

# SMP Deutschland GmbH Bötzingen

Short-form audit report  
Annual financial statements and management report  
31 March 2021

Translation from the German language

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft



Translation from the German language

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Engagement Terms, Liability and Conditions of Use

General Engagement Terms

Note:

We have issued the auditor's report presented below in compliance with legal and professional requirements subject to the conditions described in the enclosed "Engagement Terms, Liability and Conditions of Use."

If an electronic version of this document is used for disclosure in the Bundesanzeiger [German Federal Gazette], only the files containing the financial reporting and, in the case of a statutory audit, the auditor's report or the attestation report thereon are intended for this purpose.



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 SMP Deutschland GmbH

Opinions

We have audited the annual financial statements of SMP Deutschland GmbH, Bötzingen, which comprise the balance sheet as at 31 March 2021, and the income statement for the fiscal year from 1 April 2020 to 31 March 2021, and notes to the financial statements, including the accounting policies presented therein. In addition, we have audited the management report of SMP Deutschland GmbH for the fiscal year from 1 April 2020 to 31 March 2021. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to Sec. 289f (4) HGB ["Handelsgesetzbuch": German Commercial Code] included on the last page of the management report in section "IV. Advancement of women".

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 at 31 March 2021 and of its financial performance for the fiscal year from 1 April 2020 to 31 March 2021 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. Our opinion on the management report does not cover the content of the statement on corporate governance referred to above.

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.

## Other information

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to Sec. 289f (4) HGB on the last page of the management report in section “IV. Advancement of women”.

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.



## Responsibilities of the executive directors and the supervisory board 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.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of 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 Institut der Wirtschaftsprüfer (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.

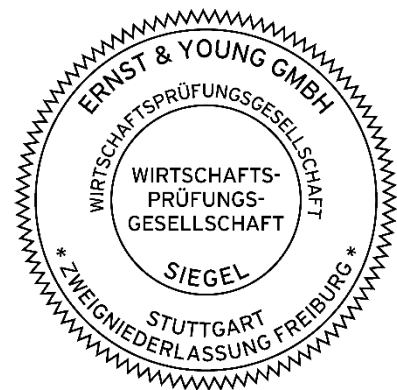
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Freiburg i. Br., 30 June 2021

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

Schmidt  
Wirtschaftsprüfer  
[German Public Auditor]

Schätzle  
Wirtschaftsprüfer  
[German Public Auditor]





20-029033

**SMP Deutschland GmbH, Bötzingen**  
**Income statement for the period from**  
**1 April 2020 to 31 March 2021**

	EUR	EUR	EUR	2019/2020 EUR k
1. Revenue		967,279,888.80		1,237,969
2. Decrease in finished goods and work in process		-7,524,501.35		-101,230
3. Other own work capitalized		59,118.80		138
4. Other operating income		31,010,054.81		36,754
			990,824,561.06	1,173,631
5. Cost of materials				
a) Cost of raw materials, consumables and supplies and of purchased merchandise	602,430,202.51			691,752
b) Cost of purchased services	52,509,682.43			53,364
		654,939,884.94		745,116
6. Personnel expenses				
a) Wages and salaries	222,081,104.15			230,512
b) Social security, pension and other benefit costs	39,600,351.67			43,575
		261,681,455.82		274,087
7. Amortization of intangible assets and depreciation of property, plant and equipment	28,646,388.67			28,220
8. Other operating expenses	67,056,209.17			80,843
		95,702,597.84	1,012,323,938.60	1,128,266
			-21,499,377.54	45,365
9. Income from equity investments		12,553,272.38		7,688
10. Income from other securities and loans classified as fixed financial assets		1,048,687.14		937
11. Other interest and similar income		341,885.18		850
12. Impairment of financial assets		6,105,536.00		20,000
13. Interest and similar expenses		5,772,990.25		12,024
			2,065,318.45	-22,549
14. Income taxes			863,643.98	896
<b>15. Earnings after taxes</b>			-20,297,703.07	21,920
16. Other taxes			411,250.81	366
17. Income from loss absorption			20,708,953.88	0
18. Expenses from profit transfer			0.00	21,554
19. Net income for the year			0.00	0

## **Notes to the financial statements of SMP Deutschland GmbH, Bötzingen, for the fiscal year from 1 April 2020 to 31 March 2021**

### **General**

As of 31 March 2021, Samvardhana Motherson Peguform GmbH ("SMP GmbH"), Gelnhausen, holds 94.8% and Samvardhana Motherson Global Holdings Ltd., Nicosia, Cyprus, holds 5.2% of the shares in SMP Deutschland GmbH.

SMP Deutschland GmbH is entered in the commercial register of Freiburg local court under HRB no. B 7436. These annual financial statements were prepared in accordance with Sec. 242 et seq. and Sec. 264 et seq. HGB ["Handelsgesetzbuch": German Commercial Code] as well as in accordance with the relevant provisions of the GmbHG ["Gesetz betreffend die Gesellschaften mit beschränkter Haftung": German Limited Liability Companies Act]. The Company is subject to the requirements for large corporations. The income statement is classified using the nature of expense method.

### **Accounting policies**

These annual financial statements were mainly prepared in accordance with the following uniform accounting policies which are generally unchanged on the prior year.

**Intangible assets** are carried at acquisition cost and reduced by amortization using the straight-line method. Where necessary, assets are written down to the lower of cost or market. The economic useful life applied is three to seven years.

Items of **property, plant and equipment** are recognized at the depreciated cost of the asset including incidental acquisition costs. The costs of self-constructed assets also include a proportionate share of production-related costs of materials and production overheads and amortization and depreciation as well as direct materials and production costs. Borrowing costs are not capitalized. Goods subject to wear and tear are depreciated. Impairment losses to write items down to the lower of cost or market are recognized in cases where impairment is expected to be permanent.

Property, plant and equipment are depreciated over their estimated useful lives. The following useful lives were taken into account: buildings 20 to 33 years, land improvements 5 to 20 years, operating facilities 10 to 25 years, plant and machinery 4 to 15 years, other equipment 3 to 25 years as well as furniture and fixtures 3 to 10 years.

Impairment is calculated using the straight-line method. Assets are depreciated pro rata temporis in the year of acquisition. Low-value assets with an acquisition or production cost not exceeding EUR 250 are written off in full as operating expenses. Low-value assets with an acquisition or production cost of more than EUR 250 but no greater than EUR 1,000 are recognized in a collective item and depreciated by 20% p.a. over 5 years.

**Financial assets** are valued at acquisition cost including incidental acquisition costs; impairment losses to the lower of cost or market are recognized in cases where impairment is

expected to be permanent. The lessee loans under lease agreements and the loans to affiliates that are included in financial assets are recognized at nominal value or net realizable value if lower.

The weighted average cost method or the lower of cost or market as of the reporting date is used to determine the acquisition cost of **raw materials, consumables and supplies**. **Finished goods and work in process and merchandise** are recognized at acquisition or production cost. To determine the costs directly attributable to production, production cost also includes production overheads and indirect material cost in an appropriate amount, as well as amortization and depreciation. Borrowing costs are not included in the production cost. Sales risks and risks resulting from reduced usability are taken into account appropriately.

**Prepayments** are stated at nominal value.

**Payments received on account of orders** are deducted from inventories on the face of the balance sheet, if they can be mapped to orders already in process.

**Receivables and other assets** are stated at their nominal value. Relevant valuation allowances provide for individual foreseeable risks. The general credit risk is provided for by an appropriate general bad debt allowance. For valuation allowances on tooling cost reimbursement claims that were recognized for potentially insufficient purchase volumes, residual compensation payments that are highly likely to be realizable were taken into account because there is no default risk in this respect. Tooling cost reimbursement claims are discounted using an interest rate that reflects the relevant term and risk of between 0.0% and 2.6% (prior year: between 0.0% and 2.6%).

**Cash and cash equivalents** are valued at their nominal value.

Expenses recorded before the reporting date that relate to a certain period after this date are posted as **prepaid expenses**.

**Equity** is recognized at nominal value.

**Pension provisions** were calculated using the 2018 G mortality tables issued by Prof. Dr. Klaus Heubeck and valued in accordance with actuarial principles (projected unit credit method) based on an average interest rate of the last 10 years of 2.19% (prior year: 2.60%) with a residual term of 15 years and average wage and salary increases of 2.50% p.a. (prior year: 2.50%). Furthermore, future pension increases of 2.00% p.a. (prior year: 2.00%), an increase in the measurement base used for contributions of 2.50% p.a. (prior year: 2.50%) as well as the probability of employee turnover relating to age and gender were taken into account. Deviating from the general use of the 7-year average interest rate, the mandatory 10-year average interest rate pursuant to Sec. 253 (2) HGB was used for the measurement of pension provisions. Using the valuation base pursuant to Sec. 253 (2) HGB (10-year average of 2.19%) led to a difference of EUR 216k compared with the valuation base pursuant to Sec. 253 (6) HGB (7-year average of 1.51%).

**Other provisions** account for all recognizable risks and liabilities of uncertain timing or amount and future cost and price increases at the time the obligation is settled. Provisions with a term of more than one year are discounted at the average market interest rate of the past seven years for their residual term as determined by Deutsche Bundesbank.

The provisions for death benefits and for vacation and Christmas bonuses were calculated using the 2018 G mortality tables issued by Prof. Dr. Klaus Heubeck and the projected unit

credit method. An average interest rate of the last 7 years of 1.51% (prior year: 1.88%) and salary increases of 2.50% p.a. (prior year: 2.50%) were assumed for provisions for death benefits and vacation and Christmas bonuses.

The provisions for long-service bonuses were calculated using the 2018 G mortality tables issued by Prof. Dr. Klaus Heubeck and valued in accordance with actuarial principles (projected unit credit method) based on an interest rate of the last 7 years of 1.51% (prior year: 1.88%) and vested benefits increases of 2.50% p.a. (prior year: 2.50%). Furthermore, an increase in the measurement base used for contributions of 2.50% p.a. (prior year: 2.50%) as well as the probability of employee turnover relating to age and gender were taken into account.

**Liabilities** are recorded at the settlement value.

Payments received prior to the reporting date are recognized as **deferred income** if they represent earnings for a certain time after this date.

### **Currency translation**

Foreign currency assets and liabilities were generally translated using the mean spot rate on the reporting date. If they have residual terms of more than one year, the realization principle (Sec. 252 (1) No. 4 Clause 2 HGB) and the historical cost principle (Sec. 253 (1) Sentence 1 HGB) were applied.

### **Deferred taxes**

The parent company recognizes deferred taxes on account of temporary differences at subsidiaries due to the profit and loss transfer agreement concluded in fiscal year 2012 with SMP GmbH and the related tax group for income tax purposes.

## Notes to the balance sheet

### Intangible assets and property, plant and equipment

The development of intangible assets and property, plant and equipment is shown in the following statement of changes in fixed assets (see attachment 1 to the notes).

### List of shareholdings

Further information on shareholdings is presented in the attachment 2 to the notes.

### Receivables and other assets

EUR k	31 Mar 2020	31 Mar 2021
Trade receivables	111.909	110.601
Receivables from affiliates	19.775	29.767
Receivables from other investees and investors	273	662
Other assets	8.297	6.595
Total receivables and other assets	140.254	147.626

Of **trade receivables**, EUR 96,741k relates to tooling cost reimbursement claims (prior year: EUR 100,011k), EUR 70,740k of which is due in more than one year (prior year: EUR 73,799k). All other trade receivables and other assets are due within one year.

**Receivables from affiliates** contain receivables from loss absorption by the shareholder as of the reporting date of EUR 20,709k (prior year: EUR 0k) and trade receivables totaling EUR 9,058k (prior year: EUR 19,775k). All receivables from affiliates have a remaining term of less than one year.

As in the prior year, all **receivables from other investees and investors** are trade receivables and are also due within one year.

As in the prior year, **other assets** have residual terms of less than one year.

### Other provisions

Other provisions primarily consist of provisions for personnel-related matters of EUR 42,807k (prior year: EUR 33,295k), for outstanding engineering costs of EUR 20,510k (prior year: EUR 29,705k), for potential losses from pending transactions of EUR 191k (prior year: EUR 332k), for outstanding invoices of EUR 17,478k (prior year: EUR 14,172k) and provisions for sales-related matters of EUR 67,330k (prior year: EUR 61,727k).

