Translation of the German independent auditor's report concerning the audit of the annual financial statements and management report prepared in German

Independent auditor's report

To PKC SEGU Systemelektrik GmbH

Opinions

We have audited the annual financial statements of PKC SEGU Systemelektrik GmbH, Barchfeld-Immelborn, which comprise the balance sheet as of 31 December 2020, and the income statement for the fiscal year from 1 January to 31 December 2020 and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of PKC SEGU Systemelektrik GmbH for the fiscal year from 1 January to 31 December 2020.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as of 31 December 2020 and of its financial performance for the fiscal year from 1 January to 31 December 2020 in compliance with German legally required accounting principles, and

- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Sec. 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s responsibilities for the audit of the annual financial statements and of the management report” section of our auditor’s report. We are independent of the Company in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional 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 opinions on the annual financial statements and on the management report.

Material uncertainty about the Company’s ability to continue as a going concern

We refer to the comments in the section “VIII. Going concern risks” of the notes to the financial statements and in section “C.1. Going concern risk” of the management report, in which the executive directors describe that due to negative earnings and negative cash flows from operating activities in the past fiscal years, the Company is in a tight liquidity situation. Liquidity is made available to the Company via a cash pool agreement with PKC Group PLC as well as via a credit line of the parent company PKC Wiring Systems Oy. In addition, effective from 20 March 2020 the parent company issued a general liquidity commitment and a general equity guarantee (letter of comfort) up to a maximum amount of EUR 14,000,000.00 in favor of PKC SEGU Systemelektrik GmbH for a period ending on 31 December 2022. The maintenance of solvency and thus the ability of the Company to continue as a going concern until it can generate sustainable positive cash flows depends on the maintenance of the cash pool agreement with PKC Group PLC as well as the financial support of the parent company, which has granted the above-mentioned credit line and issued the above-mentioned letter of comfort. This draws attention to the existence of a material uncertainty that may cast significant doubt on the Company’s ability to continue as a going concern and that represents a going concern risk pursuant to Sec. 322 (2) Sentence 3 HGB.

Our opinions are not modified in respect of this matter.

Responsibilities of the executive directors for the annual financial statements and the management report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles. In addition, the executive directors are responsible for such internal control as they, in accordance with [German] legally required accounting principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that, as a whole, provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

Auditor’s responsibilities for the audit of the annual financial statements and of the management report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company’s position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor’s report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the IDW will always detect a material misstatement. 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 annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, 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 opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for 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 of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report 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 these systems of the Company.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' 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 the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. 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 be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles.

- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis.

  There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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.

Freiburg i. Br., 9 April 2021

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Schmidt	Landerer
Wirtschaftsprüfer	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]

Translation from the German language

PKC SEGU Systemelektrik GmbH, Barchfeld-Immelborn
Balance sheet as of 31 December 2020

Assets	EUR	EUR	EUR	31 Dec 2019 EUR k
A. Fixed assets				
I. Intangible assets				
1. Purchased franchises, industrial and similar rights and assets, and licenses in such rights and assets	12,004.50			21
2. Goodwill	0.50			0
		12,005.00		21
II. Property, plant and equipment				
1. Land, land rights and buildings, including buildings on third-party land	1,332,511.49			1,448
2. Plant and machinery	1,318,870.50			1,774
3. Other equipment, furniture and fixtures	261,187.50			376
4. Prepayments and assets under construction	100,159.78			31
		3,012,729.27		3,629
			3,024,734.27	3,650
B. Current assets				
I. Inventories				
1. Raw materials, consumables and supplies	1,968,687.75			2,272
2. Work in process	129,917.47			248
3. Finished goods and merchandise	440,781.69			768
4. Prepayments for inventories	160,596.86			0
		2,699,983.77		3,288
II. Receivables and other assets				
1. Trade receivables	1,218,432.40			1,876
2. Receivables from affiliates	607,047.80			765
3. Other assets	162,387.13			87
		1,987,867.33		2,728
III. Cash on hand, bank balances		116,510.79		327
			4,804,361.89	6,343
C. Prepaid expenses			61,951.24	44
D. Deferred tax assets			423,939.95	425
E. Capital deficit			2,204,335.49	2,902
			10,519,322.84	13,364

