</u>	<u>2018</u>
Finished goods	1,228	4,503
Work-in-process	6,046	4,292
Raw materials	18,799	16,125
Packaging and storeroom materials	4,663	2,690
Inventory held by third parties	1,802	2,015
Imports in transit	1,123	520
Advance to suppliers (a)	6,513	12,480
(-) Provision for inventories	<u>(1,866)</u>	<u>(1,219)</u>
	<u>38,308</u>	<u>41,406</u>

(a) These refer to advances for the manufacture of molds and tools whose projects were developed for the automaker.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2019

(In thousands of reais)

6. Inventories (Continued)

Changes in provisions for inventories are as follows:

Balance at March 31, 2017	<u>(580)</u>
(+) addition / complement	(4,081)
(+) write-off/reversal	<u>3,442</u>
Balance at March 31, 2018	<u>(1,219)</u>
(+) addition / complement	(8,942)
(+) write-off/reversal	<u>8,295</u>
Balance at March 31, 2019	<u>(1,866)</u>

7. Taxes recoverable

	<u>2019</u>	<u>2018</u>
Current		
State VAT (ICMS) recoverable	1,349	450
Income and social contribution taxes	152	125
Contribution Tax on Gross Revenue for Social Security Financing (COFINS) recoverable	34	79
Contribution Tax on Gross Revenue for Social Integration Program (PIS) recoverable	7	16
Federal VAT (IPI) recoverable	119	4
Other taxes recoverable	238	78
	<u>1,899</u>	<u>752</u>
Noncurrent		
ICMS recoverable on permanent assets	1,986	260
Total	<u>3,885</u>	<u>1,012</u>

In the ordinary course of business, in accordance with the current legislation, such accumulated tax credits are realized through their use in the payment of taxes of the same nature.

8. Advances to suppliers

	<u>2019</u>	<u>2018</u>
Advance to customs broker	1,682	2,790
Advance to supplier - unproductive - burden	1,414	1,393
Other	192	195
	<u>3,288</u>	<u>4,378</u>

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2019

(In thousands of reais)

9. Related parties

	March 31, 2019					Total
	SMP Iberica	SMBV Motherson	MSSL GMBH	FM Global (FZE)	Mothersonsumi Infotech & Design	
Current liabilities						
Trade accounts payable	4	-	1	3,618	115	3,738
Noncurrent liabilities						
Intercompany loans	-	80,129	-	-	-	80,129
Balances	4	80,129	1	3,618	115	83,867

The balances payable to SMBV Motherson refer to loans taken out to finance the development of the Atibaia plant, with interest of approximately 4.3% per annum plus exchange differences through March 31, 2017. Most of the balance is due, but the maturity has been extended without a defined date, until SMP do Brasil has cash flows to return this fund. The SMP Group grants the necessary financial support to SMP do Brasil to maintain its operations. On April 1, 2017, interest was renegotiated under a contractual amendment between the parties, in which the debit balance will have no accruals and interest adjustments, as from that date with interest of 0% per annum. On October 15, 2018, SMP Automotive Technology Ibérica S.L. assumed the Company's debt through assignment of receivables from other Group companies on the amounts payable for services of R\$9,230 and interest on loans of R\$12,667. Due to the Company's economic and financial situation, on November 5, 2018 the members decided, through a document registered at the Commercial Registry of Paraná State (Jucepar) under No. 20186138601, that this debt of R\$21,897 will be absorbed by the accumulated losses account.

	March 31, 2018							Total
	SMP Iberica	SMP Gmbh	SMP Portugal	SMBV Motherson	SMPG Motherson	Mothersonsumi Infotech & Design	SMP México	
Current liabilities								
Trade accounts payable	5	5,883	31	3,328	320	261	1,342	11,170
Noncurrent liabilities								
Intercompany loans	-	-	-	86,303	-	-	-	86,303
Balances	5	5,883	31	89,631	320	261	1,342	97,473

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2019

(In thousands of reais)

9. Related parties (Continued)

Key management personnel compensation

Key management personnel includes the Company's executive board. Compensation paid or payable to key management personnel for services rendered is as follows:

	<u>2019</u>	<u>2018</u>
Key management personnel compensation	<u>2,122</u>	<u>1,915</u>

10. Deferred taxes

The accumulated balances of income and social contribution tax losses totaled R\$666,611 in 2019 (R\$570,200 in 2018). On these balances, as well as on temporary differences, no tax credits were recorded as a result of historical income and social contribution tax losses.

