

Financial Statements

SMP Automotive Produtos Automotivos do Brasil Ltda.

March 31, 2021
with Independent Auditor's Report

SMP Automotive Produtos Automotivos do Brasil Ltda.

Financial statements

March 31, 2021

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

Independent auditor's report on financial statements

To the Management and Members of
SMP Automotive Produtos Automotivos do Brasil Ltda.
São José dos Pinhais - Paraná

Opinion

We have audited the financial statements of SMP Automotive Produtos Automotivos do Brasil Ltda. (the "Company"), which comprise the statement of financial position as at March 31, 2021, and the statements of profit or loss, of comprehensive income (loss), of changes in equity (capital deficiency) and of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2021, its financial performance and its cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil.

Basis for opinion

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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


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

- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the corresponding transactions and events in a manner that achieves fair presentation.

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

Curitiba (PR), June 18, 2021.

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



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

SMP Automotive Produtos Automotivos do Brasil Ltda.

Statement of financial position

March 31, 2021 and 2020

(In thousands of reais, unless otherwise stated)

	2021	2020
Assets		
Current assets		
Cash and cash equivalents (Note 4)	4,219	2,416
Trade accounts receivable (Note 5)	25,893	17,453
Transactions with related parties (Note 10)	329	-
Inventories (Note 6)	44,311	32,615
Taxes recoverable (Note 7)	22,236	2,361
Advances to suppliers (Note 8)	2,467	3,412
Financial instruments (Note 9)	-	4,874
Other receivables	703	3,266
	<u>100,240</u>	<u>66,397</u>
Noncurrent assets		
Taxes recoverable (Note 7)	29,139	1,618
Judicial deposits	604	483
Property, plant and equipment (Note 12)	28,805	21,515
Intangible assets (Note 13)	1,088	2,616
Right of use (Note 14)	5,399	9,651
	<u>64,953</u>	<u>35,883</u>
Total assets	<u>165,193</u>	<u>102,280</u>

See accompanying notes.

	<u>2021</u>	<u>2020</u>
Liabilities and equity		
Current liabilities		
Trade accounts payable (Note 15)	58,773	45,147
Lease liabilities (Note 14)	5,281	4,950
Loans and financing (Note 16)	106,995	45,958
Transactions with related parties (Note 10)	136	286
Payroll and social charges (Note 17)	12,534	14,360
Taxes payable	3,637	1,412
Advances from customers (Note 18)	5,865	3,936
Other liabilities (Note 19)	7,201	3,693
	<u>200,422</u>	<u>119,742</u>
Noncurrent liabilities		
Lease liabilities (Note 14)	625	5,209
Transactions with related parties (Note 10)	120,202	104,472
Provision for contingencies (Note 20)	5,866	5,917
Other liabilities (Note 19)	35,468	362
	<u>162,161</u>	<u>115,960</u>
Equity (Note 21)		
Capital	472,587	459,697
Future capital contribution	2,034	2,034
Accumulated losses	(672,011)	(595,153)
	<u>(197,390)</u>	<u>(133,422)</u>
Total liabilities and equity	<u><u>165,193</u></u>	<u><u>102,280</u></u>

See accompanying notes.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Statement of profit or loss

March 31, 2021 and 2020

(In thousands of reais, unless otherwise stated)

	<u>2021</u>	<u>2020</u>
Revenue (Note 22)	362,481	423,903
Cost of goods sold (Note 24)	(425,813)	(454,123)
Gross loss	(63,332)	(30,220)
Operating expenses		
Selling expenses (Note 24)	(8,947)	(12,280)
General and administrative expenses (Note 24)	(21,805)	(15,861)
Other operating income (expenses), net (Note 24)	39,894	189
Provision for impairment (Note 12)	930	(22,196)
Operating loss	(53,260)	(80,368)
Finance income	11,434	39
Finance costs	(10,704)	(8,778)
Foreign exchange differences, net	(24,328)	(28,280)
Finance income (costs) (Note 25)	(23,598)	(37,019)
Loss for the year	(76,858)	(117,387)
Number of units of interest at end of year	472,587	459,697
(Basic and diluted) loss per thousand units of interest	(0.16)	(0.26)

See accompanying notes.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Statement of comprehensive income (loss)

March 31, 2021 and 2020

(In thousands of reais, unless otherwise stated)

	<u>2021</u>	<u>2020</u>
Loss for the year	(76,858)	(117,387)
Other comprehensive income (loss)	-	-
Total comprehensive income (loss) for the year	<u>(76,858)</u>	<u>(117,387)</u>

See accompanying notes.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Statement of changes in equity (capital deficiency)

March 31, 2021 and 2020

(In thousands of reais, unless otherwise stated)