Equity and liabilities	EUR	EUR	31 Dec 2019 EUR k
A. Equity			
I. Subscribed capital	25,580.00		26
II. Capital reserves	9,500,000.00		9,500
III. Loss brought forward	-12,427,778.64		-12,917
IV. Net income for the year	697,863.15		489
V. Capital deficit	2,204,335.49		2,902
		0.00	0
B. Provisions			
1. Provisions for pensions and similar obligations	1,071,811.79		1,019
2. Other provisions	554,357.56		555
		1,626,169.35	1,574
C. Liabilities			
1. Prepayments received on account of orders	214,985.76		218
2. Trade payables	2,035,859.22		1,672
3. Liabilities to affiliates	6,214,611.88		9,493
4. Other liabilities	427,696.63		407
		8,893,153.49	11,790
		10,519,322.84	13,364

PKC SEGU Systemelektrik GmbH, Barchfeld-Immelborn
Income statement for fiscal year 2020

	EUR	EUR	EUR	2019 EUR k
1. Revenue		23,761,164.98		33,169
2. Decrease in finished goods and work in process		-445,327.51		-367
3. Other operating income		156,730.44		191
			23,472,567.91	32,993
4. Cost of materials				
a) Cost of raw materials, consumables and supplies and of purchased merchandise	12,863,588.26			19,322
b) Cost of purchased services	6,003.78			20
		12,869,592.04		19,342
5. Personnel expenses				
a) Wages and salaries	5,102,472.41			5,817
b) Social security, pension and other benefit costs	1,230,937.27			1,189
thereof for old-age pensions: EUR 97,875.00 (prior year: EUR 135k)				
		6,333,409.68		7,006
6. Amortization, depreciation and impairment of intangible assets and property, plant and equipment		803,602.50		962
7. Other operating expenses		2,439,064.06		4,715
			22,445,668.28	32,025
			1,026,899.63	968
8. Interest and similar expenses *thereof to affiliates: EUR 315,236.80 (prior year: EUR 447k)*		316,031.78		477
			-316,031.78	-477
9. Income taxes *thereof from changes in recognized deferred taxes: EUR 952.55 (prior year: income of EUR 9k)*			952.55	-9
10. Earnings after taxes			709,915	500
11. Other taxes			12,052.15	11
12. Net income for the year			697,863.15	489

PKC SEGU Systemelektrik GmbH, Barchfeld-Immelborn
Notes to the financial statements as of 31 December 2020

I. General remarks on the financial statements

The annual financial statements as of 31 December 2020 were prepared in accordance with the general provisions and the special provisions of commercial law for medium-sized corporations and the supplementary provisions of the GmbHG ["Gesetz betreffend die Gesellschaften mit beschränkter Haftung": German Limited Liability Companies Act]. The Company operates under the name PKC SEGU Systemelektronik GmbH and has its registered office in Barchfeld-Immelborn. The Company is entered in the commercial register of the Jena Local Court under the number HRB 302198.

The income statement was classified using the nature of expense method.

II. Accounting policies

The following accounting and valuation methods, which essentially remained unchanged in comparison to the prior year, were used to prepare the financial statements.

The annual financial statements were prepared using the going concern basis of accounting pursuant to Sec. 252 (1) No. 2 HGB ["Handelsgesetzbuch": German Commercial Code]. We refer to section VIII regarding risks to the Company's ability to continue as a going concern.

Purchased **intangible assets** are recognized at acquisition cost less straight-line amortization based on their expected useful lives. Amortization is recorded using the straight-line method pro rata temporis over a period of 3 to 5 years.

Property, plant and equipment are stated at acquisition or production cost. They are depreciated using the straight-line method and taking in account the expected useful lives between 3 to 25 years. In addition to direct costs, production cost also includes appropriate amounts of material and manufacturing overheads and the depreciation of fixed assets, insofar as this is due to production.

Low-value assets with acquisition costs of up to EUR 800.00 are fully expensed in the year of acquisition.

Raw materials, consumables and supplies are valued at the average historical cost. The necessary depreciation is performed using the lower of cost or market principle.

Finished goods and work in process are valued at production cost in accordance with Sec. 255 (2) HGB. In addition to material and direct manufacturing costs, they include an appropriate amount of materials and manufacturing overheads in the form of a lump sum surcharge calculated according to prudent business judgment as well as production-related depreciation of fixed assets. Borrowing costs were not included in production cost. These items are written down on the basis of the lower of cost or market principle.