In January 2018, income tax losses of R\$2,115 were used in connection with the PERT program, as mentioned in Note 16 Tax debts - payment in installments.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2019

(In thousands of reais)

11. Property, plant and equipment

(a) Breakdown and changes

	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Furniture and fixtures</u>	<u>Facilities</u>	<u>Leasehold improvements</u>	<u>Other assets*</u>	<u>Construction in progress</u>	<u>Total property, plant and equipment</u>
Cost or valuation								
Balance at March 31, 2018	1,259	143,783	24,398	10,800	5,785	5,321	1,699	193,046
Additions	-	13,250	2,151	64	5	1,151	12,341	28,962
Transfers	-	6,534	-	189	301	-	(7,024)	-
Disposals and write-offs	-	-	(1,022)	-	-	-	(1,546)	(2,568)
Balance at March 31, 2019	1,259	163,567	25,527	11,053	6,091	6,472	5,471	219,440
Depreciation								
Balance at March 31, 2018	(1,259)	(139,352)	(19,424)	(10,394)	(5,520)	(3,763)	-	(179,712)
Additions	-	(708)	(1,300)	(279)	(5)	(325)	-	(2,617)
Disposals and write-offs	-	-	585	-	-	-	-	585
Balance at March 31, 2019	(1,259)	(140,060)	(20,139)	(10,673)	(5,525)	(4,088)		181,744
Residual value								
Balance at March 31, 2018	-	4,431	4,974	406	265	1,558	1,699	13,334
Balance at March 31, 2019	-	23,507	5,388	380	566	2,384	5,471	37,696

* These refer to tools, molds and data processing equipment.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2019

(In thousands of reais)

11. Property, plant and equipment (Continued)

(a) Breakdown and changes (Continued)

(b)	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Furniture and fixtures</u>	<u>Facilities</u>	<u>Leasehold improvements</u>	<u>Other assets*</u>	<u>Construction in progress</u>	<u>Total property, plant and equipment</u>
Cost or valuation								
Balance at March 31, 2017	1,259	142,436	19,621	10,393	5,714	4,061	1,564	185,048
Additions	-	1,260	4,833	407	71	1,266	250	8,087
Transfers	-	103	-	-	-	-	(103)	-
Disposals and write-offs	-	(16)	(56)	-	-	(6)	(12)	(89)
Balance at March 31, 2018	<u>1,259</u>	<u>143,783</u>	<u>24,398</u>	<u>10,800</u>	<u>5,785</u>	<u>5,321</u>	<u>1,699</u>	<u>193,046</u>
Depreciation								
Balance at March 31, 2017	1,259	(139,195)	(19,006)	(10,385)	(5,511)	(3,745)	-	(179,101)
Additions	-	(157)	(474)	(9)	(9)	(20)	-	(669)
Disposals and write-offs	-	-	56	-	-	2	-	58
Balance at March 31, 2018	<u>(1,259)</u>	<u>(139,352)</u>	<u>(19,424)</u>	<u>(10,394)</u>	<u>(5,520)</u>	<u>(3,763)</u>	<u>-</u>	<u>(179,712)</u>
Residual value								
Balance at March 31, 2017	-	3,241	615	8	203	316	1,564	5,947
Balance at March 31, 2018	<u>-</u>	<u>4,431</u>	<u>4,974</u>	<u>406</u>	<u>265</u>	<u>1,558</u>	<u>1,699</u>	<u>13,334</u>

* These refer to tools, molds and data processing equipment.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2019

(In thousands of reais)

11. Property, plant and equipment (Continued)

Impairment of assets

Considering the decrease in sales volume in recent years in Brazil, for the year ended March 31, 2016, the Company recorded a provision for impairment of PPE of R\$95,777, according to the impairment test performed in that year.

