

Financial Statements

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

March 31, 2021

With Independent Auditor's Report

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Financial statements

March 31, 2021

Contents

Independent auditor's report on financial statements	1
Audited financial statements	
Statements of financial position.....	4
Statements of profit or loss	6
Statements of comprehensive income (loss).....	7
Statements of changes in equity	8
Statements of cash flows - indirect method	9
Notes to financial statements	10

A free translation from Portuguese into English of independent auditor's report on financial statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil

Independent auditor's report on financial statements

The
Management and Members
SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.
Guarulhos - SP

Opinion

We have audited the financial statements of SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda. ("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, and of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting practices.

In our opinion, except for possible effects of the matters described in our "Basis for qualified opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda. at March 31, 2021, of 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 Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of financial statements section of our report. We are independent of the Company in accordance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants and the professional standards issued by Brazil's National Association of State Boards of Accountancy (CFC), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with Brazilian and international auditing standards, we exercise professional judgement 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 for one resulting from error, as fraud may involve the override of internal control, 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 substantial doubt as to the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' 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 auditors' 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 planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

São Paulo, May 17, 2021.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP034519/O-6



Mauricio Mitio Yuhara
Accountant CRC-1SP260523/O-3

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Statements of financial position
March 31, 2021 and 2020
(In thousands of reais)

	Note	2021	2020
Assets			
Current assets			
Cash and cash equivalents	4	2,349	6,137
Trade accounts receivable	5	44,554	32,992
Related parties	7	1,658	792
Inventories	6	28,511	34,177
Taxes recoverable		4,454	4,476
Other receivables		3,888	2,888
		<u>85,414</u>	<u>81,462</u>
Noncurrent assets			
Other receivables		930	300
Deferred taxes	20	-	1,614
Property, plant and equipment	8	74,898	82,471
		<u>75,828</u>	<u>84,385</u>
Total assets		<u>161,242</u>	<u>165,847</u>

	Note	2021	2020
Liabilities			
Current liabilities			
Trade accounts payable	9	38,282	38,474
Related parties	7	6,784	2,649
Tax liabilities		4,736	1,905
Advance from customers	10	8,654	18,422
Labor obligations and social charges	11	10,756	11,113
Provision for onerous contracts	12	736	2,400
Other provisions	13	10,816	6,734
		80,764	81,697
Não circulante			
Provision for onerous contracts	12	2,413	747
Provision for contingencies	14	8,393	7,753
Tax liabilities		2,092	-
Other provisions	13	28,629	33,990
		41,527	42,490
Equity			
Capital	15	85,630	85,630
Accumulated losses		(46,679)	(43,970)
		38,951	41,660
Total liabilities and equity		161,242	165,847

See accompanying notes.

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Statements of profit or loss

Years ended March 31, 2021 and 2020

(In thousands of reais)

	Note	2021	2020
Net operating revenue	16	282,011	344,321
Cost of goods sold	17	(257,442)	(321,715)
Gross profit		24,569	22,606
Other operating income (expenses)			
Personnel		(11,536)	(14,583)
General and administrative expenses		(8,568)	(900)
	18	(20,104)	(15,483)
Income/(loss) before finance income (costs)		4,465	7,123
Finance income	19	69	140
Finance costs	19	(5,258)	(6,784)
		(5,189)	(6,644)
Current		(371)	(684)
Deferred		(1,614)	1,614
Income and social contribution taxes	20	(1,985)	930
Income (loss) for the year		(2,709)	1,409

See accompanying notes.

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Statements of comprehensive income (loss)

Years ended March 31, 2021 and 2020

(In thousands of reais)

	2021	2020
Income (loss) for the year	(2,709)	1,409
Other comprehensive income	-	-
Comprehensive income (loss) for the year, net of taxes	<u>(2,709)</u>	<u>1,409</u>

See accompanying notes.

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Statements of changes in equity
Years ended March 31, 2021 and 2020
(In thousands of reais)

	Note	Capital	Accumulated losses	Total
Balances at March 31, 2019		85,630	(45,379)	40,251
Profit for the year		-	1,409	1,409
Balances at March 31, 2020		85,630	(43,970)	41,660
Loss for the year		-	(2,709)	(2,709)
Balances at March 31, 2021		85,630	(46,679)	38,951

See accompanying notes.

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Statements of cash flows - indirect method

Years ended March 31, 2021 and 2020

(In thousands of reais)

	2021	2020
Operating activities		
Income (loss) for the year	(2,709)	1,409
Adjustments not affecting cash and cash equivalents:		
Depreciation	13,834	9,566
Disposal of PP&E	1,614	(1,614)
Deferred taxes	(1,279)	(8,221)
Other provisions	2	(3,219)
Provision for onerous contracts	4,464	4,685
Interest on lease	640	(2,437)
Provision for contingencies	(436)	436
Allowance for doubtful accounts	136	91
Provision for obsolescence	16,266	696
(Increase) decrease in operating assets and increase/(decrease) in operating liabilities		
Trade accounts receivable	(11,126)	(8,759)
Inventories	5,530	25,930
Taxes recoverable	22	942
Other receivables	(1,630)	(321)
Trade accounts payable	(192)	11,753
Related parties	3,269	1,750
Tax obligations	4,923	194
Advances from customers	(9,768)	(7,546)
Labor and social obligations	(357)	(873)
Total	(9,329)	23,070
Cash from operating activities	6,937	23,766
Investing activities		
Acquisition of PP&E	(6,261)	(13,503)
Cash used in investing activities	(6,261)	(13,503)
Cash flow from financing activities		
Loans, financing and lease - payments	(4,464)	(4,685)
Net cash from financing activities	(4,464)	(4,685)
Increase (decrease) in cash and cash equivalents	(3,788)	5,578
Cash and cash equivalents at beginning of year	6,137	559
Cash and cash equivalents at end of year	2,349	6,137
Increase (decrease) in cash and cash equivalents	(3,788)	5,578

See accompanying notes.