	<u>Capital</u>	<u>Future capital contribution</u>	<u>Accumulated losses</u>	<u>Total</u>
At March 31, 2019	<u>390,692</u>	<u>15,501</u>	<u>(477,766)</u>	<u>(71,573)</u>
Capital increase (Note 21)	69,005	(13,467)	-	55,538
Loss for the year	-	-	(117,387)	(117,387)
At March 31, 2020	<u>459,697</u>	<u>2,034</u>	<u>(595,153)</u>	<u>(133,422)</u>
Capital increase (Note 21)	12,890	-	-	12,890
Loss for the year	-	-	(76,858)	(76,858)
At March 31, 2021	<u>472,587</u>	<u>2,034</u>	<u>(672,011)</u>	<u>(197,390)</u>

See accompanying notes.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Statement of cash flows

March 31, 2021 and 2020

(In thousands of reais, unless otherwise stated)

	2021	2020
Loss for the year	(76,858)	(117,387)
Reconciliation of loss with cash from operating activities:		
Mark to market (Swap)	-	(4,874)
Depreciation and amortization	4,246	3,642
Depreciation of right of use	4,968	5,280
Allowance for expected credit losses	565	1,204
Accounts receivable written off in the year as uncollectible	(13)	(1,218)
Residual cost of property, plant and equipment written off	637	464
Residual cost of intangible assets	1,021	-
Interest, monetary variations and foreign exchange differences on loans from third parties and related parties	16,798	29,219
Interest on bank loans	7,246	1,106
Interest paid on leases - IFRS 16	832	1,354
Provision for contingencies	(51)	1,486
Provision for inventories	252	898
Provision for impairment	(930)	22,196
Credit arising from exclusion of ICMS from the PIS/COFINS tax base	(45,688)	
Other provisions	34,113	
	(52,862)	(56,630)
Changes in assets and liabilities		
Trade accounts receivable	(8,992)	550
Related parties - assets	(329)	-
Inventories	(11,948)	4,795
Taxes recoverable	(1,708)	(94)
Advances to suppliers	945	(124)
Other receivables	7,316	1,145
Trade accounts payable	13,626	(728)
Related parties - liabilities	(150)	(3,452)
Advances from customers	1,929	(4,944)
Other liabilities	4,900	(9,430)
Net cash used in operating activities	5,589	(68,912)
Cash flows from investing activities		
Acquisition of property, plant and equipment	(10,736)	(9,591)
Acquisition of intangible assets	-	(1,083)
Net cash used in investing activities	(10,736)	(10,674)

See accompanying notes.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Statement of cash flows (Continued)

March 31, 2021 and 2020

(In thousands of reais, unless otherwise stated)

Cash flow from financing activities

Loans and financing taken out	80,579	55,000
Loans and financing repaid	(27,856)	(23,887)
Lease payments - IFRS 16	(5,801)	(6,127)
Payment of capital	12,890	55,538
Net cash from financing activities	59,812	80,524

Net increase (decrease) in cash and cash equivalents

	1,803	938
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Cash and cash equivalents at beginning of year

2,416 1,478

Cash and equivalents at end of year

4,219 2,416

Changes in cash and cash equivalents

1,803 938

Non-cash changes

Transfer from tax payable to provision for contingencies

- 1,780

Lease transactions - IFRS 16

716 14,931

See accompanying notes.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements

March 31, 2021

(In thousands of reais)

1. Operations

SMP Automotive Produtos Automotivos do Brasil Ltda. (the "Company"), headquartered in the city of São José dos Pinhais, Paraná state, is engaged in the development and manufacturing, sale and distribution, import and export of plastic products, which are manufactured using technical injection and painting procedures, as well as machinery for plastic transformation, and engaged in holding interest in other commercial or civil companies as an owner, shareholder or member.

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

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

At March 31, 2021, the Company records capital deficiency and has recorded recurring losses in recent years. Recurring losses and working capital deficit are also due to a decrease in sales volume as a result of a decline in the automotive market. As a result, there was a decrease in revenue and in cash flow in relation to prior years. Aiming to reverse this situation, the Company plans to continue its Restructuring Plan in 2021. Through this plan, the Company has sought to reduce costs and implement new projects. In 2021, sales and results goals are still being monitored directly by the Parent Company.

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

Effects of COVID-19 on the Financial Statements

In view of the new scenario caused by the COVID-19 pandemic, the Company carried out a study taking into consideration the points described below, albeit not exhaustively:

- Possible losses on accounts receivable;
- Change in expected realization of its inventories (CPC 16 - Inventories);
- Going concern;
- Impairment of property, plant and equipment (CPC 01 - Impairment of assets);
- Increase in the liquidity risk of its financial assets (CPC 48);
- Changes to lease agreements.

After analysis, no significant impacts on the items listed above have been observed so far, since the Company has in its customer portfolio substantially large automakers; the Company's inventories are not perishable; the Company has not identified any indications that would give rise to a complement to the previously recorded impairment; and there were no changes, even if temporary, in its Lease/rent agreements.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021

(In thousands of reais)

1. Operations (Continued)

At last, the Company informs that there is no acceptable predictability that can ensure with reasonable confidence those items impacted in its operations, rendering any estimate impossible regarding impacts, if any, on its profit or loss for the year arising from future effects that the pandemic may cause. Until the approval date of these financial statements, management understands that even in the scenario described herein, there is no material uncertainty that could raise significant doubt on the Company's ability to continue as a going concern.