The recoverable amount of the CGU was determined based on the calculation of value in use. These calculations use cash flow projections, before income and social contribution taxes, based on budgets approved by management for a five-year period. The amounts referring to cash flows after this five-year period were extrapolated based on the estimated growth rates presented below. The growth rate does not exceed the average long-term growth rate of the automotive industry in which the CGU operates.

The key assumptions used in the calculations of value in use at March 31, 2019 are as follows:

SMP do Brasil - Impairment Test

Sales volume (% of annual growth rate)	1.5
Sales price (% of annual growth rate)	3.5
Gross margin (% of revenue)	55 to 60
Other operating costs (annual average)	116,279
Annual average expenditures for acquisition of property, plant and equipment	27.948
Growth rate - %	3.0
Discount rate - %	15

At March 31, 2019, considering the provision already recorded and that Company's profit or loss has been reaching its budget, management concluded that there are no additional impairment indicators and that impairment calculation is not necessary for this year.

12. Intangible assets

	Software & Development of acquired products
Balance at March 31, 2017	<u>276</u>
Additions	574
Amortization	<u>(117)</u>
Balance at March 31, 2018	<u>733</u>
Additions	1,750
Write-offs	(90)
Amortization	<u>(330)</u>
Balance at March 31, 2019	<u>2,063</u>

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2019

(In thousands of reais)

13. Trade accounts payable

	<u>2019</u>	<u>2018</u>
Domestic market	40,329	42,919
Foreign market	5,546	3,457
	<u>45,875</u>	<u>46,376</u>

Breakdown of the balance payable in the foreign market:

	<u>2019</u>	<u>2018</u>
Dollar	3,560	1,972
Euro	1,986	1,485
	<u>5,546</u>	<u>3,457</u>

14. Loans and financing

These transactions involve discounts of trade notes with Deutsche Bank for the period whose maturities were postponed by 15 days.

Institution/transaction	<u>2019</u>	<u>2018</u>
Deutsche Bank	8,864	-
Total	<u>8,864</u>	<u>-</u>

15. Payroll and related charges

	<u>2019</u>	<u>2018</u>
Payroll charges – INSS (Social Security Tax)	1,392	1,323
Payroll charges – FGTS (Unemployment Compensation Fund)	307	293
Payroll charges – IRRF (Withholding Income Tax)	279	277
Accrual for vacation pay and related charges	5,579	6,181
Accrual for 13 th monthly salary and related charges	1,219	1,151
Provision for profit sharing	5,465	6,018
Provision for allowances and personnel expenses	2,133	2,049
Other personnel obligations	240	146
	<u>16,614</u>	<u>17,438</u>

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Notes to financial statements (Continued)

March 31, 2019

(In thousands of reais)

16. Tax debts - payment in installments

On November 30, 2009, the executive board approved the Company's enrollment in the Debt Installment Payment Program of Brazil's Office of the Attorney General the National Treasury and the Brazilian IRS, granted by Law No. 11941/09. This installment is fully settled at March 31, 2018 (R\$1,307 in 2017).

On September 25, 2017, the executive board approved the Company's enrollment in the Special Tax Settlement Program - Other Debts (PERT) as provided for by Law No. 13496, through payment of 5% on the consolidated debt, with the remaining balance settled using income tax losses.

The amount included was R\$5,101 (Other debts - Brazilian IRS), with a down payment of 5% paid by the Company in 5 installments, from August to December 2017, and after the benefits of fine and interest reduction under article 2, item III, letter a) of Law No. 13496/2017, the remaining amount was R\$4,846, which was fully settled at March 31, 2018.

On December 11, 2018, these debts were consolidated with the Brazilian Internal Revenue Service.

17. Advances from customers

	<u>2019</u>	<u>2018</u>
Advance from customers – Operations	1,804	1,866
Advance from customers – Tools	7,076	6,994
	<u>8,880</u>	<u>8,860</u>

These refer to advances from customers for the manufacture of mold and tool projects, which were developed for automakers.