Inventory risks resulting from slow-moving stock or reduced salability have been accounted for by adequate allowances.

Receivables and other assets are generally stated at nominal value. Specific bad debt allowances provide for all foreseeable valuation risks. The general credit risk is provided for by a general bad debt allowance in accordance with Group guidelines.

Cash and cash equivalents are stated at nominal value.

Pursuant to Sec. 274 (1) HGB, **deferred taxes** are recognized for differences between the carrying amounts under German commercial law and the tax bases of assets, liabilities and prepaid expenses/deferred income, which are expected to reverse in subsequent fiscal years. Deferred taxes are calculated using a tax rate of 28.3% and relate to goodwill, pension provisions and the provision for onerous contracts. If the result is a tax relief (net deferred tax assets), the capitalization option pursuant to Sec. 274 (1) Sentence 2 HGB is exercised.

Pension provisions are calculated on the basis of actuarial principles using the projected unit credit method and taking into account biometric probabilities. The basis of calculation was provided by Prof. Dr. Klaus Heubeck’s 2018 G mortality tables, interest rate of 2.30% p.a. (prior year: 2.71%), and future pension increases of 1.5% p. a. (prior year: 1.5%). Wage and salary increases are not accounted for because the beneficiaries are pensioners. The discount factor applied corresponds to the average market interest rate of the last 10 years as determined by the Deutsche Bundesbank for an assumed residual term of 15 years.

The assets which serve exclusively to fulfill the pension obligations and which are protected against claims asserted by all other creditors (covering assets as defined by Sec. 246 (2) Sentence 2 HGB) are measured at their fair value and offset against the corresponding provisions. As there was no active market which could be used to determine the market price, their amortized cost was used to determine the fair value of the assets.

Other provisions account for all identifiable risks and uncertain liabilities and are recorded at the value deemed necessary according to prudent business judgment. If there are provisions with a residual term of more than one year, they are discounted at the average market interest rate of the last seven years for their respective residual term.

Liabilities are recorded at the settlement value.

Upon initial recognition, liabilities in foreign currency are translated at the mean spot rate on the date of the transaction in euros. As of the reporting date they are measured at the mean spot rate, provided the residual term of liabilities is not more than one year. All other liabilities denominated in foreign currency are stated at the exchange rate at the time of invoicing or at the higher mean spot rate as of the reporting date.

III. Notes to the balance sheet

The breakdown of the fixed assets item summarized in the balance sheet under fixed assets and its development in 2020 is presented in the attachment (statement of changes in fixed assets) to the notes to the financial statements.

As in the prior year, all receivables are due within one year.

Receivables from affiliates contain trade receivables of EUR 607k (prior year: EUR 765k).

Pursuant to Sec. 268 (8) HGB, EUR 424k (prior year: EUR 425k) is not distributable due to the recognition of deferred tax assets in the balance sheet. In addition, there is ban on distribution on the difference between the recognition of provisions in accordance with the corresponding average market interest rate of the past 10 fiscal years (2.30%) and the recognition of provisions in accordance with the corresponding average market interest rate of the past 7 fiscal years (1.60%). This difference amounts to EUR 222k (prior year: EUR 232k).

The Company’s subscribed capital remains unchanged at EUR 25,580.00 and 100% of it is held by PKC Wiring Systems Oy, Kempele, Finland.

In accordance with Sec. 246 (2) Sentence 2 HGB, the fair value (which is the same as acquisition cost) of the existing employer’s pension liability insurance policy of EUR 1,364k was offset against the settlement value of the pension provisions of EUR 2,436k as of the reporting date. Income from the covering assets to be offset of EUR 63k was netted with the expenses from unwinding the discount on pension provisions of EUR 64k and reported under interest and similar expenses.

Other provisions primarily contain personnel-related provisions of EUR 353k (prior year: EUR 276k), warranty provisions of EUR 10k (prior year: EUR 75k), costs of preparing the financial statements of EUR 43k (prior year: EUR 51k), contributions to employer’s liability insurance of EUR 30k (prior year: EUR 33k), provision for archiving old records of EUR 17k (prior year: EUR 17k) and provisions for energy costs of EUR 25k (prior year: EUR 52k).