The financial statements were approved by the Company's members on June 18, 2021.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

The financial statements were prepared in accordance with the accounting practices adopted in Brazil, issued by Brazil's Financial Accounting Standards Board - FASB ("CPC") and disclose all significant information of the financial statements themselves, and only such information, which is consistent with that used to manage the Company's operations.

The financial statements were prepared using the historical cost as a value basis.

Preparation of the financial statements requires the use of certain critical accounting estimates and Company management judgment in the process to apply the accounting practices. Those more complex areas that require higher degree of judgment, and those where the assumptions and estimates are significant for the financial statements, are disclosed in Note 2.19.

2.2 Foreign currency translation

(a) Functional and presentation currency

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

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

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements

March 31, 2021

(In thousands of reais)

2. Summary of significant accounting policies (Continued)

(b) Transactions and balances

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

2.3 Cash and cash equivalents

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

2.4 Financial assets

2.4.1 Classification

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

(a) Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments not quoted in an active market. They are included in current assets, except for those maturing after 12 months from the statement of financial position date (classified as noncurrent assets). The Company's loans and receivables comprise 'Cash and cash equivalents', 'Trade accounts receivable' and "Other receivables".

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021

(In thousands of reais)

2. Summary of significant accounting policies (Continued)

2.4 Financial assets (Continued)

2.4.2 Recognition and measurement

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

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

At the statement of financial position date, the Company evaluates whether there is any objective evidence that a financial asset or group of financial assets is impaired. The impairment test of trade accounts receivable is described in Note 2.5.

2.4.3 Offsetting of financial instruments

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

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements

March 31, 2021

(In thousands of reais)

2. Summary of significant accounting policies (Continued)

2.4 Financial assets (Continued)

2.4.4 Impairment of financial assets

(a) Assets measured at amortized cost

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

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

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

2.5 Trade accounts receivable

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

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

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021

(In thousands of reais)

2. Summary of significant accounting policies (Continued)

2.6 Inventories

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

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

2.7 Property, plant and equipment (PPE)

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

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

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

	Average depreciation rate
Buildings	4%
Machinery and equipment	17%
Furniture and fixtures	10%
Facilities	20%
Leasehold improvements	20%
Other property, plant and equipment items	10 to 20%

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

Gains and losses on disposals are determined by comparing profit or loss with carrying amount and are recognized in “Other operating income (expenses), net” in the statement of profit or loss.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements

March 31, 2021

(In thousands of reais)

2. Summary of significant accounting policies (Continued)

2.8 Judicial deposits

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

2.9 Intangible assets

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

2.10 Provisions for Impairment of nonfinancial assets

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

2.11 Trade accounts payable

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

They are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method. They are actually recognized at the corresponding billing amount.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021

(In thousands of reais)

2. Summary of significant accounting policies (Continued)

2.12 Provisions

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

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

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

2.13 Current and deferred income and social contribution taxes

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

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

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

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements

March 31, 2021

(In thousands of reais)

2. Summary of significant accounting policies (Continued)

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

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

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

2.14 Employee benefits - Profit sharing

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

2.15 Capital

Units of interest are classified into equity.

2.16 Future capital contribution

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

2.17 Recognition of revenue from contracts with customers

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

The Company recognizes revenue when the performance obligation is fulfilled.

(a) Sale of products

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

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021

(In thousands of reais)

2. Summary of significant accounting policies (Continued)

2.17 Revenue recognition (Continued)

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

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

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

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

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

Revenue recognition and measurement are carried out under CPC 47 (IFRS 15), as follows:

a) Identification of contracts with customers

The existing contracts with customers have similar characteristics. The Company is responsible for the overall management of all contracts, including procurement of materials, inventory management, identification and management of subcontractors, manufacturing, assembly, testing, packaging and delivery of the final product.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements

March 31, 2021

(In thousands of reais)

2. Summary of significant accounting policies (Continued)

2.17 Revenue recognition (Continued)

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

a) Identification of contracts with customers (Continued)

According to the retrospective and prospective analyses of the contract portfolio, revenue from the sale of products manufactured by the Company represents 97.41% of total revenue, and the sale of tools/molds (including their development) represents 2.59% of total revenue.

Since 98% of contracts with customers are similar, the Company has considered this sample sufficient for application of the IFRS 15 concepts and for analysis of possible effects thereof on its financial statements.

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

For purposes of identifying performance obligations in the Company's contracts under analysis, 94.5% of such contracts with customers are satisfied upon delivery of products.