18. Others liabilities

	<u>2019</u>	<u>2018</u>
Custom broker	679	1,196
Provision for projects	2,564	6,525
Provision for debit note	2,309	4,381
Provision for charges on IC services	26	6,206
Provisions for trade accounts payable / accounts payable	2,492	3,052
Discounted trade notes	-	4,824
Other liabilities	942	277
	<u>9,012</u>	<u>26,461</u>

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2019

(In thousands of reais)

19. Provisions for contingencies

The Company is a party to legal proceedings relating to tax, social security, labor and civil claims in the ordinary course of its business. Based on information from its legal advisors and on the analysis of outstanding legal proceedings, management set up a provision at an amount deemed sufficient to cover any expected probable losses from the outcome of ongoing proceedings, as follows:

	<u>Civil</u>	<u>Labor</u>	<u>Total</u>
Balance at March 31, 2017	319	2,795	3,114
(+) Supplemental provision	-	1,212	1,212
(-) Write-offs	(319)	(1,219)	(1,538)
Balance at March 31, 2018	<u>-</u>	<u>2,788</u>	<u>2,788</u>
(+) Supplemental provision	97	922	1,019
(-) Write-offs	-	(1,156)	(1,156)
Balance at March 31, 2019	<u>97</u>	<u>2,554</u>	<u>2,651</u>

Provisions for labor claims were set up based on management's estimate of possible unfavorable outcomes in relation to lawsuits filed by former employees.

Civil claims are related to claims involving collections deemed undue by the Company after service agreement termination.

The Company has other cases assessed by the Company's legal advisors as a possible loss, amounting to R\$5,531 (R\$14,356 in 2018), for which no provision was recorded in accordance with accounting practices adopted in Brazil.

20. Equity

Capital

At March 31, 2019, Company's capital is R\$390,692 (R\$317,125 in 2018), divided into 390,692,341 units of interest, with a par value of R\$1.00 (one real) each, distributed among the members as follows:

	<u>2019</u>	<u>2018</u>
SMP Automotive Technology Ibérica S.L.	390,692,340	317,124,601
Andreas Hauser	1	1
	<u>390,692,341</u>	<u>317,124,602</u>

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Notes to financial statements (Continued)

March 31, 2019

(In thousands of reais)

20. Equity (Continued)

Capital (Continued)

The member SMP Automotive Technology Ibérica S.L paid in capital over the year as shown in the table below:

<u>Registration</u>	<u>Payment</u>	<u>Jucepar No.</u>	<u>Articles of Incorporation</u>
05/17/2018	5,188	20183273850	73 rd Amendment to the Articles of Incorporation
06/21/2018	11,000	20183371240	74 th Amendment to the Articles of Incorporation
08/28/2018	11,828	20184930227	75 th Amendment to the Articles of Incorporation
09/24/2018	11,830	20184930227	75 th Amendment to the Articles of Incorporation
10/24/2018	8,343	20185952186	76 th Amendment to the Articles of Incorporation
01/03/2019	14,875	20190090197	77 th Amendment to the Articles of Incorporation
01/16/2019	10,503	20190845902	78 th Amendment to the Articles of Incorporation
Total	73,567		

Brazilian companies must register foreign capital and profits reinvested in the Central Bank of Brazil in order to remit dividends on this capital or to repatriate it. The Company registered the amount of R\$390,692 as foreign capital, which corresponds to its total capital.

In 2011, the member SMP Automotive Technology Ibérica S.L sent equipment to the Company amounting to R\$15,501 for the purpose of capital increase, but these assets were initially admitted in Brazil as temporary admission. The assets were nationalized in the beginning of 2019 and until the end of this year will be awaiting the amendment to the articles of incorporation to make this transaction official. This amount is recorded as future capital contribution. Once the amendment to the articles of incorporation is made, the amount will be converted into capital increase by SMP Automotive Technology Ibérica S.L.; these assets are in use in the Company's operating activities.

On October 15, 2018, SMP Automotive Technology Ibérica S.L. assumed the Company's debt with other Group companies through assignment of receivables on the amounts payable for services of R\$9,230 and interest on loans of R\$12,667. Due to the Company's economic and financial situation, on November 5, 2018 the members decided, through a document registered at the Commercial Registry under No. 20186138601, that this debt of R\$21,897 will be absorbed by the accumulated losses account.