Liabilities break down as follows:

	Total EUR k	up to one year EUR k	between one and five years EUR k	more than five years EUR k
Prepayments received on account of orders	215	215	-	-
Prior year	*(218)*	*(218)*	*(-)*	*(-)*
Trade payables	2,036	2,036	-	-
Prior year	*(1,672)*	*(1,672)*	*(-)*	*(-)*
Liabilities to affiliates	6,215	6,215	-	-
Prior year	*(9,493)*	*(7,493)*	*(2,000)*	*(-)*
Other liabilities	428	428	-	-
Prior year	*(407)*	*(407)*	*(-)*	*(-)*
	8,893	8,893	-	-
	(11,790)	*(9,790)*	*(2,000)*	*(-)*

With the exception of individual retention of title by suppliers, no collateral has been provided for liabilities.

Of the liabilities to affiliates, EUR 865k (prior year: EUR 807k) relate to trade payables and EUR 2,000k (prior year: EUR 2,000k) to loan payables to the shareholders. There are cash pool liabilities of EUR 3,350k (prior year: EUR 6,686k) to the ultimate parent company PKC Group PLC, Helsinki, Finland.

Other liabilities contain tax liabilities of EUR 71k (prior year: EUR 61k) and liabilities relating to social security of EUR 23k (prior year: EUR 11k).

IV. Notes to the income statement

Other operating income primarily contains out-of-period income from the reversal of provisions of EUR 94k (prior year: EUR 69k) and income from impaired receivables of EUR 1k (prior year: EUR 14k). Income from currency translation amounts to EUR 1k (prior year: EUR 0k).

Other operating expenses contain expenses for temporary workers of EUR 238k (prior year: EUR 1,547k) and expenses for services rendered through other group companies of PKC Group PLC of EUR 1,011k (prior year: EUR 1,067k). Out-of-period expenses mainly relates to bad debts of EUR 12k (prior year: EUR 5k). This item contains expenses from currency translation of EUR 2k (prior year: EUR 5k).

The Company participates in the cash pool system of PKC Group PLC. **Interest and similar expenses** decreased by EUR 161k compared to the prior year and total EUR 316k. Interest and similar expenses include expenses from unwinding the discount on pension provisions amounting to EUR 64k (prior year: EUR 71k).

Income taxes contain expenses of EUR 1k (prior year: income of EUR 9k) from the change in deferred taxes.

V. Contingent liabilities and other financial obligations

There are other financial obligations of EUR 196k from rent and lease agreements, of which EUR 84k is due in the next fiscal year.

VI. Notes on off-balance-sheet transactions

A factoring agreement was concluded in 2018 to optimize the Company's working capital. The total financing limit amounts to EUR 2,785k. As of the reporting date, the Company had sold receivables totaling EUR 1,555k due to this agreement. As a result, PKC received cash and cash equivalents of this amount from the factoring bank by the balance sheet date and the credit risk of the sold receivables in this amount was transferred to the buyers. The risk arising from the variable interest of the financing arrangement up to the date of payment by the customers is deemed immaterial given the current conditions on the capital market for interest rates.

VII. Other notes

The Company was managed by the following persons in the past fiscal year:

- Mr. Christian Storandt, general manager technology and sales
- Mr. Andreas Heuser, general manager for activities in Europe and Americas of the Samvardhana Motherson Group

As regards disclosures pursuant to Sec. 285 No. 9 letter a and b HGB, the protective regulation in accordance with Sec. 286 (4) HGB was exercised.

On annual average, the Company had 121.25 wage earners and 57.25 salaried employees in the fiscal year.

The Company is a wholly owned subsidiary of PKC Wiring Systems Oy with its registered office in Kempele, Finland. Both companies are included in the consolidated financial statements of PKC Group PLC with its registered office in Helsinki, Finland (smallest group of companies).

The consolidated financial statements can be obtained from the head office of the Company. At the highest level PKC SEGU Systemelektrik GmbH is included in the consolidated financial statements of Motherson Sumi Systems Limited (MSSL), Noida, India (largest group of companies). The consolidated financial statements of MSSL have been published on the Company's website (www.motherson.com).

VIII. Risks to the Company's ability to continue as a going concern

There are risks jeopardizing the Company's ability to continue as a going concern, which are presented in section "C.1. Going-concern risk" in the management report.

IX. Subsequent events

There were no significant events after the balance sheet date requiring consideration either in the income statement or in the balance sheet.