### Liabilities

The residual terms of the liabilities break down as follows:

Translation from the German language

Statement of liabilities as of 31 March 2021 in EUR k	Total	Due in less than one year	due in more than one year	thereof due in more than five years
1. Liabilities to banks	0	0	0	0
(prior year)	894	894	0	0
2. Trade payables	159.643	159.573	70	0
(prior year)	156.936	156.936	0	0
3. Liabilities to affiliates	156.398	7.585	148.814	0
(prior year)	195.958	35.858	160.100	0
thereof to shareholders	43.480	380	43.100	0
(prior year)	43.421	21.821	21.600	0
4. Liabilities to other investees and investors	7.088	7.088	0	0
(prior year)	6.387	6.387	0	0
5. Other liabilities	10.520	10.520	0	0
(prior year)	21.415	21.415	0	0
Total liabilities	333.649	184.766	148.883	0
(prior year)	381.590	221.490	160.100	0

**Liabilities to affiliates** include loan liabilities to SMRP B.V. of EUR 73,700k (prior year: EUR 138,500k), SMP GmbH of EUR 43,100k (prior year: EUR 21,600k), SMR Korea Ltd. of EUR 0k (prior year: EUR 5,000k), SMR Jersey of EUR 31,500k (prior year: EUR 0k), cash pooling liabilities of EUR 514k (prior year: EUR 529k), trade payables of EUR 7,558k (prior year: EUR 8,736k) as well as other liabilities of EUR 26k (prior year: EUR 39k).

As in the prior year, **liabilities to other investees and investors** stem from trade payables.

EUR 10,287k (prior year: EUR 16,778k) of **other liabilities** relates to taxes. Another EUR 52k (prior year: EUR 4,540k) pertains to liabilities relating to social security.

## Notes to the income statement

### Revenue

#### Revenue by division

EUR k	1 Apr 2019 - 31 Mar 2020	1 Apr 2020 - 31 Mar 2021
Automotive	857,331	756,788
Engineering	358,428	184,256
Other	22,210	26,236
Total	1,237,969	967,280

#### Revenue by sales regions

EUR k	1 Apr 2019 - 31 Mar 2020	1 Apr 2020 - 31 Mar 2021
Germany	1,130,600	873,070
Rest of Europe	83,523	69,860
Rest of the world	23,847	24,349
Total	1,237,969	967,280



## Other operating income

EUR k	1 Apr 2019 - 31 Mar 2020	1 Apr 2020 - 31 Mar 2021
<u>Other operating income</u>		
Cost allocation to affiliates	21	18
Income from currency translation	1,237	1,015
Sundry other operating income	10,688	7,595
	<u>11,946</u>	<u>8,628</u>
<u>Income relating to other periods</u>		
Reversal of provisions	24,647	22,382
Reversal of valuation allowances	161	0
	<u>24,808</u>	<u>22,382</u>
Total income relating to other periods		
	<u>24,808</u>	<u>22,382</u>
Total other operating income	<u>36,754</u>	<u>31,010</u>

## Personnel expenses of the fiscal year, classified pursuant to Sec. 275 (2) No. 6 HGB

EUR k	1 Apr 2019 - 31 Mar 2020	1 Apr 2020 - 31 Mar 2021
Wages and salaries	230,512	222,081
Social security	40,055	36,303
Pension costs	3,430	3,149
Other benefit costs	90	148
	<u>274,087</u>	<u>261,681</u>
Other personnel expenses		

## Other operating expenses

EUR k	1 Apr 2019 - 31 Mar 2020	1 Apr 2020 - 31 Mar 2021
<u>Operating expenses</u>		
Purchased services for maintenance	18,356	15,456
Purchased services and technical support	8,823	3,874
Project leases	243	224
Other leasing expenses, rent and leases	15,153	13,852
	42,575	33,406
<u>Administrative expenses</u>		
Third-party IT services	7,106	6,859
Insurance premiums	2,431	2,645
Office materials	1,403	1,237
Other administrative expenses	7,535	3,124
	18,475	13,865
<u>Selling expenses</u>		
Freight costs	7,371	7,820
Expenses for warranties	1,659	1,891
Impairment	16	1,419
Other selling expenses	716	690
	9,762	11,819
<u>Expenses relating to other periods</u>		
Losses on the disposal of fixed assets	41	363
	41	363
Other incidental personnel costs	3,981	3,089
Expenses from currency translation	694	769
Sundry other expenses	5,315	3,745
Total other operating expenses	80,844	67,056

## Financial result

EUR k	1 Apr 2019 to 31 Mar 2020	1 Apr 2020 to 31 Mar 2021
Income from equity investments classified as fixed financial assets	7,688	12,553
(thereof from affiliates)	7,688	12,553
Income from loans classified as fixed financial assets	937	1,049
(thereof from affiliates)	935	1,047
Interest and similar income	850	342
(thereof from affiliates)	0	0
Impairment of financial assets	-20,000	-6,106
Interest and similar expenses	-12,024	-5,773
(thereof from affiliates)	-10,738	-4,816
Total	-22,549	2,065

The total of **interest and similar income** includes the unwinding of the discount recorded on the tooling reimbursement receivables of EUR 342k (prior year: EUR 850k).

**Interest and similar expenses** include the expense of unwinding the discount recorded on provisions amounting to EUR 237k (prior year: EUR 268k).

### Income taxes

Income taxes include non-deductible business expenses from dividend payments received from CPAT in the amount of EUR 864k (in the prior year withholding taxes of EUR 896k were recognized here).

### Other taxes

Other taxes contain real estate tax of EUR 411k (prior year: EUR 364k).

### Expenses from profit transfer/income from loss absorption

On 4 December 2012, a profit and loss transfer agreement was concluded with SMP GmbH in accordance with Sec. 291 (1) Sentence 1, 2<sup>nd</sup> Alternative AktG ["Aktiengesetz": German Stock Corporation Act]. This agreement was approved by the shareholder meeting on 11 December 2012. This was entered into the commercial register on 12 December 2012. Due to this profit and loss transfer agreement, the net loss for the year of EUR -20,709k was absorbed by SMP GmbH.

## Other notes

### Other financial obligations

The purchase obligation for investment projects comes to EUR 18,239k as of the reporting date (prior year: EUR 18,512k). We do not see a real risk of claims because the purchase obligation relates to firm investment projects.

The following obligations are due in the next fiscal years:

### Rental and lease agreements

EUR k	31 Mar 2020	31 Mar 2021
within one year	9,328	6,722
between one and five years	16,994	16,820
more than five years	6,074	1,684
Total obligations	32,396	25,226

The total value of the rental and lease agreements of EUR 25,226k consists of, among other things, obligations of EUR 86k from lease agreements for financing property, plant and equipment from project leases (prior year: EUR 86k). EUR 86k (prior year: EUR 86k) of the obligations from project lease agreements has a residual term of less than one year. The rental and lease agreements allow for the liquidity outflows to be spread across the respective term of the agreement. This contributes to reducing the amount of capital tied up and the investment risk remains with the lessor.

### Other agreements

EUR k	31 Mar 2020	31 Mar 2021
within one year	8,248	5,133
between one and five years	2,358	475
more than five years	1,424	1,186
Total obligations	12,030	6,794

Obligations from other agreements mainly consist of IT support services. These maintenance agreements guarantee fast support in the event of disruptions and ensure provision of the latest updates. This is especially important in our logistics chain as TIER 1. There are no risks resulting from the maintenance agreements because they are IT support services for IT in use.

Of the other financial obligations (other contracts), EUR 5,413k (prior year: EUR 7,415k) relates to affiliates.

## Contingent liabilities

As of 31 March 2021, there was a contingent liability from a letter of comfort issued to the subsidiary SMP Automotive Solutions Slovakia s.r.o. to secure its business operations. On the basis of the knowledge obtained by the date these financial statements were prepared, it is not considered likely that any claims will be brought under the contingent liabilities mentioned above given the current payment history of the beneficiaries.

The Company is jointly and severally liable for the liabilities of Samvardhana Motherson Automotive Systems Group B.V. (SMRP B.V.) in connection with the senior secured notes (EUR 100m) concluded in June 2015, senior secured notes (USD 400m) concluded in June 2016, senior secured notes (EUR 300m) concluded in July 2017, the revolving credit facility agreement (EUR 500m) concluded in June 2017 as well as its increase in August 2018 (EUR 75m) and the term loan (USD 60m) concluded in September 2018. As of the reporting date, the liabilities from the revolving credit facility agreement amounted to EUR 0.0m (prior year: EUR 50.0m).

In addition, local RCF carve outs were utilized by a few SMRPBV subsidiaries, for which the Company is also jointly and severally liable. As of 31 March 2021, these included: SMP Automotive Produtos Automotivos do Brasil Ltda, Brazil, of BRL 88.6m (corresponds to EUR 13.4m; prior year: BRL 40.0m corresponds to EUR 7m) and SMR Automotive (Langfang) Co. LTD (China) of CNY 48.9m (corresponds to EUR 6.4m; prior year: CNY 39.5m corresponds to EUR 5m).

SMP Deutschland GmbH has provided the following collateral in **this** context:

- Land charges totaling EUR 370m, entered in the land registers of Bötzingen, Gifhorn, Schwaig, Oldenburg, Grone, Pfaffenhofen a.d. Ilm and Göttingen (pursuant to the agreement on the security purpose of land charges)
- Pledged assets (pursuant to share pledge agreement)
- Collateral assignment of fixed and current assets (pursuant to security transfer agreement)
- Pledging of all bank accounts (pursuant to account pledge agreement)

In addition, the Company is jointly and severally liable for the liability of USD 16m of SMP Automotive Systems México S.A. de C.V., Puebla, Mexico (corresponds to EUR 13.6m). As of the reporting date, the liability is valued at EUR 0.0m (prior year: EUR 0.0m).

We anticipate the probability of claims being brought under the contingent liabilities to be low on account of the current business development of SMRP B.V. and its subsidiaries.

SMP has concluded joint factoring agreements with SMP Automotive Exterior GmbH. The overall financing limit comes to a total of EUR 112,000k (prior year: EUR 152,000k) and is usable by both parties. Both parties issue a validity guarantee to the extent that the receivables exist, can be transferred and do not involve pleas, reservations or rights of the debtor or others. Accordingly, the parties are jointly and severally liable. As of the reporting date, SMP Deutschland GmbH sold receivables of EUR 62,839k (prior year: EUR 69,465k) and SMP Automotive Exterior GmbH sold receivables of EUR 16,940k (prior year: EUR 13,890k) under these agreements. The risk of claims is deemed to be low because it is assumed that the sold receivables are valid and therefore the receivables will be settled by the customer.

#### **Notes on off-balance-sheet transactions**

The “Purpurin” project lease agreement results from the fact that financing property, plant and equipment was only possible via lease agreements in conjunction with lessee loans during the insolvency of Peguform GmbH & Co. KG i.L. from 2002 to 2004. This agreement is an operating lease agreement that is not included in the balance sheet, its advantage being the possibility to use fixed assets without any initial capital expenditure. The risk related to this agreement is mainly attributable to providing liquidity in a timely manner in order to fulfill the contractual payment obligations.

Factoring agreements were concluded to optimize the Company's working capital. Thus, the credit risk of the sold receivables of EUR 75,772k (prior year: EUR 100,502k) was transferred to the buyer as of the reporting date. SMP received cash and cash equivalents of the same amount from the receivables sold to the factoring banks as of the reporting date. The risk arising from interest rates varying before the date of payment by the customers is deemed immaterial given the currently negative conditions on the interest rate and capital markets.

The consignment stock agreements concluded with various suppliers enable the Company to further optimize its working capital.

## Employees

Average number of employees during the year:

	31 Mar 2020	31 Mar 2021
Salaried employees	2,528	2,408
Wage earners	1,929	1,856
Trainees	176	126
Total	4,633	4,390

## Members of the supervisory board

The Company's supervisory board comprises the following persons:

Last name	First name	Place of residence	Profession	Function
Dhar	Bimal	Singapore	Chairman of the supervisory board	Chairman, shareholder representative
Amann	Gerhard	Sasbach	Chair of the SMP works council	Deputy chairman, employee representative (until September 2020)
Semler	Wolfgang	Neustadt	Full-time member of the SMP works	Deputy chairman, employee representative (from December 2020)
Gerlach	Uwe	Göttingen	Full-time member of the SMP works	Employee representative (from December 2020)
Blaser	Andreas	Kelheim	IG BCE union secretary	Employee representative (from April 2021)
Hautmann	Markus	Schwandorf	Union regional manager	Employee representative (until March 2021)
Baumann	Dr. Klaus	Freiburg	Head of engineering SMP	Employee representative
Kretz	Rolf	Endingen	Full-time member of the SMP works	Employee representative
Kunkel	Jörg	Hannover	Hauptverwaltung IG BCE	Employee representative
Sehgal	Vivek Chaand	New Delhi, India	Chairman SM Group	Shareholder representative
Sehgal	Laksh Vaaman	New Delhi, India	General manager MSSL	Shareholder representative
Gaubha	Gaya	Noida, India	CFO SM Group	Shareholder representative
Malani	Kunal	Mumbai, India	Strategic Head SM Int. Ltd.	Shareholder representative
Mathur	Geeta	New Delhi, India	Member of the supervisory board	Shareholder representative

The members of the supervisory board receive fixed remuneration of EUR 10k per fiscal year. The chairman receives twice the amount and the deputy chairperson one and a half times the amount. Moreover, the members of the supervisory board receive an attendance fee of EUR 300 per meeting and reimbursement of their expenses.