(c) Finance income

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

2.18 Leases

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

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021

(In thousands of reais)

2. Summary of significant accounting policies (Continued)

2.19 Critical accounting estimates and judgments

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

(a) Income and social contribution taxes and other taxes

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

(b) Useful life of property, plant and equipment

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

(c) Impairment of property, plant and equipment

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

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

(d) ICMS tax benefits

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

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements

March 31, 2021

(In thousands of reais)

2. Summary of significant accounting policies (Continued)

2.19 Critical accounting estimates and judgments

(e) Credit arising from exclusion of ICMS from the PIS/COFINS tax base

On October 19, 2020, the Company obtained in court the right to exclude ICMS from the PIS and COFINS tax base, after the final and unappealable decision regarding Writ of Mandamus No. 50602351520184047000, Judiciary Section of Curitiba/PR4. The decision was awarded by the Federal Court of Appeals ("TRF") of the 4th Chapter and fully confirmed by the Brazilian High Court of Justice ("STJ"), expressly indicating that the correct criterion is to exclude the ICMS recorded in the invoices, granting the right to recover credits related to undue payments in the period from 2002 to 2020.

2.20 IFRS 16 - Lease transactions

Under this standard, lessees should recognize future lease payment liabilities and the right of use of the leased asset for practically all lease contracts, including operating leases, except for certain short-term contracts or low-value contracts.

3. Financial risk management

3.1 Financial risk factors

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

The risk management policy was defined by management. Under such policy, market risks are hedged when it is considered necessary to support the corporate strategy or when it is necessary to maintain the level of financial flexibility.

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

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021

(In thousands of reais)

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk

(i) Interest rate risk

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

(ii) Currency risk

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

At March 31, 2021 and 2020, the Company had assets and liabilities denominated in foreign currency in the amounts described below (in thousands of reais):

	<u>2021</u>			<u>2020</u>		
	<u>Foreign currency</u>			<u>Foreign currency</u>		
	<u>Euro</u>	<u>Dollar</u>	<u>Total</u>	<u>Euro</u>	<u>Dollar</u>	<u>Total</u>
Assets						
Accounts receivable (Note 5)	-	13	13	-	35	35
Related parties (Note 10)	-	329	329	-	-	-
Financial instruments (Note 9)	-	-	-	-	4,874	4,874
Net exposure	<u>-</u>	<u>342</u>	<u>342</u>	<u>-</u>	<u>4,909</u>	<u>4,909</u>
	<u>2021</u>			<u>2020</u>		
	<u>Foreign currency</u>			<u>Foreign currency</u>		
	<u>Euro</u>	<u>Dollar</u>	<u>Total</u>	<u>Euro</u>	<u>Dollar</u>	<u>Total</u>
Liabilities						
Trade accounts payable (Note 15)	795	16,368	17,163	1,139	10,832	11,971
Trade accounts payable to related parties (Note 10)	136	-	136	286	-	286
Intercompany loans - Related parties (Note 10)	120,202	-	120,202	104,472	-	104,472
Net exposure	<u>121,133</u>	<u>16,368</u>	<u>137,501</u>	<u>105,897</u>	<u>10,832</u>	<u>116,729</u>

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021

(In thousands of reais)

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk

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

(c) Liquidity risk

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

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

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

	Less than 1 year	From 1 to 2 years	From 2 to 5 years	Total
At March 31, 2021				
Trade accounts payable	58,773	-	-	58,773
Loans and financing	106,995	-	-	106,995
Related parties (liabilities)	136	120,202	-	120,338
Other accounts payable	29,237	5,866	35,468	70,571
Lease liabilities	5,281	625	-	5,906
At March 31, 2020				
Trade accounts payable	45,147	-	-	45,147
Loans and financing	45,958	5,209	-	45,958
Related parties (liabilities)	286	84,381	20,091	104,758
Other accounts payable	23,401	5,917	362	29,680
Lease liabilities	4,950	5,209	-	10,159

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021

(In thousands of reais)

3. Financial risk management (Continued)

3.2 Capital management

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

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

	2021	2020
Total intercompany loans	120,202	104,472
Total loans and financing	106,995	45,959
Less: cash and cash equivalents and financial assets	(4,219)	(7,290)
Net debt	222,978	143,141
Total equity	(197,390)	(133,422)

3.3 Financial instruments by category

	Financial assets
At March 31, 2021	
Assets as per statement of financial position	
Cash and cash equivalents (Note 4)	4,219
Trade accounts receivable (Note 5)	25,893
Transactions with related parties (Note 10)	329
	30,441
	Financial liabilities
At March 31, 2021	
Liabilities as per statement of financial position	
Trade accounts payable (Note 15)	58,773
Loans and financing (Note 16)	106,995
Transactions with related parties (Note 10)	120,338
	286,106

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021

(In thousands of reais)

3. Financial risk management (Continued)

3.3 Financial instruments by category (Continued)

	Financial assets
At March 31, 2020	
Assets as per statement of financial position	
Cash and cash equivalents (Note 4)	2,416
Trade accounts receivable (Note 5)	17,453
	<u>19,869</u>
	Financial liabilities
At March 31, 2020	
Liabilities as per statement of financial position	
Trade accounts payable (Note 15)	45,147
Loans and financing (Note 16)	56,117
Transactions with related parties (Note 10)	104,758
	<u>206,022</u>