Barchfeld, 8 April 2021

PKC SEGU Systemelektrik GmbH

The Management Board

………………………………

Christian Storandt

………………………………

Andreas Heuser

PKC SEGU Systemelektrik GmbH, Barchfeld-Immelborn

Statement of changes in fixed assets for fiscal year 2020

	Acquisition and production cost					Accumulated amortization, depreciation and impairment					Book values	
	1 Jan 2020	Additions	Disposals	Reclassifications	31 Dec 2020	1 Jan 2020	Additions	Disposals	Reclassifications	31 Dec 2020	31 Dec 2020	31 Dec 2019
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR k
I. Intangible assets												
1. Purchased franchises, industrial and similar rights and assets, and licenses in such rights and assets	746,280.19	0.00	0.00	0.00	746,280.19	725,719.19	8,556.50	0.00	0.00	734,275.69	12,004.50	20,561.00
2. Goodwill	1,001,000.00	0.00	0.00	0.00	1,001,000.00	1,000,999.50	0.00	0.00	0.00	1,000,999.50	0.50	0.50
	1,747,280.19	0.00	0.00	0.00	1,747,280.19	1,726,718.69	8,556.50	0.00	0.00	1,735,275.19	12,005.00	20,561.50
II. Property, plant and equipment												
1. Land, land rights and buildings, including buildings on third-party land	4,738,959.18	0.00	0.00	0.00	4,738,959.18	3,291,042.19	115,405.50	0.00	0.00	3,406,447.69	1,332,511.49	1,447,916.99
2. Plant and machinery	13,587,992.97	56,112.23	30,926.00	40,681.22	13,653,860.42	11,813,858.97	552,056.45	30,925.50	0.00	12,334,989.92	1,318,870.50	1,774,134.00
										0.00		
3. Other equipment, furniture and fixtures	4,368,097.25	13,093.05	0.00	0.00	4,381,190.30	3,992,418.75	127,584.05	0.00	0.00	4,120,002.80	261,187.50	375,678.50
4. Prepayments and assets under construction	30,743.82	110,097.18	0.00	-40,681.22	100,159.78	0.00	0.00	0.00	0.00	0.00	100,159.78	30,743.82
	22,725,793.22	179,302.46	30,926.00	0.00	22,874,169.68	19,097,319.91	795,046.00	30,925.50	0.00	19,861,440.41	3,012,729.27	3,628,473.31
	24,473,073.41	179,302.46	30,926.00	0.00	24,621,449.87	20,824,038.60	803,602.50	30,925.50	0.00	21,596,715.60	3,024,734.27	3,649,034.81

Translation from the German language

PKC SEGU Systemelektrik GmbH, Barchfeld-Immelborn
Management report as of 31 December 2020

A. Business activities and overall economic environment

1. Company background

PKC SEGU Systemelektrik GmbH is a long-standing partner in the automotive industry in the area of ABS wires and customized cables. Leading automotive manufacturers have also been reliably supplied over many years with internally developed electronic modules and plastic components.

The ultimate parent company is PKC Group PLC with its registered office in Helsinki, Finland.
Since 2017, PKC Group PLC has been a wholly owned subsidiary of MSSL Estonia WH ÖU, Tallinn, Estonia, which in turn is a wholly owned subsidiary of Motherson Sumi Systems Ltd, (MSSL), Noida, India.

2. Development of the industry

The strong cost pressure exercised by the automotive manufacturers on the supply industry worldwide continues. Some of the suppliers have therefore, in addition to their location in Germany, established or expanded their wage-intensive production in low-wage countries. Large corporations with both a passenger car and commercial vehicle division are currently working to bundle volume by reducing the number of suppliers in order to further decrease prices. Moreover, the amount of electric and electronic equipment in vehicles is on the rise: Optional components are becoming standard and new optional features, driven by CO_2 reduction, GPS, safety components and ethernet modules will follow.

This requires the automotive supply industry to adapt to the change in requirements by

- Increasing competencies in the area of development
- Increasing the logistics competence
- Increasing the high quality standards
- Ongoing specification of products
- Increasing vertical integration/added value within the company
- Increasing flexibility

3. Customer development

The business with key accounts was and remains our prime focus. Through PKC Group PLC's global presence, we want to support and supply our customers in Europe, Asia as well as in North and South America. The required development competence should be constantly increased and expanded. Due to the affiliation with the Samvardhana Motherson Group, we expect steady growth in our customer portfolio of leading automotive manufacturers in the future.