Total remuneration of the supervisory board amounts to EUR 70k in the fiscal year ended 31 March 2021 (prior year: EUR 88k). Some members of the supervisory board waived the remuneration due to them under the articles of incorporation and bylaws.

## Members of management

The general managers of the Company are:

Last name	First name	Place of residence	Profession
Zawadzinski	Cezary	St. Clair (Michigan), USA	CEO
Heuser	Andreas	Bad-Soden-Salmünster	general manager for activities in Europe and America of the Samvardhana Motherson Group

Pursuant to Sec. 286 (4) HGB, total remuneration is not disclosed.

## Auditor's fees

The total fees charged by the auditor for the fiscal year amounted to EUR 405k for audit services.

## Exemption from the preparation of consolidated financial statements

Pursuant to Sec. 291 HGB, SMP Deutschland GmbH is exempt from the obligation to prepare consolidated financial statements or a group management report as the Company and its subsidiaries are included in the consolidated financial statements and group management report of Samvardhana Motherson Automotive Systems Group B.V. (SMRP B.V.), Amsterdam, Netherlands (smallest group of companies). At the highest level SMP Deutschland GmbH is included in the consolidated financial statements of Motherson Sumi Systems Limited (MSSL), India (largest group of companies). The consolidated financial statements of MSSL are published on the Company's website ([www.motherson.com](http://www.motherson.com)).

The consolidated financial statements and group management report of SMRP B.V. are prepared in accordance with International Financial Reporting Standards pursuant to OJ EC No. L 243 Sentence 1 in the latest version (IFRSs).

The consolidated financial statements of SMRP B.V. are published in the *Bundesanzeiger* [German Federal Gazette].



### **Subsequent events**

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

### **Proposal for the appropriation of profit**

Management proposes to carry forward the profit carryforward of EUR 45,821,168.35 to new account.

Bötzingen, 8 June 2021

SMP Deutschland GmbH  
The general managers

.....  
Cezary Zawadzinski

.....  
Andreas Heuser

**SMP Deutschland GmbH, Bötzingen****Exhibit to the notes (statement of changes in fixed assets for the period from 1 April 2020 to 31 March 2021)**

	Acquisition and production cost					Accumulated amortization, depreciation and impairment				Net book values	
	1 Apr 2020	Additions	Disposals	Reclassifications	31 Mar 2021	1 Apr 2020	Additions	Disposals	31 Mar 2021	31 Mar 2021	31 Mar 2020
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
<b>I. Intangible assets</b>											
Purchased franchises, industrial and similar rights and assets, and licenses in such rights and assets	29,190,904.58	346,554.49	571,717.29	923,236.65	29,888,978.43	23,757,319.58	1,776,742.14	571,717.29	24,962,344.43	4,926,634.00	5,433,585.00
<b>II. Property, plant and equipment</b>											
1. Land, land rights and buildings, including buildings on third-party land	121,144,953.29	11,131,068.29	289,587.91	2,904,210.90	134,890,644.57	40,816,972.97	4,438,818.29	248,916.01	45,006,875.25	89,883,769.32	80,327,980.32
2. Plant and machinery	270,571,438.64	14,654,893.49	12,944,642.46	9,129,058.95	281,410,748.62	174,216,633.64	18,603,758.23	12,692,957.25	180,127,434.62	101,283,314.00	96,354,805.00
3. Other equipment, furniture and fixtures	24,768,769.75	2,935,120.73	2,152,935.36	1,445,334.50	26,996,289.62	17,678,996.75	3,827,070.01	2,150,525.14	19,355,541.62	7,640,748.00	7,089,773.00
4. Prepayments and assets under construction	14,899,613.96	8,514,939.02	0.00	-14,401,841.00	9,012,711.98	0.00	0.00	0.00	0.00	9,012,711.98	14,899,613.96
	431,384,775.64	37,236,021.53	15,387,165.73	-923,236.65	452,310,394.79	232,712,603.36	26,869,646.53	15,092,398.40	244,489,851.49	207,820,543.30	198,672,172.28
<b>III. Financial assets</b>											
1. Shares in affiliates	11,091,366.53	0.00	0.00	0.00	11,091,366.53	145,436.58	0.00	0.00	145,436.58	10,945,929.95	10,945,929.95
2. Loans to affiliates	20,000,000.00	3,400,000.00	0.00	0.00	23,400,000.00	20,000,000.00	3,400,000.00	0.00	23,400,000.00	0.00	0.00
3. Equity investments	2,710,342.14	0.00	0.00	0.00	2,710,342.14	0.00	2,705,536.00	0.00	2,705,536.00	4,806.14	2,710,342.14
4. Other loans	944,312.13	152,116.50	9,754.16	0.00	1,086,674.47	0.00	0.00	0.00	0.00	1,086,674.47	944,312.13
	34,746,020.80	3,552,116.50	9,754.16	0.00	38,288,383.14	20,145,436.58	6,105,536.00	0.00	26,250,972.58	12,037,410.56	14,600,584.22
	495,321,701.02	41,134,692.52	15,968,637.18	0.00	520,487,756.36	276,615,359.52	34,751,924.67	15,664,115.69	295,703,168.50	224,784,587.86	218,706,341.50

**SMP Deutschland GmbH, Bötzingen**

**Attachment to the notes (List of shareholdings as of 31 March 2021)**

	Currency	Share %	Equity	Net income/loss	
SMP Logistik Service GmbH, Bötzingen	EUR k	100	578	5	<sup>3</sup>
Purpurin Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz	EUR k	94	-11	4	<sup>2</sup>
Changchun Peguform Automotive Plastics Technology Co. Ltd., Changchun, China	CNY k	50	714,669	240,783	<sup>1,2</sup>
SMP Automotive Technology Management Services Co. Ltd., Changchun, China	CNY k	100	-4,127	-900	<sup>1,2</sup>
SMP Automotive Solutions Slovakia s.r.o., Matuskovo, Slovakia	EUR k	100	-23,203	-4,137	<sup>3</sup>
Eissmann SMP Automotive Interieur Slovensko s.r.o. Holic, Slovakia	EUR k	49	2,607	-4,919	<sup>2</sup>

<sup>1</sup> The closing rate came to: EUR 1 = CNY 7.89810

<sup>2</sup> Reporting date 31 December 2020

<sup>3</sup> Reporting date 31 March 2021

## Management report of SMP Deutschland GmbH, Bötzingen Fiscal year from 1 April 2020 to 31 March 2021

### I. Company background

#### *a. Business model of the Company*

The core business of SMP Deutschland GmbH (“**SMP**” or the “**Company**”) is processing plastics. SMP supplies plastic parts and entire system modules for vehicle interiors and exteriors worldwide. This includes developing, producing and selling bumper systems and plastic parts for the exteriors of vehicle models, vehicle cockpits, dashboards and vehicle interiors produced for the vehicle models of Europe’s leading automotive manufacturers, also referred to as OEMs (**O**riginal **E**quipment **M**anufacturers). SMP’s most important sales market is the German automotive sector.

Series production is preceded by product development as well as the development and sales of customer-specific tools for the OEMs (engineering services).

SMP’s business operations remain unchanged and consist of the Bötzingen, Göttingen, Meerane, Neustadt on the Danube and Oldenburg plants together with the related module centers, the headquarters in Bötzingen and the Gifhorn engineering office.

The Company supplies its products exclusively to the automotive market as a TIER 1 (system) supplier. SMP’s customers include almost all German premium manufacturers. As a result, 90.3% of revenue in the fiscal year was generated in Germany (prior year: 91.3%). The share in revenue attributable to the other European countries came to 7.2% (prior year: 6.8%), while 2.5% (prior year: 1.9%) was attributable to countries outside Europe. Due to the high requirements of the automotive industry for delivery logistics with supplies synchronized to production (just-in-time) and also sorted in a modular sequence (just-in-sequence), the geographical proximity of SMP production plants to customers’ production plants is essential. For this purpose, SMP has also installed individual module centers in close proximity to its customers as value-added branch offices of its plants.

**b. Objectives and strategies**

As a key member of the Samvardhana Motherson Group, we are also in pursuit of the Group's vision **"To be a Globally Preferred Solutions Provider"**.

The Samvardhana Motherson Group is a globally renowned supplier of high-quality components, modules and systems, primarily for customers in the automotive sector. The Group, which is based in Noida (India), boasts a diversified portfolio of products and services including electrical distribution systems, rear-view mirrors, camera systems, front-end modules, cockpits, air conditioning systems, lights, cabs for commercial vehicles, plastics processing, elastomer processing, plastic injection molding molds, IT services and development services.

Since becoming part of the Samvardhana Motherson Group, SMP has been able to gain a large number of new orders that also required investments in new plants. While the new plants of the co-subsidaries in Mexico and Hungary were commissioned in 2017/18, a plant of a US-co-subsidiary in Tuscaloosa (USA) started series production in 2018/19. This represents the continuation of the SMP Group's efforts to increase its international presence with production facilities. In fiscal year 2020/21, construction of a new plant in Serbia got underway. From the coming fiscal year onwards, the application of leather trim to plastic interior parts is set to begin at the co-subsidiary at the location in Čuprija.

**c. Corporate governance**

The goal-oriented governance of the Company is elementary to SMP's success and safeguarding its survival in the long term. The Company's management team determines the business policy framework for the divisions and plants, monitors compliance with said framework, and manages the Company based on the specified corporate goals. The achievement of revenue-related, profitability-related and financial targets is coordinated and monitored centrally.

EBIT (Earnings Before Interest and Taxes) serves as an important management tool and key performance indicator based on internal management reporting. The performance of the Company and the individual plants is continuously measured based on this indicator. The EBIT for management reporting purposes is defined as the EBIT in accordance with the German Commercial Code plus other taxes and less interest expenses for operating lease agreements, which are treated as finance leasing agreements for the purposes of management reporting.

The EBIT margin (defined as earnings before interest and taxes in accordance with the management reporting in relation to revenue) is used as a key profitability indicator. Another increasingly important measure of profitability is ROCE (Return on Capital Employed), which shows the relationship between operating profit/EBIT and capital employed.

Compliance with ethical standards and principles is also a high priority with the Company's culture. The declarations made in 2011 by management and all of the Company's employees regarding compliance with ethical standards in business transactions still apply. The General Works Agreement Governing Rules of Conduct for Business Dealings with Third Parties ("Anti-Corruption Policy") also describes the principles of constructive collaboration with customers, suppliers and other business partners. The declaration is reiterated by management and new hires each year.

#### ***d. Research and development***

In order to remain competitive in the future and live up to our vision for the Group, the research and development department of SMP is an integral component of the Company's corporate policy. Innovation and development skills are elementary factors in this regard.

Lightweight construction plays a key role in our development activities. Compared to conventional energy carriers, the range of pure electric vehicles is limited and the weight is high due to the insufficient power density of the battery. The provision of solutions and concepts for reducing weight is therefore crucial for competition in the supplier industry. In this area, the development of components which are strengthened using natural fibers or carbon fibers is worthy of mention. The challenges in this context are related to new processing methods or in the combination of processing methods. We achieved a great success in combining processes for processing semi-finished goods that have been reinforced using natural fibers. After implementing the large-scale production of matrices for interior door panels, this technology was built into a new fully electric Taycan sports car for Porsche. In this way, the grammage of the supporting matrix was reduced further.

Our customers not only demand solutions for reducing weight, but also for decreasing the costs for parts due to the high costs for battery-electric drive. We were successful for instance by using recycled carbon fibers for the matrices of the console of the Porsche Taycan and for the instrument panel in the cockpit of the Porsche 911. Using the carbon fibers leads to a significant weight reduction. In addition, the costs were significantly reduced because the use of carbon fiber reinforced plastic replaced the need for magnesium die casting used in the past.

Safety is a high priority, not only with regard to driver-assistance systems. The passenger airbag in the dashboard, for instance, is one of the main safety features for the front-seat passenger in the vehicle interior. What is more, the high demands on side impact protection in the interior door panels have to be fulfilled without fail regardless of design requirements. The requirements of the two-stage European

Directive 2003/102/EC for vehicle exteriors, for example, include the protection of pedestrians and the fulfillment of statutory crash requirements for insurance classification purposes.

The trend towards autonomous driving requires the integration of a large number of sensor systems in the vehicle front, and automotive manufacturers wish to integrate the sensor systems for electric vehicles in closed surfaces with a new look. Our activities are therefore also focused on developing such surfaces and led to a completely newly developed vehicle front, which we set up in a demonstrator for presentation to our customer.