4. Cash and cash equivalents

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

	2021	2020
Cash and banks	<u>4,219</u>	<u>2,416</u>
	<u>4,219</u>	<u>2,416</u>

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

5. Trade accounts receivable

	2021	2020
Local trade accounts receivable	24,159	15,713
Foreign trade accounts receivable	13	35
Construction contracts to be billed (Note 23)	<u>4,999</u>	<u>4,431</u>
Less: Allowance for expected credit losses	<u>(3,278)</u>	<u>(2,726)</u>
Trade accounts receivable, net	<u>25,893</u>	<u>17,453</u>

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021

(In thousands of reais)

5. Trade accounts receivable (Continued)

The aging list of these accounts receivable is as follows:

	<u>2021</u>	<u>2020</u>
Falling due	21,968	8,419
Overdue within 30 days	830	600
Overdue from 31 to 90 days	1,158	312
Overdue for more than 90 days	5,215	10,848
	<u>29,171</u>	<u>20,179</u>

Changes in the allowance for expected credit losses are as follows:

	<u>2021</u>	<u>2020</u>
Prior balances	(2,726)	(2,740)
Set-up of allowance for expected credit losses	(565)	(1,204)
Accounts receivable written off in the year as uncollectible	13	1,218
Closing balances	<u>(3,278)</u>	<u>(2,726)</u>

The allowance was calculated based on the credit risk analysis, which includes the history of losses, the individual situation of customers, the situation of the economic group to which they belong, as well as receivables overdue for more than 180 days, which are not expected to be received.

The recognition and derecognition of the allowance for expected credit losses (impairment) were recorded in profit or loss for the period. The amounts charged to the account of allowance are usually derecognized when recovery of funds is not expected.

Trade accounts receivable overdue for more than 180 days refer basically to projects awaiting technical validation from customers, for VDA1 approval and subsequent payment. The balances have not yet been settled, as vehicles are undergoing quality testing at the automakers, and are being monitored by the engineering area for the approval process.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021

(In thousands of reais)

6. Inventories

	2021	2020
Finished goods	1,276	514
Work-in-process	8,650	6,375
Raw materials	19,741	16,188
Packaging and storeroom materials	5,316	5,819
Inventory held by third parties	4,321	1,984
Imports in transit	5,451	2,534
Advances to suppliers (a)	2,572	1,965
(-) Provision for inventories	(3,016)	(2,764)
	<u>44,311</u>	<u>32,615</u>

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

Changes in provisions for inventories are as follows:

Balance at March 31, 2019	(1,866)
(+) Addition / supplement	(2,715)
(+) Write-offs/reversal	1,817
Balance at March 31, 2020	(2,764)
(+) Addition/supplement	(2,229)
(+) Write-offs/reversal	1,977
Balance at March 31, 2021	(3,016)

7. Taxes recoverable

	2021	2020
Current		
State VAT (ICMS) recoverable	3,003	1,555
Income and social contribution taxes	1,053	207
Contribution Tax on Gross Revenue for Social Security Financing (COFINS) recoverable	111	300
Contribution Tax on Gross Revenue for Social Integration Program (PIS) recoverable	23	62
Federal VAT (IPI) recoverable	9	-
Other taxes recoverable	235	237
Credit arising from exclusion of ICMS from the PIS/COFINS tax base (i)	17,802	-
	<u>22,236</u>	<u>2,361</u>
Noncurrent		
ICMS recoverable on permanent assets	1,253	1,618
Credit arising from exclusion of ICMS from the PIS/COFINS tax base (i)	27,886	-
	<u>29,139</u>	<u>1,618</u>
Total	<u>51,375</u>	<u>3,979</u>

- (i) On October 19, 2020, the Company was awarded a final and unappealable decision, whereby the requirement to include ICMS in the PIS and COFINS tax base was ruled out, ensuring the right to offset the amounts paid in the period from 2002 to 2020. Afterwards, management calculated and recorded the credits to which the Company is entitled. Management projected the full realization of these credits for the next 7 years.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021

(In thousands of reais)

7. Taxes recoverable (Continued)

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

8. Advances to suppliers

	<u>2021</u>	<u>2020</u>
Advances to customs broker	1,837	2,195
Advances to supplier - unproductive - burden	496	1,025
Other	134	192
	<u>2,467</u>	<u>3,412</u>

9. Financial instruments

In 2020, the Company had a Swap contract, whose marked-to-market value was R\$4,784, with a long position in Dollars and a short position in Interbank Deposit Certificate (CDI), aiming at the exchange hedge of loans taken out in dollars.