4. Supplier development

The activities to develop our supplier base were continued in the reporting year, partly in cooperation with our customers. Our regular suppliers are still active on the market and guarantee the quality of our upstream products.

In fiscal year 2020, needs were bundled further in close cooperation with the global sourcing department and supplier development continued in close coordination with the central purchasing department. This applies to both directly and indirectly sourced material.

5. Investments

Investments in fiscal year 2020 amounted to EUR 179k and mainly relate to plant and machinery for electronics and injection molding. The investment volume was thus up EUR 25k on the prior-year level.

6. Our strategy for the future

The future strategy is significantly influenced by the affiliation to PKC Group PLC and also by the Samvardhana Motherson Group (SMG).

The key components of our strategy remain:

- Enhancement of plastic components manufacturing with new projects in the passenger car segment and increasing vertical integration in the area of commercial vehicles
- Safeguarding the vehicle electronics division by expanding the degree of automation and launching new customer projects
- Expanding the German location into a competence center for electrical distribution systems and components in vehicles
- Expanding development services in R&D, both for customers and for other PKC and SMG locations.

B. Economic position of the Company

1. Financial performance

The Company is managed in accordance with group-wide guidelines as part of the internal accounting function. The main performance indicators used by management for setting their targets are revenue and net income for the year. Revenue in fiscal year 2020 amounted to EUR 23,761k and is thus around 28% lower than in the prior year (EUR 33,169k). Revenue of EUR 22m forecast in the prior year was thus slightly exceeded. The year-on-year decrease primarily results from the decrease in external product sales of sensor cables and fuseboxes as well as the short-term decrease in revenue due to COVID-19, particularly in the months from April to July.

The cost of materials as a percentage of total operating performance improved by 3.8 percentage points to 55.2% due to the change in product portfolio.

Gross profit deteriorated by EUR 3,048k to EUR 10,603k. The decrease is due to the decline of EUR 9,442k in revenue and other operating income as well the decrease of EUR 6,472k in cost of materials.

Personnel expenses decreased by EUR 673k in the reporting period, mainly due to government-subsidized short-time work and the related subsidies from the German Federal Employment Agency.

Amortization, depreciation and impairment decreased by EUR 159k year on year to EUR 804k.

Other operating expenses decreased by EUR 2,276k from EUR 4,715k to EUR 2,439k. Expenses for temporary contract workers in particular were reduced by EUR 1,309k to EUR 238k in the fiscal year.

The Company participates in the cash pool system of PKC Group PLC. Overall, interest expenses (EUR 316k) decreased by EUR 161k compared to the prior year, primarily due to lower cash pool liabilities during the year.

The net income for fiscal year 2020 amounts to EUR 698k, thus improving by EUR 208k compared to the prior year. The forecast made in the prior year was exceeded significantly due to the better financial performance. The improved cost structure was a key contributing factor to this development.

2. Financial position

As in prior years, in 2020 also the Company was financially equipped via intragroup measures. The required liquidity was provided by the participation in the group-wide cash pool system. Additional shareholder loans were not drawn, and capital was not increased.

The cash flow from operating activities of EUR 3,616k is counterbalanced by cash outflow from investing activities of EUR -174k and cash outflow from financing activities of EUR -316k. Liabilities from the intragroup cash pool – which are included in the calculation of cash and cash equivalents – decreased in the reporting year from EUR 6,686k to EUR 3,350k. Cash and cash equivalents decreased accordingly by EUR 210k to EUR 117k.

The capital deficit amounted to EUR -2,204k as of the reporting date (prior year: EUR -2,902k). The reduction in the deficit is attributable to the increase in the net income for the year (EUR 698k).

3. Assets and liabilities

Total assets decreased year on year by EUR 2,845k to EUR 10,519k. On the assets side, this is mainly attributable to the decrease in fixed assets (EUR 625k) and the decrease in current assets (EUR 1,539k), primarily due to the decrease in inventories (EUR 588k) and trade receivables (EUR 658k). On the liabilities side, the decrease in total equity and liabilities is mainly due to lower liabilities to affiliates (EUR 3,278k). The decrease in liabilities to affiliates mainly results from the decrease in cash pool liabilities (EUR 3,336k). As of the reporting date, the Company has a cash pool liability of EUR 3,350k to PKC Group PLC, Helsinki, Finland.