In order to meet increasing customer requirements, innovations have been developed in all areas and are being incorporated into our products for the future. In addition, we are constantly working on further product and process innovations in ongoing research projects in order to strengthen and continuously develop the Company's key position on the market further.

To fully do justice to these future requirements, SMP employed 456 employees as of year-end (prior year: 471), who worked on advance development projects for future innovations and on product development projects on behalf of customers. Furthermore, around EUR 9.3m (prior year: EUR 10.3m) was spent on non-customer specific research and development work.

The significance of SMP's position in the market is also underscored by the fact that OEMs include the Company in the decision-making phase in order to find potential solutions for problems involving interior and exterior products. This usually takes the form of participation in concept competitions. To make this possible, the engineering, advance development and sales departments collaborate very closely in order to prepare corresponding concept proposals that also include marketing of innovations from advance development projects, which is therefore a key element in winning new and additional orders.

In terms of quality planning, SMP performs the current development projects according to the customer-specific requirements. These development projects are reviewed regularly together with the customers' quality departments.

SMP has its own extensive testing facilities, which are currently being expanded and comprise airbag testing, air conditioning testing and endurance tests. These facilities allow the Company to ensure that the high requirements are fulfilled in all respects, such as, for instance, those relating to passenger protection systems and pedestrian protection regulations.

## II. Report on economic position

### ***a. General conditions***

The COVID-19 pandemic dominated all economic activities across the world in the past year. Starting in China at the beginning of last year, the necessary countermeasures to contain the spread led to a significant decline in economic output in almost every region around the world over the course of the year. Based on information published by the OECD, real global GDP in 2020 decreased by 3.4% compared to the prior year, marking the worst global recession since the end of the Second World War in the last century.

Economic output in the eurozone countries declined by 6.8% year on year according to data published by the OECD. Due to rising uncertainty, the spread of COVID-19 in Italy starting in February 2020 and the lack of impetus from China, GDP declined sharply already in the first quarter of 2020 compared to the prior-year quarter. In the second quarter, GDP in the eurozone fell by almost 15% compared to the prior year due to the necessary lockdown measures in many eurozone countries, which impacted all economic sectors of the value chain from the industrial sector and the retail industry through to hotels and restaurants. Although the economies recovered in the following quarters, they were not able to reach their prior-year figures. GDP in Germany contracted by 5.3%, while economic output in France decreased by 8.2%. Countries with a strong tourism sector also suffered from reduced travel during the pandemic; thus, GDP decreased by 8.9% in Italy and by 11% in Spain.

The US economy proved to be more resilient to the COVID-19 pandemic than that of the eurozone for example. This is also partly due to the initially less restrictive measures that were put in place to contain the spread of the virus. Nevertheless, overall economic output decreased by 3.5% in the US in 2020 – the steepest decrease seen since 1946. GDP declined by more than 31% (annualized) in the second quarter of the year and industrial production was a good 16% below the prior-year level in April. This resulted in a significant increase in unemployment; in April, the unemployment rate jumped from just over 4% to almost 15%. Although annualized GDP increased again in the following quarters, it could not compensate for the lack of dynamic in the first half of the year.

China was the first country affected by the COVID-19 pandemic. However, the government responded quickly with sometimes drastic measures to contain the virus, as a result of which China prevented a second wave unlike Europe and the US. Therefore, the recovery in economic performance was rapid and sustainable. While GDP decreased by around 7% in the first quarter compared to the prior-year period, it increased as the year progressed. GDP growth of 6.5% in the fourth quarter showed that the Chinese economy already returned to its pre-pandemic level at the end of 2020. Therefore, China was the only larger economy that recorded GDP growth in the past fiscal year (2.3%).



Other regions of the world were also partially hard hit by the spread of COVID-19. For India, the OECD forecasts a 7.4% decline in GDP for fiscal year 20/21. The Mexican economy contracted by 8.5% in the past year. Although the Brazilian and Russian economies were less affected, they also suffered significant downturns with declines in GDP of 4.4% and 3.6% respectively.

Against the backdrop of these general economic conditions, it was not surprising that the global passenger car market also suffered major losses in 2020. Overall, global demand for passenger cars decreased by 15% and all automotive hotspots recorded declines.

China, the world's biggest passenger car market, was the first automotive hotspot to combat the spread of COVID-19. Passenger car sales had already recorded a double-digit decrease in January 2020. Based on a continuous increase in new coronavirus cases, resulting in the automotive industry also being required to take restrictive measures to contain the virus, there was a significant decline in passenger car sales throughout the country in February and March 2020. However, the recovery commenced as early as April, which meant that a second wave could be prevented over the further course of the year, causing a steady and solid recovery process to take place; from May onwards, all monthly sales figures for passenger cars were above the prior-year figure. Nevertheless, this momentum could not compensate for the declines in the first quarter. China's passenger car market was thus around 6% below the prior-year level in 2020.

The US market for light vehicles made a good start to the past fiscal year, but was soon thwarted by the spread of COVID-19 across the US. Measures such as lockdowns and the closure of non-essential industries in numerous states as well as the resulting macroeconomic slump (e.g., unemployment rate at almost 15% in April) led to considerable declines in light vehicle sales toward the end of the first quarter and throughout the second quarter of the year. However, the recovery process started at the end of the year meaning that over the year 2020 as a whole, the US light vehicle market was almost 15% down on the prior year.

The Western European passenger car market was hit much harder by the COVID-19 pandemic than the Chinese and US markets. Following significant downturns in March, April and May, the number of new vehicle registrations in Western Europe only recovered slowly over the further course of the year. The overall economic decline as well as the ongoing measures to contain the spread of the coronavirus (e.g., closures of dealerships) in various countries slowed the recovery considerably. Thus, the number of new vehicle registrations in Western Europe was 24% lower in 2020 than in the prior year. In terms of the Top 5 markets in Western Europe, Germany was still relatively robust (down 19% in 2020), as it was also supported by various state incentives (reduction of VAT, bonus program for electric vehicles). Demand for passenger cars in the UK declined by 29% and the French

market recorded a decrease of around 25%. Italy (down 28%) and Spain (down 32%) also recorded significant declines despite programs initiated to support the automotive industry. In particular, the lack of new registrations in the important car hire industry contributed to this negative result due to the severe tourism restrictions.

A similar picture was seen on the other important automotive markets, with a few exceptions. In Russia, sales of light vehicles were just over 9% down on the prior year in 2020, in Mexico demand declined by 28%. In Brazil, market volume declined by around 27% in 2020. On the Indian passenger car market, sales decreased by almost 18% in the past year. After being hard hit by the COVID-19 pandemic in the first half of 2020, demand for passenger cars in India experienced a strong recovery in the last months of the year, including record growth rates. New vehicle registrations were just over 11% down on the prior-year level in Japan. The automotive markets in Turkey and South Korea bucked the trend in terms of the general development of global automotive markets in 2020. Passenger car sales in Turkey increased by almost 58% in the past year. However, it should be noted here that the Turkish market already experienced a significant downturn in 2019. In South Korea, passenger car sales increased by almost 7% in 2020.

The negative development of the global automotive markets had a corresponding impact on the automotive industry in Germany. The revenue of automotive companies in Germany fell by 13% last year to some EUR 379b. Domestic revenue decreased by 11%, while revenue generated abroad declined by 14%. The headcount also decreased: Last December, the German automotive industry had 796,548 employees, around 26,000 less than at the end of 2019.

#### ***b. Significant factors in fiscal year 2020/21***

Fiscal year 2020/21 was impacted by the coronavirus pandemic to an even greater extent than the prior year. The months of April and May 2020 in particular were dominated by plant closures and government subsidized short-time work. Revenue declined by up to 90%. The first signs of a return to normality were seen at the end of Q1 2020/21. This trend continued in the summer quarter. In the second half of the fiscal year from September to March, revenue figures significantly exceeding original expectations were once again recorded, despite the ongoing coronavirus crisis.

The prevailing market conditions along with high structural costs on account of the employment situation led to further pressure to adapt at SMP in 2020/21.

In addition, efforts to increase efficiency in production processes and material flows were also driven forward.

The Company achieved an EBIT margin (according to management reporting) of - 1.8% (prior year: 4.6%) for the whole of 2020/21.

#### Human resources

Human capital is one of SMP Deutschland GmbH's biggest competitive advantages. That is why the Company employed 4,279 highly qualified people across all divisions (including trainees) as of the reporting date 31 March 2021.

In order to maintain and build on this competitive advantage, the Company's HR policy will focus even more in the future on developing employees' skills, defining managers' leadership skills, implementing global HR standards, expanding HR marketing and continuing to build up the "employer brand".

The career portal on our website with an apprenticeship section with all of our apprenticeship and study programs has now been established. We have received extremely positive feedback about this format, from both within and outside the Company. The short films and photos in particular and therefore the visualization of the respective target profession have clearly been perceived as being relevant to the target group in this case. The contents of all professional training/study courses are presented both in the theoretical section and in practice at SMP. In addition, our application tips are aimed at supporting our future trainees/cooperative university students in their first step toward SMP. For a general overview, each location across Germany introduces itself with the relevant trainers and benefits.

Expert career paths have also been established and allow our highly qualified experts to also develop outside of the traditional management career paths.

Training future specialists is an important success factor for practicing the Company's philosophy of filling new or vacated positions internally. That is why SMP employed 114 trainees as of the reporting date, covering a wide range of different training vocations. One important and growing factor in this respect is the collaboration with the dual-track university in order to ensure the supply of highly qualified junior staff.

In this context, our internal department-specific training activities (trainee programs) still have high priority. The demand for and interest of the departments in these skilled workers, perfectly trained for the organization, is huge and feedback is constantly positive. Over the course of time, and with regard to the graduates of our trainee programs, we are increasingly coming to the conclusion that the trainee programs lay the foundation for a subsequent, successful career in our Company.

We were once again able to successfully complete the audit and increase our score, and therefore the certification as Top Employer in the current fiscal year 2020/21. We continue to be convinced that this certification will have a large and

positive effect in terms of how our Company is perceived, both externally and internally. This relates in particular to winning and retaining high-potential employees/talents and consequently reducing recruiting times and the turnover KPI. Derived from the knowledge obtained in the audit regarding strengths and weaknesses of our end-to-end processes and standards, we will continue to take and implement specific measures to improve our business processes.

#### Pay transparency

Many divisions in the Company are technical, so that many management positions in the purely technical departments such as pre-development, product development, tool development and production areas are filled with a very high share of men who have completed a corresponding technical training/degree. The share of women in management positions is very low in these areas. The number of female applicants for these areas is also very low in job advertisements. The positions in the administrative areas such as human resources, finance and controlling are explicitly promoted for women in order to create a balance.

The collective agreement and the company-related collective agreement between the Employers' Association for the Chemical Industry and the Mining, Chemical and Energy trade union form the basis for determining remuneration for employees covered by the collective agreement. There are descriptions of the relevant grading for the activities exercised in the Federal Remuneration Collective Labor Agreement. The level of pay per pay scale is described in the remuneration tables. For employees not covered by the collective agreement, the level of pay is measured according to the activities exercised. Equal pay between men and women is ensured as part of an annual analysis. Here, the individual pay is compared with the average pay for the same function. The pay of the employees displaying a large gap to the average is reviewed and assessed individually. Employees with a low gap to the average are only reviewed individually if it is not expected that there will be overproportional pay adjustments due to seniority of the employee.

#### Purchasing

The purchasing division continued to develop and was reorganized from an organizational perspective in order to offer the individual plants an even better and more direct service in the area of procurement. On account of the increased cooperation with group companies, further opportunities to make savings have arisen, while maintaining a consistently high level of quality, through joint projects and volume pooling.

#### Production

Production was dominated by extreme fluctuations in volumes requested by customers in the past year. On account of COVID-19, production lines came to a halt over the course of the year on several occasions meaning that government-subsidized short-time work, among other measures, was used in production plants.

In addition, there was also the issue of a lack of semiconductors in January, which also led to production being halted. Some OEMs tried to make up for the number of units they canceled due to the lockdown at a later point in time, however others chose to stay with the reduced number. Therefore, capacity utilization did not vary only in terms of individual months, but also between the individual plants of SMP Deutschland GmbH. Volumes requested and consequently the associated revenue from the customers Daimler, BMW and Audi in particular declined compared to the prior year. The ramp up of the Porsche J1 and the product launch of the VW 310/316 led to a significant increase compared to the prior year at the plant in Meerane.

#### Capital expenditure

SMP invested a total of EUR 37.6m in expansions and replacements in fiscal year 2020/21 (prior year: EUR 36.5m). At the Meerane location, as was the case in the prior year investments were made in production for the new electric Porsche J1 (Taycan) (EUR 7.2m). A new production line for VW electric vehicles (VW 316 and ID-Buzz) was also set up in Oldenburg for EUR 3.5m. A total of EUR 5.4m was invested in a new production line at the location in Neustadt for door trims for the BMW UX1. A new administrative building was purchased at the location in Bötzingen for a total of EUR 7.4m.