	<u>2021</u>	<u>2020</u>
Swap contracts		
(MTM)	-	4,874
	<u>-</u>	<u>4,874</u>

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021

(In thousands of reais)

10. Transactions with related parties

March 31, 2021

	SMP	SMBV	Samvardhana	Motheronsumi	
	Iberica	Motheron	Motheron Global	Infotech & Design	Total
Current assets					
Trade accounts receivable	-	-	329	-	329
Balance	-	-	329	-	329
Current liabilities					
Trade accounts payable	48	-	-	88	136
Noncurrent liabilities					
Intercompany loans	-	120,202	-	-	120,202
Balances	48	120,202	-	88	120,338

March 31, 2020

	SMP	SMBV	MSSL	Motheron	Motheronsumi	
	Iberica	Motheron	GMBH	Air Travel	Infotech & Design	Total
Current liabilities						
Trade accounts payable	82	-	33	3	168	286
Noncurrent liabilities						
Intercompany loans	-	104,472	-	-	-	104,472
Balances	82	104,472	33	3	168	104,758

The balances payable to SMBV Motheron refer to loans taken out to finance the development of the Atibaia plant, with interest of approximately 4.3% per annum plus foreign exchange differences through March 31, 2017. Most of the balance is due, but the maturity has been extended without a defined date, until SMP do Brasil has cash flows to return this fund. The SMP Group grants the necessary financial support to SMP do Brasil to maintain its operations. On April 1, 2017, interest was renegotiated under a contractual amendment between the parties, in which the debt balance will have no accruals and interest adjustments, as from that date with interest of 0% per annum.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021

(In thousands of reais)

10. Transactions with related parties (Continued)

Key management personnel compensation

Key management personnel include the Company's Board of Executive Officers. Compensation paid or payable to key management personnel for services rendered is as follows:

	2021	2020
Key management personnel compensation	<u><u>1,778</u></u>	<u><u>2,240</u></u>

11. Deferred taxes

The accumulated balances of income and social contribution tax losses totaled R\$763,978 in 2021 (R\$743,034 in 2020). On these balances, as well as on temporary differences, no tax credits were recorded as a result of historical income and social contribution tax losses.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021

(In thousands of reais)

12. Property, plant and equipment

(a) Breakdown and changes

	Buildings	Machinery and equipment	Furniture and fixtures	Facilities	Leasehold improvements	Other PPE items (*)	Construction in progress	Total PPE
Cost or valuation								
Balance at March 31, 2020	1,259	172,013	27,190	11,518	6,699	6,555	1,803	227,037
Additions	-	1,490	2,154	-	13	348	6,731	10,736
Transfers	-	318	-	-	30	3,970	(4,318)	-
Disposals and write-offs	-	(1,297)	-	-	-	(101)	-	(1,398)
Balance at March 31, 2021	1,259	172,524	29,344	11,518	6,742	10,772	4,216	236,375
Depreciation								
Balance at March 31, 2020	(1,259)	(156,642)	(24,146)	(11,518)	(6,699)	(5,258)	-	(205,522)
Additions	-	(470)	(2,493)	-	(43)	(785)	-	(3,791)
Disposals and write-offs	-	710	-	-	-	51	-	761
Provision for impairment	-	982	-	-	-	-	-	982
Balance at March 31, 2021	(1,259)	(155,420)	(26,639)	(11,518)	(6,742)	(5,992)	-	(207,570)
Residual value								
Balance at March 31, 2020	-	15,371	3,044	-	-	1,297	1,803	21,515
Balance at March 31, 2021	-	17,104	2,705	-	-	4,780	4,216	28,805

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

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021

(In thousands of reais)

12. Property, plant and equipment (Continued)

(a) Breakdown and changes (Continued)

	Buildings	Machinery and equipment	Furniture and fixtures	Facilities	Leasehold improvements	Other PPE items (*)	Construction in progress	Total PPE
Cost or valuation								
Balance at March 31, 2019	1,259	163,567	25,527	11,053	6,091	6,472	5,471	219,440
Additions	-	4,744	1,663	465	608	83	2,028	9,591
Transfers	-	5,696	-	-	-	-	(5,696)	-
Disposals and write-offs	-	(1,994)	-	-	-	-	-	(1,994)
Balance at March 31, 2020	1,259	172,013	27,190	11,518	6,699	6,555	1,803	227,037
Depreciation								
Balance at March 31, 2019	(1,259)	(140,060)	(20,139)	(10,673)	(5,525)	(4,088)	-	(181,744)
Additions	-	(1,023)	(1,514)	(232)	(343)	-	-	(3,112)
Disposals and write-offs	-	1,530	-	-	-	-	-	1,530
Provision for impairment	-	(17,089)	(2,493)	(613)	(831)	(1,170)	-	(22,196)
Balance at March 31, 2020	(1,259)	(156,642)	(24,146)	(11,518)	(6,699)	(5,258)	-	(205,522)
Residual value								
Balance at March 31, 2019	-	23,507	5,388	380	566	2,384	5,471	37,696
Balance at March 31, 2020	-	15,371	3,044	-	-	1,297	1,803	21,515

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

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021

(In thousands of reais)

12. Property, plant and equipment (Continued)

Impairment of assets

After calculation carried out for the year ended March 31, 2021, the Company did not record a new provision for impairment of assets.

The recoverable amount of the CGU was determined based on the calculation of value in use. These calculations use cash flow projections, before income and social contribution taxes, based on budgets approved by management for a five-year period. The amounts referring to cash flows after this five-year period were extrapolated based on the estimated growth rates presented.