The book value of fixed assets accounts for around 29% (prior year: around 27%) of total assets.

The covering assets from employer's pension liability insurance of EUR 1,364k were offset against pension provisions (EUR 2,436k) in accordance with Sec. 246 (2) Sentence 2 HGB.

4. Non-financial indicators

To be able to respond flexibly to changes in demand, the Company's workforce primarily comprises permanent employees as well as employees with temporary contracts and employee leasing.

The idea of quality is firmly anchored in all units in the Company. Quality performance of the Company is measured, analyzed and evaluated according to the manual using process indicators ((including returns ratio, on-time delivery, OEE (overall equipment effectiveness), absence due to sickness, employee churn)). The following certificates were confirmed by supervision audits or recertification audits:

- Quality management system in compliance with DIN EN ISO 9001:2015 No. 144573-2013-AQ-FIN-FINAS for product and process development, the production and distribution of cable harnesses, cable manufacturing and electronic assemblies and plastic components.

- Quality management system in compliance with IATF 16949:2016 No. 146420-2013-AQ-FIN-IATF Rev. 1 for the development and manufacturing of cable harnesses and cable manufacturing, electric and electronic assemblies for vehicles and injection components.

Greater environmental awareness is reflected in the environmental management system introduced corresponding to DIN EN ISO 14001. The performance of the environmental management system is measured, analyzed and evaluated in accordance with the environmental management manual using environment indicators (including power consumption; water consumption; use of service water; waste volume; copper scrap, etc.). The effectiveness was confirmed by the environment management system certificate DIN EN ISO 14001:2015 No. 144574-2013-AE-FIN-FINAS.

5. Research and development

The Company closely collaborated also in 2020 in the field of application-based technology development, both with German institutes, development partners and the vocational academy in Eisenach as well as with the corporate group and its international customers. R&D had 14 employees.

6. Existing branches

The Company does not have any branch offices.

7. Overall conclusion regarding business development

Considering prior years, the management board assesses business performance in the reporting year as satisfactory. Revenue in fiscal year 2020 amounts to EUR 23,761k and has thus decreased by EUR 9,408k compared to the prior year. The forecast made in the prior year was exceeded slightly due to the realignment of the Company. The Company generated a positive net income for the year of EUR 698k, an improvement of EUR 208k compared to the prior year and also significantly exceeded the prior-year forecast. Moreover, the cost structure of the Company was improved accordingly, above all due to the strategic realignment (investments in electronics and component manufacturing, expansion of R&D and EDS).

C. Opportunities and risks of future development

1. Going-concern risk

From today's perspective, there are discernible going-concern risks or risks that can significantly affect the assets, liabilities, financial position and financial performance, as the Company is in a tight liquidity situation due to the negative earnings and negative cash flows from operating activities in past fiscal years. Liquidity is made available to the Company via a cash pool agreement with PKC Group PLC as well as via a credit line of the parent company PKC Wiring Systems Oy. In addition, effective 20 March 2020 the parent company issued a general liquidity commitment and a general equity guarantee (letter of comfort) up to a maximum amount of EUR 14,000,000.00 in favor of PKC SEGU Systemelektrik GmbH for a period ending on 31 December 2022. The maintenance of solvency and thus the ability of the Company to continue as a going concern until it can generate sustainable positive cash flows depends on the maintenance of the cash pool agreement with PKC Group PLC as well as the financial support of the parent company, which has granted the above-mentioned credit line and issued the letter of comfort.

2. Coronavirus pandemic

The final weeks preceding our work to prepare the report were marked by uncertainty regarding the further course of the coronavirus pandemic on the future development of the global economy and particularly the development of the automotive industry.

It can be currently observed that market demand exceeds the existing capacity in the supply chains. Capacity in areas including semi-conductor manufacturing, granulate manufacturing and galvanization were adjusted in line with the change in demand during the pandemic in the past year. The current demand exceeds this and is increasingly leading to short-term interruptions in production at the OEMs. When production at individual manufacturers will normalize again cannot be reliably assessed at present. However, it is certain that the level of revenue of the previous years will not be able to be achieved in 2021.