#### IT

In the area of IT, there are also new possibilities to provide information technology and services cost-effectively and within the Group with MIND, a group company. We also work with our outsourcing partner T-Systems.

#### Environment

Here at SMP, we feel a deep sense of responsibility toward the environment. Compliance with SMP's environmental standards is a high priority throughout our organization. We attach great value to using resources sparingly, reducing our impact on the environment, and the health and safety of all of our employees while they are at work. This is not just an economic matter, but to an even greater extent an obligation toward society. We are aided in this by numerous investments in protecting the environment and occupational health and safety, which ensure that SMP meets its customers' demands in terms of reliability and quality. SMP's environmental management system has been certified and validated in accordance with DIN EN ISO 14001 and EC Regulation 1221/2009 (EMAS III). The occupational health and safety management system has been certified in accordance with ISO 45001:2018.

All production systems and equipment are operated in compliance with statutory requirements. This is ensured by using state-of-the-art air purification and waste water facilities that are regularly monitored and maintained, particularly in the paint lines. In order to meet both statutory and the Company's own requirements, there are trained employees (GUSi officers) at all SMP production facilities who work to achieve and maintain the requirements with respect to healthcare, protecting the

environment and workplace safety. The knowledge of these GUSi officers is kept up-to-date through regular training. Compliance with the EU's end-of-life vehicles directive is ensured by monitoring the data reported by suppliers to the international materials data system, and involving SMP's suppliers in the development of new products at an early stage.

#### Equity investments

The Company holds the following equity investments as of the reporting date which are virtually unchanged on the prior year:

- 100% in SMP Logistik Service GmbH (SMP Logistik), Bötzingen
- 100% in SMP Automotive Technology Management Services Co. Ltd. (SMP MSC), Changchun, China
- 50% plus 1 vote in Changchun Peguform Automotive Plastics Technology Co. Ltd. (CPAT), Changchun, China
- 94% in Purpurin Grundstücksverwaltungsgesellschaft mbH & Co. KG (Purpurin), Mainz
- 100% in SMP Automotive Solutions Slovakia s.r.o. (SMP Slovakia), Matuskovo, Slovakia
- 49% in Eissmann SMP Automotive Interieur Slovensko s.r.o. (Eissmann), Holic, Slovakia

The equity investments developed as follows:

	Revenue (EUR m)		Net income/loss for the year (EUR m)		Employees	
	2020/21 <sup>1</sup>	Prior year <sup>2</sup>	2020/21 <sup>1</sup>	Prior year <sup>2</sup>	2020/21 <sup>1</sup>	Prior year <sup>2</sup>
SMP Logistik <sup>5</sup>	4.5	5.4	0.0	0.0	103	114
SMP MSC <sup>5,6</sup>	0.0	0.0	-0.1	0.0	0	0
CPAT <sup>5,6</sup>	297.6	215.2	30.5	23.7	1,327	1,285
Purpurin <sup>3,4</sup>	0.2	0.2	0.0	0.0	0	0
SMP Slovakia <sup>5</sup>	10.6	19.7	-4.0	-1.0	88	97
Eissmann <sup>4</sup>	53.7	43.1	-4.9	-4.2	726	644

<sup>1</sup> Period from 1 April 2020 to 31 March 2021

<sup>2</sup> Period from 1 April 2019 to 31 March 2020

<sup>3</sup> Period from 1 January 2019 to 31 December 2019

<sup>4</sup> Period from 1 January 2020 to 31 December 2020

<sup>5</sup> IFRS reporting

<sup>6</sup> The average exchange rate of EUR 1/CNY 7.89810 was used for currency translation (prior year: EUR 1/CNY 7.73850)

**c. Position of the Company and development of its business**

Financial performance

Revenue amounted to EUR 967.3m in fiscal year 2020/21 (prior year: EUR 1,238.0m), which fell significantly short of the prior-year level, but was above management's expectations.

Of the **series revenue** of EUR 756.8m (prior year: EUR 857.3m), around EUR 327.6m (prior year: EUR 366.5m) related to bumpers and front-end modules (exterior) and around EUR 429.2m (prior year: EUR 490.8m) to interior products such as cockpits, dashboards and door trim panels (interior). The budget target for series revenue was exceeded and with an increase of 5.7% was around EUR 40.9m above the amount budgeted.

**Engineering** services of EUR 184.3m (prior year: EUR 358.4m) were invoiced. The engineering revenue forecast in the prior year was thus exceeded.

**Other revenue** amounted to EUR 26.2m (prior year: EUR 22.2m). This primarily contains services to SMP group companies.

**Other operating income** totaled EUR 31.0m (prior year: EUR 36.8m) and mainly includes income from the reversal of provisions as well as income from currency translation.

The **ratio of cost of materials to total operating performance** came to 68.2% and is thus 2.7 percentage points higher than in the prior year (65.5%). This is calculated as the cost of materials as a percentage of total operating performance (revenue +/- changes in inventories + own work capitalized). Minimal fluctuations between the fiscal years mainly result from the varying product mix of the individual vehicle models that are supplied to the OEMs.

In absolute terms, **personnel expenses** decreased compared to the prior year. They came to EUR 261.7m (prior year: EUR 274.1m) and were therefore EUR 12.4m lower than the prior-year figure. In relation to total operating performance, the ratio of personnel expenses (personnel expenses ÷ total operating performance) increased by 3.2 percentage points to 27.3% (prior year: 24.1%). Average expenses per employee stood at EUR 59.6k (prior year: EUR 59.2k).

**Amortization** of intangible assets and **depreciation** of property, plant and equipment amounted to EUR 28.6m (prior year: EUR 28.2m).

Total **other operating expenses** amounted to EUR 67.1m (prior year: EUR 80.8m), and were thus again below the prior-year level. The main expense items were maintenance and technical consultation expenses amounting to EUR 19.3m (prior year: EUR 27.1m), leasing and rental expenses amounting to EUR 13.9m (prior year: EUR 15.2m), third-party IT services amounting to EUR 6.9m (prior year: EUR 7.1m) and other administrative expenses amounting to

EUR 3.1m (prior year: EUR 7.5m) as well as selling expenses of EUR 11.8m (prior year: EUR 9.8m).

**EBIT** came to EUR -21.5m (prior year: EUR +45.4m), which stands at -2.2% of total operating performance (prior year: +4.0%).

EBIT according to management reporting used for internal controlling totaled EUR -16.9m (prior year: EUR 56.1m), which corresponds to an EBIT ratio (EBIT/revenue) of -1.8% (prior year: 4.6%). The prior-year forecast for the EBIT ratio of -0.4% was therefore not reached.

The **financial result** came to EUR 2m on the reporting date (prior year: EUR -22.5m). This includes an impairment loss on a loan granted to the subsidiary SMP Slovakia in the amount of EUR 3.4m (prior year: EUR 20m) and a write-down on the equity interest in Eissmann SMP Automotive Interieur Slovensko s.r.o. in the amount of EUR 2.7m. In addition, this also includes dividend income from the subsidiary Changchun Peguform Automotive Plastics Technology Co. Ltd. in the amount of EUR 12.6m (prior year: EUR 7.7m).

#### Financial position

Cash flow from operating activities amounted to EUR 21.3m at the end of the year (prior year: EUR 98.4m). Cash flow from investing activities came to EUR -34.7m (prior year: EUR -34.7m). Cash flow from financing activities amounted to EUR -17.7m (prior year: EUR -20.3m). This led to a net change in cash and cash equivalents of EUR -31.1m (prior year: EUR 43.4m).

The refinancing of the SMP Group and thus also of SMP Deutschland GmbH changed significantly due to the bonds issued in the prior years by the Dutch holding company Samvardhana Motherson Automotive Systems Group BV (SMRP BV). Land charges and collateral assignment of fixed and current assets were granted as collateral for the bonds issued by SMRP BV.

The letter of comfort issued in favor of SMP Slovakia s.r.o. to ensure its solvency remains valid.

The external financial liability that was in place in the prior year from a hire-purchase contract concluded with Deutsche Leasing to refinance equipment in a production hall at the location in Bötzingen expired as per the agreement in December 2020 and consequently no longer exists (prior year: EUR 894k).

The Company does not have any liabilities to banks and does not have any external credit lines from banks available to it as of the reporting date.



The loan granted by Samvardhana Motherson Peguform GmbH came to EUR 43.1m as of the reporting date (prior year: EUR 21.6m).

As in the prior years, the Dutch SMRP BV continues to perform the group financing function for the legal entities and therefore also for SMP Deutschland GmbH.

For this purpose, a long-term shareholder loan is available to the Company from SMRP BV (due on 31 March 2024) in the amount of EUR 140.5m (prior year: EUR 250.0m). Of this amount, EUR 66.8m has already been repaid meaning that EUR 73.7m (prior year: EUR 138.5m) has been utilized as of the reporting date.

In addition, a loan from SMR Jersey with a volume of EUR 50.0m has been available since March 2021 (prior year: EUR 0.0m), and EUR 31.5m of this amount had been utilized as of the reporting date (prior year: EUR 0.0m).

The short-term loan in place in prior years from SMR Automotive Modules Korea Ltd. was repaid in December 2020 as per the agreement. A new agreement was not concluded, meaning that this liability no longer exists as of the reporting date (prior year: EUR 5.0m).

Receivables amounting to EUR 75.8m (prior year: EUR 100.5m) had been sold as of the reporting date based on factoring agreements concluded in previous years.

The main aim of our financial management activities is to safeguard the Company's solvency. Particular consideration is given to opportunities for internal financing by means of actively planning, monitoring and managing cash flows.

Credit insurance companies once again underwrote business for the Company in 2020/21.

Assets and liabilities

Total assets were down EUR 40.1m year-on-year at EUR 566.8m (prior year: EUR 606.9m).

Non-current assets amounted to EUR 224.8m on the reporting date (prior year: EUR 218.7m).

Current assets came to EUR 340.8m on the reporting date (prior year: EUR 387.1m), a decrease of EUR 46.3m. Medium to long-term current assets amounted to EUR 70.7m (prior year: EUR 73.8m) for tooling cost reimbursement claims from engineering contracts.

Short-term current assets fell by EUR 43.2m in comparison to the prior year, from EUR 313.3m to EUR 270.1m.

Cash and cash equivalents came to EUR 29.6m as of the reporting date and were thus considerably lower (down EUR 31.1m) than in the prior year (see also the disclosures on the financial position).

Other provisions increased by EUR 8.7m to EUR 152.4m (prior year: EUR 143.7m). The majority of this increase relates to personnel-related provisions in the amount of EUR 9.5m (prior year: decrease of EUR 3.4m), provisions for outstanding invoices in the amount of EUR 3.3m and sales-related provisions in the amount of EUR 5.6m (prior year: EUR 2.9m). By contrast, provisions for unrealized engineering costs declined by EUR 9.2m (prior year: increase of EUR 1.1m).

Provisions for pensions and similar obligations amounted to EUR 2.5m on the balance sheet date (prior year: EUR 2.5m).

ROCE, a performance indicator determined on the basis of management reporting, decreased to -6.6% due to significantly lower earnings before interest and taxes (EBIT), contrary to the prior-year forecast of -1.3%.

Overall statement regarding the progress of business

SMP's fiscal year 2020/21 was overshadowed by the coronavirus crisis. The beginning of the fiscal year was dominated by production downtime and government-subsidized short-time work. The Company's own coronavirus crisis team, which was set up, met regularly, developed hygiene concepts and adapted measures to the changing provisions put in place at a political level. After production activities successively resumed in May 2020, management's primary focus was on the health, safety and well-being of employees and maintaining the Company's ability to deliver. Impacted by the coronavirus crisis, revenue remained well below the comparable prior-year figure, in Q1 in particular. Stable revenue was achieved in Q2 as part of the recovery in demand that was seen from automobile manufacturers. From September 2020 onwards, revenue was achieved that even exceeded the initial expectations, however EBIT was not able to recover and was noticeably negative at EUR -21.5m.

### **III. Forecast, opportunities and risks**

#### ***a. Forecast***

##### Forecast regarding the economy and automotive market

According to the OECD forecasts published in March 2021, global GDP growth is projected to be 5.6% in the current year. The increasing vaccinations in numerous regions are enabling further easing of measures to contain the pandemic, due to which the service sector can generate growth impetus again. However, this is heavily dependent on the pace of the vaccination deployment and the quantity of available vaccines. As a result, the growth rates of individual regions may vary greatly. The OECD forecasts GDP growth of 3.9% for the eurozone and thus a much slower rebound compared to the US. GDP growth of 6.5% is forecast for the US due to the fast pace of vaccinations and additional fiscal stimulus of the new Biden government.