13. Intangible assets

	Software & development of acquired products
Balance at March 31, 2019	2,063
Additions	1,083
Amortization	(530)
Balance at March 31, 2020	2,616
Write-offs	(1,021)
Amortization	(455)
Provision for impairment	(52)
Balance at March 31, 2021	1,088

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021

(In thousands of reais)

14. Right of use and lease liabilities

	Buildings	Machinery and equipment	Other contracts	Total right-of-use asset
Assets				
Balance at March 31, 2020	13,151	1,174	606	14,931
Right of use	-	-	716	716
Write-off	-	-	(51)	(51)
Balance at March 31, 2021	13,151	1,174	1,271	15,596
	Buildings	Machinery and equipment	Other contracts	Total right-of-use asset
Depreciation				
Balance at March 31, 2020	(4,694)	(350)	(236)	(5,280)
Right of use	(4,380)	(469)	(119)	(4,968)
Write-off	-	-	51	51
Balance at March 31, 2021	(9,074)	(819)	(304)	(10,197)
Balance at March 31, 2020	8,457	824	370	9,651
Balance at March 31, 2021	4,077	355	967	5,399
	Leases			
Liabilities				
Balance at March 31, 2019	-			
Lease agreements	14,931			
Interest on lease	1,354			
Payments	(6,126)			
Balance at March 31, 2020	10,159			
Lease agreements	716			
Interest on lease	832			
Payments	(5,801)			
Balance at March 31, 2021	5,906			
Current liabilities	5,281			
Noncurrent liabilities	625			

Lease obligation refers to the transfer of the right to use an asset identified for a period of time. These agreements refer to the lease of real estate and equipment.

In March 2021, data processing equipment was acquired through a lease transaction.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021

(In thousands of reais)

15. Trade accounts payable

	<u>2021</u>	<u>2020</u>
Local market	41,610	33,176
Foreign market	17,163	11,971
	<u>58,773</u>	<u>45,147</u>

Breakdown of the balance payable in the foreign market:

	<u>2021</u>	<u>2020</u>
Dollar	16,368	10,832
Euro	795	1,139
	<u>17,163</u>	<u>11,971</u>

16. Loans and financing

Institution/transaction	Rate	Maturity	<u>2021</u>	<u>2020</u>
Deutsche Bank/discounted trade notes	0.47% p.m.	04/12/2021	12,579	-
Citibank/Working Capital	9.3% p.a.	05/31/2021	20,946	20,668
Citibank/Working Capital	9.6% p.a.	04/01/2021	35,054	-
Citibank/Working Capital	9.8% p.a.	04/30/2021	17,432	-
	EV (USD) +	01/15/2021		
Citibank/Working Capital	4.492%		20,984	25,290
			<u>106,995</u>	<u>45,958</u>

Transactions with Deutsche Bank refer to discounts of trade notes for the period of March 2021, whose maturities were postponed by 12 days.

Loans with Citibank were taken out to meet the Company's cash requirements, given the deficient position of the Company's economic and financial statements.

17. Payroll and social charges

	<u>2021</u>	<u>2020</u>
Payroll charges - INSS (Social Security Tax)	1,238	1,374
Payroll charges – FGTS (Unemployment Compensation Fund)	262	300
Payroll charges – IRRF (Withholding Income Tax)	280	254
Accrued vacation pay and related charges	4,583	4,426
Accrual for 13 th monthly salary and related charges	1,083	1,143
Provision for profit sharing	3,870	5,020
Provision for bonuses and personnel expenses	1,162	1,710
Other personnel obligations	56	133
	<u>12,534</u>	<u>14,360</u>

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021

(In thousands of reais)

18. Advances from customers

	2021	2020
Advances from customers – Operations	3,268	1,334
Advances from customers - Tools (Note 23)	2,597	2,602
	5,865	3,936

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

19. Other liabilities

	2021	2020
Customs broker	1,683	1,352
Provision for debt note	170	466
Provision for charges on IC services	37	86
Provisions for trade accounts payable / accounts payable	5,137	311
Other liabilities	379	1,840
Provision for restructuring (i)	35,263	-
	42,669	4,055
Current	7,201	3,693
Noncurrent	35,468	362

- (i) In compliance with the provisions of CPC 25, item 72 to 83, the Company recognized a provision for the restructuring that should take place at the end of 2022.

20. Provisions for contingencies

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

	Civil	Labor	Tax	Total
Balance at March 31, 2019	97	2,554	-	2,651
(+) Supplement to provision	-	3,263	2,290	5,553
(-) Write-offs	(97)	(2,096)	(94)	(2,287)
Balance at March 31, 2020	-	3,721	2,196	5,917
(+) Supplement to provision	-	2,338	25	2,363
(-) Write-offs	-	(2,414)	-	(2,414)
Balance at March 31, 2021	-	3,645	2,221	5,866

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

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021

(In thousands of reais)

20. Provisions for contingencies (Continued)

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

Tax contingencies refer to the tax enforcement proceeding filed for collection of the ICMS-SP debt challenged in the administrative proceeding No. 4.011.103-9. After judgment at the administrative level, the debt was included in the roster of debtors to government on March 8, 2018. On July 19, 2019, referred to tax enforcement was filed to collect the debt, increased by attorney's fees.