As a long-standing partner in the automotive supply industry, we will not be able to escape this negative production and sales trend. But there can be a positive effect from the fact that our products in the fields of ABS wires, customized wire harnesses and internally developed electronic modules are supplied in the automotive electronics product segment. As the share of electronic components per vehicle will increase further, we expect that we will be less affected by the decrease in the number of new vehicle registrations.

The risk that our upstream supply chain may be restricted or interrupted due to difficulties at our suppliers is countered by a multi-supplier principle, international sourcing as well as stockpiling.

Interruptions in the logistics chain, both in procurement and in sales, e.g., as a result of absence of drivers due to illness or obstacles in processing at national borders, are minimized by engaging reliable forwarding agents.

We endeavor to reduce or avoid downtime in production due to illness by observing all the hygiene measures, particularly the maintenance of social distancing between the employees in production without restricting the process.

Another risk is posed by the disruption of cash flows due to liquidity bottlenecks at our customers, which may lead to higher liquidity utilization at our Company or to an increase in bad debts. As our customers are large automotive suppliers or manufacturers, they are subject to group-wide permanent credit monitoring, thus we can exclude default risks to a large extent by preventive credit ratings.

Further measures to reduce individual risks are described in the following chapters of the Opportunities and risk report.

3. Commodities market

In addition to the above-mentioned risks due to the coronavirus pandemic, there are still indications of a trend towards increasing scarcity of resources and the associated increase in prices on the commodities markets. This trend can be seen throughout the entire automotive industry. To safeguard the needs and market-based pricing policies, the Company operates as part of the large Samvardhana Motherson Group and therefore tries to minimize the risks at the key suppliers.

4. Lack of skilled labor

Concerning the lack of skilled labor, the Company will continue to focus on the PKC-wide performance and talent management program and the associated advance training and education in the coming year. The process indicators such as the rate of illness, employee turnover and quality performance are used as indicators of employee satisfaction on a monthly basis.

To recruit new employees the Company relies on a stronger regional presence at local job fairs as well as in local media.

We expect that the coronavirus pandemic and its accompanying economic uncertainties will minimize employee turnover and, in addition, offer opportunities to recruit new employees when other companies reduce their workforce due to the crisis.

5. Customer volume

Disregarding the coronavirus-related reduction in volume mentioned above, fluctuation in customer demand of +/-20% in the short term are a fact of life in the automotive industry. The required flexibility is secured by using trained leased employees.

Both internal as well as external sales activities are integrated to reduce dependence on individual customers.

6. Price pressure & competition

Management expects fiercer competition in the coming year as well as in the subsequent years. Furthermore, constant price pressure is expected from the automotive industry. As a result, further measures to reduce costs are planned both in production as well as in indirect processes. In this context, since 2018 the focus has been on significantly extending the manufacturing of plastic components, optimizing electronic manufacturing and increasing internal vertical integration. Tangible positive effects from these measures have already been seen in the past two fiscal years.

Due to the ongoing alignment of the operating situation to the risks on the market, our Company will be able to maintain its market position in the coming years as well.

D. Forecast

1. Expansion of electronics and plastic parts manufacturing in the area of onboard networks

It was decided in fiscal year 2018 to expand the manufacturing of plastic parts at the location; production was started in 2019. In 2020, the annual volume amounted to around EUR 9.7m. We expect that in 2021, revenue in this area will increase by EUR 700k by winning further projects. In the medium term, PKC SEGU Systemelektrik GmbH expects revenue of EUR 14m in the area of plastics manufacturing, meaning that total revenue of EUR 23m to EUR 29m will be able to be realized.

2. Business performance

The increase in revenue reflects an extended customer base and volume increase on the one hand and/or shifts in the current product mix.

Based on the current order situation, for fiscal year 2021 the Company expects revenue of EUR 23m as well as a positive net income for the year of slightly over EUR 700k. From today’s perspective, the product portfolio will not change significantly in the coming year. Based on the current order planning, the level of revenue is expected to rise significantly again in the following year compared to 2021.

The integration of PKC Group PLC into the Samvardhana Motherson Group creates synergies in the areas of HR, purchasing, sales, research and development and finance, which also benefit our Company.

Barchfeld, 8 April 2021

PKC SEGU Systemelektrik GmbH

The Management Board

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Christian Storandt

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Andreas Heuser