China's economy, which already returned to its pre-pandemic level in the fourth quarter of 2020, is projected to grow by 7.8% in the current year according to OECD forecasts. For the Indian economy, the OECD predicts growth of 12.6% in 2021/2022. The OECD projects comparatively lower GDP growth for Mexico (4.5%), Russia (2.7%) and Brazil (3.7%) this year, although the decreases in the Russian and Brazilian economies were only moderate in 2020.

How will the recovery of the global economy affect demand for passenger cars? The VDA ["Verband der Automobilindustrie": German Association of the Automotive Industry] forecasts year-on-year growth of 9% for the global passenger car market in 2021. Although this represents considerable growth, the global market remains significantly below its pre-pandemic level. With a few exceptions (e.g., China), the hotspot markets in the automotive industry will only reach their pre-crisis level at a slow pace according to the VDA's forecasts.

For the Chinese passenger car market, the VDA forecasts an increase of 8% for 2021 and therefore a level above the volume seen before the coronavirus crisis. For light vehicle sales in the US, the VDA expects demand to increase by 9%. The VDA also sees a recovery on the European market, for 2021 it forecasts a 12% increase in the number of new registrations.

##### Company-specific forecast

SMP Deutschland GmbH expects revenue of EUR 1,020m for fiscal year 2021/22. This constitutes year-on-year growth of EUR 53.0m. In this regard, in its planning management assumes that there will be no further lockdowns due to the coronavirus.

The focus continues to be on optimizing our processes meaning that the Company's cost structure will continue to be adapted as far as possible in line with the new levels of revenue. However, in contrast to the prior year, this should be possible without making use of government-subsidized short-time work.

Because of our order portfolio, we also anticipate employment to rise again for the fiscal years 2022/23 to 2024/25. Revenue of more than EUR 1,250m is expected from fiscal year 2023/24 due to additional orders and a significant increase in value for the follow-up and new projects, in particular for BMW.

For our internal key performance indicator (EBIT determined on the basis of management reporting) we expect positive EBIT of EUR 28.5m due to the increase in volume for fiscal year 2021/22. This will also have a positive effect on the ROCE indicator.

In the past year, continuous improvement process (CIP) measures were again implemented in production and also in the administrative functions. The relentless pursuit of measures and ideas to continuously improve our processes helped compensate discounts granted to customers and also any price increases on the procurement side.

The Company has access to sufficient financing in the form of loans from SMRPBV group companies, leasing contracts, factoring and supply chain financing in order to face the challenges of 2021/22.

## **b. Risk report**

In the course of its operations, SMP is exposed to a number of risks that are inseparably associated with its business activity. We use internal management and monitoring systems to spot risks at an early stage, evaluate them and consistently eliminate them.

Business activity also involves developing and exploiting opportunities in order to safeguard and enhance the Company's ability to compete.

Taking calculable risks is an integral part of business as part of our risk strategy. Risks that jeopardize the Company's ability to continue as a going concern, on the other hand, need to be avoided.

### Risk management

SMP's risk management system is integrated into all of its planning, management and monitoring processes. The Company's presence throughout Germany and its decentralized management structure in the individual plants make systematic risk management a necessity. Various policies specify the corresponding principles, processes and responsibilities. We take new findings into account when developing our policies and systems.

The regulations, instructions, implementation provisions and above all regular communication regarding the closed management cycle of planning, controlling and monitoring constitute the risk management system for defining, recording and minimizing operating and strategic risks.

We define risks as potential future developments or events resulting in a negative deviation from our forecast.

Successfully managing opportunities and risks is a part of business and a primary task of all managers. Opportunities, risks and optimization measures are systematically dealt with in regular management meetings at all levels of management. Fast, frank and unreserved communication between all management levels regarding risks and pending exceptional situations means that potential risks can be identified and localized at an early stage. Awareness of risk and the organizational integration of risk management into the permanent responsibilities of managers allows them to prevent negative effects on the Company's assets, liabilities, financial position and financial performance or to keep them to a minimum.

### Strategic risks

An assessment of the Company's strategic risks comes to the same result. The strategic initiatives for advance product development or to improve the quality of products and processes are reviewed regularly, and the resulting findings are discussed by SMP's management with the aim of enhancing the Company's competitive advantages. One important source of information is regular participation in the relevant associations (VDA/VDI), attending relevant trade fairs and events, and systematically analyzing discussions with suppliers.

The barriers to market entry in the automotive supplier sector are very high on account of the long-standing relationships between suppliers and automotive manufacturers as well as the quality requirements. That is why strategic changes become apparent in the market at an early stage.

We consider the likelihood of strategic risks occurring to be low. The potential impacts of these risks on the Company's ability to achieve our projected targets for revenue and profit are moderate.

### Market risks

On account of its product structure and customer base, SMP is almost entirely dependent on the development of the automotive industry. The economic development of this sector exerts a decisive influence over the Company's current and future revenue as well as its financial capacity. SMP's reliance on a small number of important customers constitutes a risk. The focus of the sales activities on new orders from automotive manufacturers that have only made minor contributions to SMP's revenue in recent years is aimed at balancing out and expanding the customer portfolio and is the basis for future growth. Since the acquisition of SMP by the Samvardhana Motherson Group, significant progress has been made with regard to the revenue mix.

The cycles for awarding contracts in the product divisions are long-term in nature (generally five to eight years). That is why the effects of a strategic optimization can only be reflected in the long-term corporate planning. The long contract terms are, however, also the foundation for a high degree of security in terms of a stable situation with respect to revenue in the years to come, also because customers are tied to SMP for the same periods of time.

Another risk is the typical volume of individual orders in SMP's three most important product segments. For orders of more than EUR 200m in annual revenue per order, the loss of just one important follow-up order can mean significant restructuring for an affected plant.

SMP addresses the general risk of losing customers by continuously reviewing the tailored services it offers, enhancing its capacity for innovation in the long term, constantly refining its development and production technologies, and permanently improving relationships with customers in connection with design and development projects.

SMP addresses the pressure on prices by initiating improvements to processes at an early stage, reducing quality-related costs (including by reducing wastage and optimizing operating and logistics processes, resulting in the improved utilization of equipment and enhanced productivity in all production units). Membership of the Samvardhana Motherson Group also offers new potential for synergies and the vertical integration of services and component production.

The automotive industry is generally subject to market fluctuations, which can, for example, be influenced by trends in the global financial market as well as turbulence in the eurozone. The global financial and consumer crises of 2008 and 2009 had a strong impact on vehicle sales in Europe and the US, and therefore also on SMP's call-off volumes. Although the market has now fully recovered, a recurrence of such an event cannot be ruled out. The economic development of the "BRIC" countries plays an important role in the global growth of global car sales. However, social, infrastructural, economic and political developments in these regions are difficult to predict.

The corona crisis is currently determining the market environment and is leading to restrictions, measures and changes in behavior due to the crisis management measures of governments and companies worldwide, which in turn is significantly influencing market demand, particularly for cars.

Irrespective of the fact that the new vehicles market is a very cyclical market, the past has proved that premium brands generally hold their ground much better than the medium or lower market segments. Daimler, BMW, Audi, Porsche and VW belong to the premium manufacturers that have their domestic market in Germany and the majority of their production plants. The impact of cyclical market developments can be reduced by focusing on these customers with which SMP generates the majority of its revenue.

The coronavirus crisis has now dominated the market environment for the second year in a row and is leading to uncertainty, a lack of an ability to plan and changes to behavior by governments, consumers and businesses depending on how the situation with coronavirus manifests itself with waves of varying severity. In the current situation, this risk continues to be latent, even if the statistics such as a decline in the number of infections and a rise in the number of people vaccinated point towards a return to normality. Market demand for automobiles of course does not remain unaffected by this. In light of this situation, measures to secure the existence of the company and liquidity are as important as maintaining the health of the workforce. In the view of SMP's management, the risk of a fresh wave of coronavirus infections with a corresponding drop in sales figures on the automotive market continues to represent a high risk for the coming fiscal year 2021/22, even if the current development points towards the situation relaxing somewhat.

In the current market environment the aforementioned risks to the projected business are therefore to be classified as moderate to high in terms of both their likelihood of occurrence and their impact on SMP.

#### Procurement risks

Markets proved to be extremely volatile over the course of the fiscal year with a clear upward price trend within Q4 triggered by a global shortage of raw materials, which continues to persist up to present.

The prices for plastic granulates and paints depend to a large extent on the price of crude oil and the capacities available at the granulate manufacturers. Changes in the price of crude oil are therefore reflected in SMP's procurement prices, with a delay. Resulting price increases can only be passed on to customers to a limited extent. The procurement function is therefore required to constantly monitor changes in the relevant share markets and indexes such as the London Metal Exchange (LME), the C3 Index, PP/ICIS, etc., and to discuss any trends and developments both with core suppliers and management.

Therefore, procurement markets have to be watched closely.

The constant research of price benchmarks and global procurement markets enables us to negotiate price increases to a certain extent or stave these off.

Contracts for the supply of energy and gas are generally concluded for a term of one year.

Price, quality and volume agreements are ensured by way of long-term supply agreements with our suppliers. Purchasing is working together with the plants on an ongoing basis to develop alternative suppliers and as a result realize further cost savings taking into account the financial capacity of the supplier.

#### Location risks

There were no changes with respect to the location of the Company's production facilities in the past fiscal year. In Germany, SMP manufactures at five locations (SMP Deutschland GmbH) and one location in Schierling (SMP Automotive Exterior GmbH). The establishment of the new "sister plant" was necessary due to the capacity bottlenecks in Neustadt resulting from additional variants of the existing vehicle models and the new projects of various OEMs. The close logistics links with customers necessitate production in Germany in close proximity to the customer's destination plant. The close links with customers and relatively capital-intensive production equipment, for which the procurement lead times are generally very long, would lead to considerable risks if a plant were to experience outage due to force majeure. This risk is exacerbated by the just-in-time and just-in-sequence delivery arrangements, which limit response times in the event of disruptions to a few hours at most. In order to minimize this risk, "alarm chains" have been installed that notify specialists for the rectification of technical problems as well as the customers affected in the event of disruptions. This results in very short response times when necessary. In emergencies, there is an alternative production system already in place to prevent interruptions to customers' production activities.

None of the SMP plants is situated in an area that is subject to an above-average risk of natural disasters. Regular checks at all production locations of the preventive safety facilities that have been installed ensure a high degree of reliability for production. Costly structural fire prevention measures have been implemented at all locations. Reserve inventories are also maintained at the plants in accordance with the Company's agreements with customers.

Property and loss of profit insurance has been taken out to cover this risk. This also covers the new administrative building in Bötzingen, which was occupied in December.



We consider the likelihood of the location risks described eventuating to be low. We consider the potential impacts of these risks on the Company's ability to achieve our projected targets for revenue and profit to be substantial.

#### Personnel risks

By continuing the needs-based focus of training with additional focus on the higher-qualifying combination of studies and training at the dual-track university, the risk of bottlenecks (the risk that it will not be possible to fill vacant positions at the Company as planned) is addressed for the long term using internal resources. This is supported by the diverse trainee programs, as described in section II.b. A three-month stay at one of the foreign plants is also planned within these programs. This is intended to raise employee awareness of and willingness to embark on a long-term international assignment. It also ensures that the know-how and the processes can be transferred to the greenfields.

Due to the successful certification by the Top Employer Institute, we are convinced that our existing employees in particular will see and feel the added value of such an employer seal, and that they will inevitably benefit from the measures implemented. In respect of the desired positive effect on our employee turnover, we see our position as having been vindicated as all of the measures put in place in this regard have mitigated the exit risk (risk of losing employees who the Company would like to retain) and our turnover rate is at a healthy level.

The global implementation of a process for recognizing potential and performing succession planning enables us to identify potential succession risks in our headquarters, the Engineering division as well as in all of our production locations, and to take countermeasures in a timely manner. We have already been able to successfully fill vacant (management) positions internally during the current fiscal year using our succession planning.

The option of "working remotely" continues to be very popular and is therefore especially noteworthy. It enables employees to work a considerable share of their working hours in the working location of their choice. This issue has once again taken on a whole new and more significant importance on account of the global coronavirus pandemic. As these processes and IT infrastructure were already in place, we were able to react quickly and flexibly here and put things in place at an early stage, which were subsequently made mandatory by the German Federal Government, for example.