The Company has other proceedings assessed by the Company's legal advisors as a possible loss, amounting to R\$3,080 (R\$4,491 in 2020), for which no provision was recorded in accordance with the accounting practices adopted in Brazil.

21. Equity

Capital

At March 31, 2021, Company's capital amounts to R\$472,587 (R\$459,697 in 2020), represented by 472,586,982 units of interest, with a par value of R\$1.00 (one real) each, held by the members as follows:

	2021	2020
SMP Automotive Technology Ibérica S.L.	472,586,981	459,696,981
Sukant Gupta	1	1
	<u>472,586,982</u>	<u>459,696,982</u>

Member SMP Automotive Technology Ibérica S.L paid in capital over the year as follows:

Registration	Payment	Jucepar No.	Articles of Association
10/01/2020	12,890	20205796567	84 th Amendment to the Articles of Association

Brazilian companies must register foreign capital and profits reinvested in the Central Bank of Brazil in order to remit dividends on this capital or to repatriate it. The Company registered the amount of R\$472,587 as foreign capital, which corresponds to its total capital.

In 2011, member SMP Automotive Technology Ibérica S.L sent equipment to the Company amounting to R\$15,501 for the purpose of capital increase, but these assets were initially admitted in Brazil as temporary admission. In May 2019, a portion of these pieces of equipment was paid in amounting to R\$13,467 according to the 79th Amendment to the Articles of Association. The balance of R\$2,034 is recorded as future capital contribution. Once the amendment to the Articles of Association is made, the amount will be converted into capital increase by SMP Automotive Technology Ibérica S.L.; these assets are in use in the Company's operating activities.

SMP Automotive Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021

(In thousands of reais)

22. Revenue

Reconciliation of gross sales to net revenue is as follows:

	<u>2021</u>	<u>2020</u>
Sales of products	454,584	536,778
Sales of services	8,805	13,533
(-) Sales taxes	(95,604)	(116,414)
(-) Returns and rebates	(5,304)	(9,994)
Net revenue	<u>362,481</u>	<u>423,903</u>

23. Construction contracts

Changes in construction contracts in the statements of profit or loss and of financial position, as mentioned in Note 2.17 (b), are as follows:

	<u>2021</u>	<u>2020</u>
Net revenue	(350)	(980)
Cost of sales	<u>350</u>	<u>980</u>
Gross profit from sales	<u>-</u>	<u>-</u>
Statement of financial position		
Accounts receivable from construction contracts (Note 5)	4,999	4,431
Advances received (Note 18)	<u>(2,597)</u>	<u>(2,602)</u>
Accounts receivable (advances received) from construction contracts, net	<u>2,402</u>	<u>1,829</u>

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

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Notes to financial statements (Continued)

March 31, 2021

(In thousands of reais)

24. Expenses by nature

	2021	2020
Cost of sales and services	425,813	454,123
Selling expenses	8,947	12,280
General and administrative expenses	21,805	15,861
Other operating income, net	(39,894)	(189)
	<u>416,671</u>	<u>482,075</u>
Raw material	225,024	265,880
Personnel expenses	116,073	110,300
Third-party services	44,166	28,875
Electricity and gas	11,647	12,885
Rent	12,166	13,298
Freight on sales	6,754	9,790
Building and industrial maintenance	7,768	8,980
Depreciation and amortization	4,246	3,642
Depreciation of right of use	4,968	5,280
Credit arising from exclusion of ICMS from the PIS/COFINS tax base (i)	(38,832)	-
Other operating income/costs	22,691	23,145
	<u>416,671</u>	<u>482,075</u>

(i) The remaining ICMS credit on PIS/COFINS (R\$6,855) is recorded under finance income (Note 25).

25. Finance income (costs)

	2021	2020
Finance costs		
Interest expenses	(1,345)	(2,516)
Interest on bank loans	(7,225)	(1,106)
Discounts granted on trade notes received	(1,749)	(4,290)
Other finance costs	(385)	(866)
	<u>(10,704)</u>	<u>(8,778)</u>
Finance income		
Interest income	4,579	39
Revenue on restatement of ICMS proceeding	6,855	-
	<u>11,434</u>	<u>39</u>
Foreign exchange gains	10,556	10,228
Foreign exchange losses	(34,884)	(38,508)
Foreign exchange differences, net	<u>(24,328)</u>	<u>(28,280)</u>
Finance income (costs), net	<u>(23,598)</u>	<u>(37,019)</u>

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Notes to financial statements (Continued)

March 31, 2021

(In thousands of reais)

26. Insurance coverage

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

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

Risk	Coverage	Effectiveness
Property damages / loss of profits	728,752	04/01/2021 to 03/31/2022
Civil liability	6,777	04/01/2021 to 03/31/2022
D&O	20,845	04/01/2021 to 03/31/2022
Domestic transportation	165,252	04/01/2021 to 03/31/2022
Fleet	110% - FIPE Index	10/06/2020 to 10/06/2021