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Notes to financial statements (Continued)

March 31, 2019

(In thousands of reais)

21. Revenue

Reconciliation of gross sales to net revenue is as follows:

	<u>2019</u>	<u>2018</u>
Sales of products	543,334	537,167
Sales of services	472	5,398
(-) Sales taxes	(124,343)	(121,289)
(-) Returns and rebates	(16,400)	(28,473)
Net revenue	<u>403,063</u>	<u>392,803</u>

22. Construction contracts

We present below the changes in construction contracts in the statements of profit or loss and of financial position, as mentioned in Note 2.17 (b):

	<u>2019</u>	<u>2018</u>
Net revenue	782	4,190
Cost of sales	(2,040)	(4,190)
Gross profit from sales	<u>1,258*</u>	<u>-</u>
Statement of financial position		
Accounts receivable from construction contracts (Note 5)	3,451	1,411
Advances received (Note 17)	(7,076)	(8,860)
Accounts receivable (advances received) from construction contracts, net	<u>(3,625)</u>	<u>(7,449)</u>

Revenue from projects was recognized only to the extent that it is probable that the costs incurred in the period are recoverable, i.e. at the time of acquisition of materials and services plus profit, less losses, provided that they do not exceed the revenue amount negotiated with the customer, according to analyses of contracts of this nature with customers, in compliance with CPC 47, effective from January 1, 2018.

* In 2019, there were additional costs that were not deemed recoverable, i.e. were not absorbed by customers. These costs have been fully recognized, totaling the negative balance of construction contracts.

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Notes to financial statements (Continued)

March 31, 2019

(In thousands of reais)

23. Expenses by nature

	<u>2019</u>	<u>2018*</u> Restated
Cost of sales and services	449,583	431,359
Selling expenses	14,345	12,643
General and administrative expenses	14,101	15,313
Other operating expenses, net	1,339	241
	<u>479,368</u>	<u>459,556</u>
Raw material	268,753	261,208
Personnel expenses	106,032	102,203
Third-party services	25,128	23,947
Electricity and gas	12,516	11,845
Rent	12,558	12,200
Freight on sales	12,875	11,672
Building and industrial maintenance	11,067	7,557
Manufacturing services	-	14
Depreciation and amortization	2,947	786
Other costs and expenses	27,492	28,124
	<u>479,368</u>	<u>459,556</u>

* Certain amounts presented here do not correspond to the financial statements for 2018. See Note 2.20.

24. Finance income (costs)

	<u>2019</u>	<u>2018</u>
Finance costs		
Interest expense	(822)	(1,028)
Interest on bank loans	-	(46)
Interest on related-party loans	(2,206)	-
Discounts granted on trade notes received	(5,127)	(4,537)
Other finance income (costs)	1,367	(576)
	<u>(6,788)</u>	<u>(6,187)</u>
Finance income		
Interest income	7	15
	<u>7</u>	<u>15</u>
Foreign exchange gains	33,160	15,897
Foreign exchange losses	(39,897)	(34,479)
Foreign exchange gains (losses), net	<u>(6,737)</u>	<u>(18,582)</u>
Finance income (costs), net	<u>(13,518)</u>	<u>(24,754)</u>

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Notes to financial statements (Continued)

March 31, 2019

(In thousands of reais)

25. Insurance coverage

The Company's policy is to take out insurance on PPE subject to risks in amounts deemed sufficient to cover any losses, considering the nature of its activity.

The risk assumptions adopted, given their nature, are not part of the scope of an audit of financial statements; accordingly, they were not audited by our independent auditor.

Risk	Coverage	Effectiveness
Property damages / loss of profits	612,538	04/01/2019 to 03/31/2020
Civil liability	4,037	04/01/2019 to 03/31/2020
D&O	12,227	04/01/2019 to 03/31/2020
Domestic transportation	187,265	04/01/2019 to 03/31/2020
Fleet	110% - FIPE Index	10/06/2018 to 10/06/2019