Statutory occupational health and safety requirements are complied with. Days absent due to sickness are recorded, and employees who are sick for more than

42 days in a given calendar year are offered reintegration services. The comprehensive risk assessment required by Sec. 5 ArbSchG [“Arbeitsschutzgesetz”: German Occupational Health and Safety Act] is also carried out. Moderated analysis workshops took place in the past to record mental stress. The results were evaluated and summarized, and measures have been derived and developed further since 2017. The implementation of these measures is regularly monitored by the ASA (occupational health and safety committee). In addition, monthly meetings are held by the CHM team (comprising representatives of the HR department and of the works council), which develops and organizes health services and the CHM calendar. This health calendar offers employees health campaigns at least once a month, e.g., health courses, childcare during vacation as well as contact with physiotherapy and psychosocial support. We also carry out regular ergonomic workplace assessments. In addition, risk assessments were performed on the matters of travel and maternity for monitor-based workstations. The risk assessments for travel mainly focuses on travel to countries with climatic conditions and infection hazards such as India, China, Brazil and Mexico. The recommendations derived from the risk assessment, which are made available to the workforce via memos on the intranet, the HR department responsible or the company doctors, comprise matters on country-specific security, infection hazards, mental stress, climatic conditions and chemical/physical hazards. The respective supervisor has been performing the risk assessment for maternity and for nursing mothers since April 2019.

472 employees are currently registered as members of Hansefit (as of March 2021).

We continue to attach great importance to work-family balance. Alongside accompanying measures, such as the option to work remotely, SMP also continues to offer its employees child care for elementary school children during the school holidays and also planned to do so for the current fiscal year. However, unfortunately it proved to be not possible to implement this due to the level of infections in summer 2020.

On account of the coronavirus pandemic and in particular due to the associated uncertain overall situation, there are currently no large risks in respect of demographic change, recruiting and holding professionals and executives and the associated increases of salary and wage levels. Due to this and the already difficult situation in the automotive industry, the very high level of recruitment has completely normalized, or rather stagnated. Restructuring measures also had to be implemented in a targeted manner and early retirement measures also had to be put in place, for example.

The situation with the coronavirus continues to be difficult to predict. Using intensive measures to implement the hygiene concept, which were taken together in close consultation with various internal and external decision makers (e.g., the company

doctor), the level of inflections has been able to be kept at a very low level up to present. With regard to the workforce, intensive communication takes place and employees receive constant training and the necessary regulations (e.g., mask concepts) are rigorously enforced. Looking forward, testing and vaccination scenarios are already being discussed, meaning that action can be quickly taken in this regard.

Currently, the coronavirus crisis is continuing to lead to disruptions to production in the plants at short notice, which can be bridged using short-time work that is subsidized by the government and collective bargaining agreements.

#### IT risks

As a global tier-1 automotive supplier, SMP is integrated into automotive manufacturers' just-in-time/just-in-sequence supply chains. IT systems therefore represent a crucial component of the internal value added and logistics process. This requires a highly integrated system landscape with IT support at almost every workstation, both on the shop floor and in office areas.

Outages and disruptions in the IT environment (such as system outages, loss of data, security loopholes etc.) usually have a direct impact on the Company's ability to make deliveries to customers.

As a result, corresponding priority must be assigned to IT and IT security within the Company. It is to be assumed that this trend will be amplified in the years ahead by "Industry 4.0" and digital transformation concepts, and that IT solutions will make up a greater share of the value added process.

As part of a hosting agreement with T-Systems, business-critical systems (e.g., SAP ERP) have been transferred to a high-availability, geo-redundant T-Systems data processing center as a private cloud solution, where they are run as an IaaS solution. A corresponding ISAE 3402 Type II Report has been submitted for these services that confirms proper operation and does not identify any material risks. There were no data processing center outages with an effect on operations in the past year, which means that availability is 100% (apart from planned standard maintenance work).

An agreement dated 4 December 2014 transferred IT operations management from T-Systems to MothersonSumi Infotekk and Design GmbH (MIND), Bötzingen. Like SMP, MIND is a company of the Motherson Group. The hosting agreement with T-Systems remains unaffected by this.

The Process and Information Management (PIM) unit is SMP's internal IT function and among other things provides the interface for all of the Company's process and IT functions. This is also where all projects and change requests are channeled, prioritized, planned and implemented or forwarded to the relevant providers.

All IT projects are prioritized, evaluated and approved for implementation by means of a standardized portfolio and project management process. The risks of non-implementation are evaluated, as are the actual benefits of the project. This process also includes standardized approval and implementation.

The IT service management processes have been expanded again, and in addition to prioritization and risk evaluation also include clear specifications for testing as well as rollbacks in the event of errors. Approval is given by the "Change Advisory Board", which meets every week to discuss and evaluate all of the consequences and risks to operations before giving approval. In addition, extensive problem management was introduced in order to avoid recurring disruptions in the long term.

In order to ensure the 100% availability of the production supply chain and deal with the associated risks in the event of a system outage, manual contingency plans have been introduced and established at SMP.

We consider the likelihood of the IT risks described occurring to be low. The potential impacts of these risks on the Company's ability to achieve our projected targets for revenue and profit could be severe.

#### Financial risks

The Company is exposed to a range of financial risks. These currently mainly comprise default risks in connection with receivables from customers, performance by suppliers and risks relating to interest and exchange rate fluctuations. In addition, future engineering projects have to be financed over the project term to a significant extent. The risk arising from the assumption of the financing function by issuing loans and comfort letters to group companies is still considered to be very low.

Counterparty credit risks are all but eliminated by means of assessing the creditworthiness of all customers as a preventive measure, non-OEM customers in particular, as well as monitoring the compliance of all customers with the agreed terms of payment. Monitoring and creditworthiness assessments are also carried out regularly with respect to suppliers. Replacement suppliers are built up if critical trends are identified.

SMP's liquidity is monitored by means of the continuous assessment and liquidity reporting of the anticipated incoming payments and necessary cash outflows. Currency-related risks with respect to both customers and suppliers are largely avoided by concluding contracts in euros. The agreement of fixed interest rates for the entire duration of the most important lease agreements that still exist reduces the risks of interest rate fluctuations. Interest rate risks exist with the variable rate factoring agreements and the shareholder loans, however on account of the current state of the capital market we do not view these as being significant as of the reporting date.

Interest and exchange rate risks are monitored by the Treasury unit of SMP in partnership with the Regional Chairman Offices of the Motherson Group, and any identified risks are hedged in a targeted manner in the event of future necessity.

Thanks to constant consultation with banks on the position of Motherson and SMP in the economically challenging fiscal year 2020/21 that was marked by COVID-19, a margin increase on the part of the factoring partners was able to be avoided. In this regard, the Treasury department continues to coordinate closely with the banks, a margin increase is also currently not foreseeable in the coming months and quarters.

We consider the probability of the aforementioned financial risks occurring and the possible effects of these risks on attaining our forecast earnings targets as being low.

#### Liability risks

SMP's products can be classified as non-critical and not relevant for the purposes of vehicle safety. The installation of airbag systems and steering columns that are performed upon customer order are an exception. These airbag systems and steering columns are directly specified by the customer at the respective SMP supplier so that SMP's risk is limited to the proper installation and careful documentation.

The remaining risks associated with product and manufacturer liability claims are insured by liability insurance from XL Insurance Company SE. The risk of costs being passed on in the event of vehicle recalls by customers due to defects in supplied parts is insured up to an amount of EUR 10.0m. Another EUR 15.0m is available from an excess liability insurance policy with QBE Insurance Europe (Limited) within the Samvardhana Motherson Group. SMP's procedures and processes are optimized by means of effective measures aimed at reinforcing process reliability and quality management. This, and to no small extent, the quality management system that has been certified in accordance with ISO/TS 16949:2009, keep liability risks to a minimum thanks to reliable procedures.

Liability risks as an employee, for example for inadequate safety precautions or accidents at the workplace, are limited by providing corresponding instruction to all employees on safe conduct in the workplace, as well as by putting the organizational preconditions required by law into place. Sufficient consideration is given to accident prevention in particular by the prioritization of workplace safety throughout SMP through the work of the GUSi officers (GUSi = **G**esundheitsförderung, **U**mweltschutz und **S**icherheit (health promotion, environmental protection and safety)), i.e., tours, information and instructions on how to avoid, assess and report accidents with efforts to ensure countermeasures in all units. The occupational health and safety management system is certified in accordance with ISO 45001:2018.

The liability risks relating to harm to the environment can be considered low on account of the regular checks of technical equipment, checking and certification in accordance with DIN 14001:2004 and the compliance of the environmental management system with EC Regulation 1221/2009 pursuant to EMAS registration. All facilities that are relevant for environmental purposes are covered by environmental liability insurance. Any claims against SMP on the basis of the USchadG [“Gesetz über die Vermeidung und Sanierung von Umweltschäden”: German Act Governing the Prevention and Restoration of Harm to the Environment] or other national implementing laws based on the European Environmental Liability Directive (2004/35/EC) are covered by environmental damage insurance.

We consider the likelihood of the liability risks described occurring to be low. We consider the potential impacts of these risks on the Company’s ability to achieve our projected targets for revenue and profit to be moderate.

### **c. Opportunity report**

The constant pursuit of our strategy and the vertical integration of SMP into the Samvardhana Motherhood Group presents numerous opportunities for savings for the Company. The Company has extensive opportunities to fall back on cost-effective suppliers within the group.

The portfolio of customers can be made more balanced thanks to the owner’s customer relationships with Daimler and various Japanese customers. Major projects received in Mexico and the US in particular emphasize SMP’s strong ranking among the top automotive suppliers.

Both the North American and the Asian market are open to SMP and its Group resulting in opportunities to further optimize the product range. With the Samvardhana Motherhood Group opening up the future growth markets (US, India and China), great opportunities arise for SMP to be successful on the automotive supplier market, both in series production and engineering.

Further integration of the intragroup CAD service providers and tool makers will lead to a fast improvement in the projects (both from a financial and time perspective). The well-equipped machinery pool at the intragroup tool maker in India will be a significant addition to the supplier list for tools and other equipment. In addition, with the construction of the intragroup leather covering plant in Serbia, the Company has secured further independence and an opportunity to improve prices in this high-price supplier market environment.

Reliable supplies and pricing advantages present additional opportunities for enhancing the value added for existing products. The bundling of various different materials and purchased parts offer enormous potential for SMP and the other companies of the Samvardhana Motherhood Group to reduce costs in the

procurement sector. The exploitation of this potential has already begun, and is set to pick up even more in the years ahead.

The exchange and interest rate risks listed under financial risks are offset by the opportunities that the factors referred to could also change in a way that is beneficial to the Company. Exchange and interest rate risks are monitored with the help of an organization created specifically for that purpose within the Samvardhana Motherson Group.

Opportunities arising from research and development thanks to continuous innovation are an integral component of our strategy and already taken into account in our forecast. There are also opportunities relating to the market acceptance of new developments that go beyond our expectations as well as superior innovations that have not yet been taken into consideration during development.

The headquarters and engineering department have been added to the CIP program alongside the production, procurement and sales departments so that there are opportunities for further cost reductions.

The risks described under procurement risks are offset by the opportunity that the factors referred to could change in a way that is beneficial to SMP.

The Company's order backlog remains on a stable level at around EUR 4.2b and will guarantee utilization of our plant capacity in the following years.

#### **d. Overall opportunity and risk profile**

Following a thorough assessment, the risks described above are manageable for SMP. Regular discussions of the trends for the market, business and competition have not and do not identify any risks to the Company's ability to continue as a going concern, even on aggregate.

Risks that are not currently classed as significant are being monitored by management in order to identify any negative consequences (which can never be ruled out) and take suitable measures at the appropriate time.

Particular opportunities are seen in SMP's vertical integration in the Samvardhana Motherson Group, the strong order backlog and customer portfolio, and the owner's excellent relationships with customers.

We consider the opportunities and risks described above to be balanced with respect to the ability of achieving our projected targets for revenue and net profit.

We continue to anticipate some employee churn to a limited extent, in particular in the first quarter of fiscal year 2021/22, due to the COVID-19 pandemic. However, as was the case in the past fiscal year, we will largely be able to absorb this using flexible working time arrangements. Government subsidized short-time work should no longer play a role in this fiscal year.

#### **IV. Advancement of women**

The German Act on the Equal Participation of Women and Men in Leadership Positions within the Private Economy and Public Service also requires SMP Deutschland GmbH to define targets for the proportion of women in the supervisory board, in management as well as the first two management levels below company management. Deadlines must also be set for achieving these targets. The implementation of this statutory regulation was discussed within the supervisory board and management. No targets or deadlines have been set thus far.

Bötzingen, 8 June 2021

SMP Deutschland GmbH  
The general managers

.....  
Cezary Zawadzinski

.....  
Andreas Heuser





Translation from the German language

## Engagement Terms, Liability and Conditions of Use

We, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, conducted our audit of this financial reporting on behalf of the Company. Besides satisfying the legal disclosure requirement (Sec. 325 HGB ["Handelsgesetzbuch": German Commercial Code]) for statutory audits, the audit opinion is addressed exclusively to the Company and was issued for internal purposes only. It is not intended for any other purpose or to serve as a decision-making basis for third parties. The result of voluntary audits summarized in the audit opinion is thus not intended to serve as a decision-making basis for third parties and must not be used for purposes other than those intended.

Our work is based on our engagement agreement for the audit of these financial statements including the "General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften" [German Public Auditors and Public Audit Firms] as issued by the Institute of Public Auditors in Germany ["Institut der Wirtschaftsprüfer": IDW] on 1 January 2017.

To clarify, we point out that we assume no responsibility, liability or other obligations towards third parties unless we have concluded a written agreement to the contrary with the respective third party or liability cannot effectively be precluded.

We make express reference to the fact that we will not update the audit opinion to reflect events or circumstances arising after it was issued, unless required to do so by law.

It is the sole responsibility of anyone taking note of the summarized result of our work contained in this audit opinion to decide whether and in what way this information is useful or suitable for their purposes and to supplement, verify or update it by means of their own review procedures.

# General Engagement Terms

## for

### Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften

#### [German Public Auditors and Public Audit Firms]

#### as of January 1, 2017

#### 1. Scope of application

(1) These engagement terms apply to contracts between German Public Auditors (*Wirtschaftsprüfer*) or German Public Audit Firms (*Wirtschaftsprüfungsgesellschaften*) – hereinafter collectively referred to as "German Public Auditors" – and their engaging parties for assurance services, tax advisory services, advice on business matters and other engagements except as otherwise agreed in writing or prescribed by a mandatory rule.

(2) Third parties may derive claims from contracts between German Public Auditors and engaging parties only when this is expressly agreed or results from mandatory rules prescribed by law. In relation to such claims, these engagement terms also apply to these third parties.

#### 2. Scope and execution of the engagement

(1) Object of the engagement is the agreed service – not a particular economic result. The engagement will be performed in accordance with the German Principles of Proper Professional Conduct (*Grundsätze ordnungsmäßiger Berufsausübung*). The German Public Auditor does not assume any management functions in connection with his services. The German Public Auditor is not responsible for the use or implementation of the results of his services. The German Public Auditor is entitled to make use of competent persons to conduct the engagement.

(2) Except for assurance engagements (*betriebswirtschaftliche Prüfungen*), the consideration of foreign law requires an express written agreement.

(3) If circumstances or the legal situation change subsequent to the release of the final professional statement, the German Public Auditor is not obligated to refer the engaging party to changes or any consequences resulting therefrom.

#### 3. The obligations of the engaging party to cooperate

(1) The engaging party shall ensure that all documents and further information necessary for the performance of the engagement are provided to the German Public Auditor on a timely basis, and that he is informed of all events and circumstances that may be of significance to the performance of the engagement. This also applies to those documents and further information, events and circumstances that first become known during the German Public Auditor's work. The engaging party will also designate suitable persons to provide information.

(2) Upon the request of the German Public Auditor, the engaging party shall confirm the completeness of the documents and further information provided as well as the explanations and statements, in a written statement drafted by the German Public Auditor.

#### 4. Ensuring independence

(1) The engaging party shall refrain from anything that endangers the independence of the German Public Auditor's staff. This applies throughout the term of the engagement, and in particular to offers of employment or to assume an executive or non-executive role, and to offers to accept engagements on their own behalf.

(2) Were the performance of the engagement to impair the independence of the German Public Auditor, of related firms, firms within his network, or such firms associated with him, to which the independence requirements apply in the same way as to the German Public Auditor in other engagement relationships, the German Public Auditor is entitled to terminate the engagement for good cause.

#### 5. Reporting and oral information

To the extent that the German Public Auditor is required to present results in writing as part of the work in executing the engagement, only that written work is authoritative. Drafts are non-binding. Except as otherwise agreed, oral statements and explanations by the German Public Auditor are binding only when they are confirmed in writing. Statements and information of the German Public Auditor outside of the engagement are always non-binding.

#### 6. Distribution of a German Public Auditor's professional statement

(1) The distribution to a third party of professional statements of the German Public Auditor (results of work or extracts of the results of work whether in draft or in a final version) or information about the German Public Auditor acting for the engaging party requires the German Public Auditor's written consent, unless the engaging party is obligated to distribute or inform due to law or a regulatory requirement.

(2) The use by the engaging party for promotional purposes of the German Public Auditor's professional statements and of information about the German Public Auditor acting for the engaging party is prohibited.

#### 7. Deficiency rectification

(1) In case there are any deficiencies, the engaging party is entitled to specific subsequent performance by the German Public Auditor. The engaging party may reduce the fees or cancel the contract for failure of such subsequent performance, for subsequent non-performance or unjustified refusal to perform subsequently, or for unconscionability or impossibility of subsequent performance. If the engagement was not commissioned by a consumer, the engaging party may only cancel the contract due to a deficiency if the service rendered is not relevant to him due to failure of subsequent performance, to subsequent non-performance, to unconscionability or impossibility of subsequent performance. No. 9 applies to the extent that further claims for damages exist.

(2) The engaging party must assert a claim for the rectification of deficiencies in writing (*Textform*) [Translators Note: The German term "Textform" means in written form, but without requiring a signature] without delay. Claims pursuant to paragraph 1 not arising from an intentional act expire after one year subsequent to the commencement of the time limit under the statute of limitations.

(3) Apparent deficiencies, such as clerical errors, arithmetical errors and deficiencies associated with technicalities contained in a German Public Auditor's professional statement (long-form reports, expert opinions etc.) may be corrected – also versus third parties – by the German Public Auditor at any time. Misstatements which may call into question the results contained in a German Public Auditor's professional statement entitle the German Public Auditor to withdraw such statement – also versus third parties. In such cases the German Public Auditor should first hear the engaging party, if practicable.

#### 8. Confidentiality towards third parties, and data protection

(1) Pursuant to the law (§ [Article] 323 Abs 1 [paragraph 1] HGB [German Commercial Code: *Handelsgesetzbuch*], § 43 WPO [German Law regulating the Profession of *Wirtschaftsprüfer*: *Wirtschaftsprüferordnung*], § 203 StGB [German Criminal Code: *Strafgesetzbuch*]) the German Public Auditor is obligated to maintain confidentiality regarding facts and circumstances confided to him or of which he becomes aware in the course of his professional work, unless the engaging party releases him from this confidentiality obligation.

(2) When processing personal data, the German Public Auditor will observe national and European legal provisions on data protection.

#### 9. Liability

(1) For legally required services by German Public Auditors, in particular audits, the respective legal limitations of liability, in particular the limitation of liability pursuant to § 323 Abs. 2 HGB, apply.

(2) Insofar neither a statutory limitation of liability is applicable, nor an individual contractual limitation of liability exists, the liability of the German Public Auditor for claims for damages of any other kind, except for damages resulting from injury to life, body or health as well as for damages that constitute a duty of replacement by a producer pursuant to § 1 ProdHaftG [German Product Liability Act: *Produkthaftungsgesetz*], for an individual case of damages caused by negligence is limited to € 4 million pursuant to § 54 a Abs. 1 Nr. 2 WPO.

(3) The German Public Auditor is entitled to invoke demurs and defenses based on the contractual relationship with the engaging party also towards third parties.

(4) When multiple claimants assert a claim for damages arising from an existing contractual relationship with the German Public Auditor due to the German Public Auditor's negligent breach of duty, the maximum amount stipulated in paragraph 2 applies to the respective claims of all claimants collectively.

(5) An individual case of damages within the meaning of paragraph 2 also exists in relation to a uniform damage arising from a number of breaches of duty. The individual case of damages encompasses all consequences from a breach of duty regardless of whether the damages occurred in one year or in a number of successive years. In this case, multiple acts or omissions based on the same source of error or on a source of error of an equivalent nature are deemed to be a single breach of duty if the matters in question are legally or economically connected to one another. In this event the claim against the German Public Auditor is limited to € 5 million. The limitation to the fivefold of the minimum amount insured does not apply to compulsory audits required by law.

(6) A claim for damages expires if a suit is not filed within six months subsequent to the written refusal of acceptance of the indemnity and the engaging party has been informed of this consequence. This does not apply to claims for damages resulting from scienter, a culpable injury to life, body or health as well as for damages that constitute a liability for replacement by a producer pursuant to § 1 ProdHaftG. The right to invoke a plea of the statute of limitations remains unaffected.

## 10. Supplementary provisions for audit engagements

(1) If the engaging party subsequently amends the financial statements or management report audited by a German Public Auditor and accompanied by an auditor's report, he may no longer use this auditor's report.

If the German Public Auditor has not issued an auditor's report, a reference to the audit conducted by the German Public Auditor in the management report or any other public reference is permitted only with the German Public Auditor's written consent and with a wording authorized by him.

(2) If the German Public Auditor revokes the auditor's report, it may no longer be used. If the engaging party has already made use of the auditor's report, then upon the request of the German Public Auditor he must give notification of the revocation.

(3) The engaging party has a right to five official copies of the report. Additional official copies will be charged separately.

## 11. Supplementary provisions for assistance in tax matters

(1) When advising on an individual tax issue as well as when providing ongoing tax advice, the German Public Auditor is entitled to use as a correct and complete basis the facts provided by the engaging party – especially numerical disclosures; this also applies to bookkeeping engagements. Nevertheless, he is obligated to indicate to the engaging party any errors he has identified.

(2) The tax advisory engagement does not encompass procedures required to observe deadlines, unless the German Public Auditor has explicitly accepted a corresponding engagement. In this case the engaging party must provide the German Public Auditor with all documents required to observe deadlines – in particular tax assessments – on such a timely basis that the German Public Auditor has an appropriate lead time.

(3) Except as agreed otherwise in writing, ongoing tax advice encompasses the following work during the contract period:

- a) preparation of annual tax returns for income tax, corporate tax and business tax, as well as wealth tax returns, namely on the basis of the annual financial statements, and on other schedules and evidence documents required for the taxation, to be provided by the engaging party
- b) examination of tax assessments in relation to the taxes referred to in (a)
- c) negotiations with tax authorities in connection with the returns and assessments mentioned in (a) and (b)
- d) support in tax audits and evaluation of the results of tax audits with respect to the taxes referred to in (a)
- e) participation in petition or protest and appeal procedures with respect to the taxes mentioned in (a).

In the aforementioned tasks the German Public Auditor takes into account material published legal decisions and administrative interpretations.

(4) If the German Public auditor receives a fixed fee for ongoing tax advice, the work mentioned under paragraph 3 (d) and (e) is to be remunerated separately, except as agreed otherwise in writing.

(5) Insofar the German Public Auditor is also a German Tax Advisor and the German Tax Advice Remuneration Regulation (*Steuerberatungsvergütungsverordnung*) is to be applied to calculate the remuneration, a greater or lesser remuneration than the legal default remuneration can be agreed in writing (*Textform*).

(6) Work relating to special individual issues for income tax, corporate tax, business tax, valuation assessments for property units, wealth tax, as well as all issues in relation to sales tax, payroll tax, other taxes and dues requires a separate engagement. This also applies to:

- a) work on non-recurring tax matters, e.g. in the field of estate tax, capital transactions tax, and real estate sales tax;
- b) support and representation in proceedings before tax and administrative courts and in criminal tax matters;
- c) advisory work and work related to expert opinions in connection with changes in legal form and other re-organizations, capital increases and reductions, insolvency related business reorganizations, admission and retirement of owners, sale of a business, liquidations and the like, and
- d) support in complying with disclosure and documentation obligations.

(7) To the extent that the preparation of the annual sales tax return is undertaken as additional work, this includes neither the review of any special accounting prerequisites nor the issue as to whether all potential sales tax allowances have been identified. No guarantee is given for the complete compilation of documents to claim the input tax credit.

## 12. Electronic communication

Communication between the German Public Auditor and the engaging party may be via e-mail. In the event that the engaging party does not wish to communicate via e-mail or sets special security requirements, such as the encryption of e-mails, the engaging party will inform the German Public Auditor in writing (*Textform*) accordingly.

## 13. Remuneration

(1) In addition to his claims for fees, the German Public Auditor is entitled to claim reimbursement of his expenses; sales tax will be billed additionally. He may claim appropriate advances on remuneration and reimbursement of expenses and may make the delivery of his services dependent upon the complete satisfaction of his claims. Multiple engaging parties are jointly and severally liable.

(2) If the engaging party is not a consumer, then a set-off against the German Public Auditor's claims for remuneration and reimbursement of expenses is admissible only for undisputed claims or claims determined to be legally binding.

## 14. Dispute Settlement

The German Public Auditor is not prepared to participate in dispute settlement procedures before a consumer arbitration board (*Verbraucherschlichtungsstelle*) within the meaning of § 2 of the German Act on Consumer Dispute Settlements (*Verbraucherstreitbeilegungsgesetz*).

## 15. Applicable law

The contract, the performance of the services and all claims resulting therefrom are exclusively governed by German law.