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Notes to financial statements
March 31, 2021 and 2020
(In thousands of reais - R\$)

1. Operations

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda. ("Company") based in the municipality of Guarulhos/SP, formerly styled Reydel Automotive Brazil Industria e Comercio de Sistemas Automotivos Ltda., was incorporated in 2015 from the partial spin-off of the company Visteon Sistemas Automotivos Ltda., where the entire Visteon Interiors division was separated from the other divisions and subsequently acquired by Reydel Group. The Company started its operations on January 2, 2016.

The Company is engaged in manufacturing, trade, assembly, repair and installation of products, parts, pieces, components, systems, subsystems, sets and subsets for the automobile industry and for the industry in general; import and export of the above-mentioned products on its own or on behalf of third parties, under different business arrangements; provision of test services related to automotive systems; commercial representation; and holding interest in other companies as a member and/or shareholder.

Currently the Company has two manufacturing units in operation, located in the cities of Guarulhos-SP and Gravataí-RS.

The financial statements were approved by management on May 17, 2021.

Impacts of COVID-19 in the Company's operations

On January 31, 2020, the World Health Organization (WHO) announced that the coronavirus (COVID-19) is a global health emergency. The outbreak has triggered significant decisions of governments and private entities that in addition to the potential impact of the outbreak, increased the uncertainties level to the economic agents and may cause relevant impacts in the amounts recognized in the Company's financial statements.

With respect to the measurement metrics of assets and liabilities, we have not yet identified situations or material changes in the estimates of recoverability of assets, provision for credit losses, and net realization of inventories.

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021 and 2020

(In thousands of reais - R\$)

2. Presentation of financial statements

The financial statements were prepared in accordance with accounting practices adopted in Brazil, including accounting pronouncements, interpretations and guidance issued by the Brazilian Financial Accounting Standards Board (CPC) and approved by Brazil's National Association of State Boards of Accountancy (CFC).

These financial statements were prepared under the historical cost as a value basis, except for certain assets and liabilities classified as financial instruments, which are measured at fair value, or when identified otherwise, as described in the summary of significant accounting practices.

Estimates

These financial statements were prepared under various measurement bases used in accounting estimates. Accounting estimates involved in the preparation of the financial statements were based on both objective and subjective factors, in line with management's judgment for determining the appropriate amounts to be recorded in the financial statements. Significant items subject to these estimates and assumptions include selection of useful lives and recoverability of property, plant and equipment, measurement of financial assets under present value adjustment method, credit risk analysis in determining the allowance for doubtful accounts, as well as the analysis of other risks in determining other provisions, including provision for contingencies.

Settlement of transactions involving these estimates may result in amounts significantly different from those recorded in the financial statements due to the uncertainty inherent in their estimate process. The Company reviews its estimates and assumptions at least once a year.

Transactions in foreign currency

The Company's functional currency is the Brazilian Real, which is also its reporting currency.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency (Real) at the exchange rate in force as of the corresponding statement of financial position dates. Gains and losses resulting from restatement of those assets and liabilities between the exchange rate prevailing at the date of the transaction and the reporting period closing dates are recognized as finance income or costs in profit or loss.

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021 and 2020

(In thousands of reais - R\$)

3. Accounting policies

The main accounting policies adopted in the preparation of financial statements are as follows:

a) Statement of profit or loss

i) *Revenue*

CPC 47, equivalent to international standard IFRS 15, supersedes CPC 17 (R1) - Construction Contracts (equivalent to international standard IAS 11), CPC 30 - Revenue (equivalent to international standard IAS 18) and related interpretations and applies, with limited exceptions, to all revenues from a customer contract. CPC 47 establishes a five-step model for accounting for revenue from a customer contract and requires revenue to be recognized at an amount that reflects the consideration the entity expects to receive in exchange for the transfer of goods or services to a customer.

CPC 47 requires entities to exercise judgment, taking into consideration all significant facts and circumstances when applying each step of the model to contracts with its customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and costs directly related to performance of a contract. In addition, the standard requires more detailed disclosures.

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

The Company recognizes revenue when the amount of revenue can be reliably measured, it is likely that economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities, as described below:

a) Sale of products

The Company manufactures and sells parts and pieces related to the internal finishing of motor vehicles. Product sales are recognized whenever the product is delivered to the buyer. The Company assesses revenue transactions against specific criteria to determine whether it is acting as an agent or a principal, and eventually has concluded that it is acting as principal in all its revenue contracts.

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021 and 2020

(In thousands of reais - R\$)

3. Accounting policies (Continued)

a) Determination of profit or loss (Continued)

i) *Revenues* (Continued)

b) Sale of tooling

The Company develops and sells tooling for injection molding of plastic parts according to the technical specification of the order and model of the vehicle according to the automaker's project, and throughout the development, advances are made by the automakers to support the funds spent. The development and sale of tooling is usually linked to the supply of parts. Tooling sales are recognized at the time the project is in production and approved by the automaker. The automaker, in its turn, issues a free-lease agreement authorizing the use of the tooling, as it is an asset of its own.

ii) *Costs and expenses*

These are recognized on an accrual basis, i.e. effectively accounted for when expenses were effectively incurred.

iii) *Interest income and expenses*

Interest income and expenses are recognized under the effective interest method as finance income or finance costs, net.

b) Cash and cash equivalents

These include cash, positive bank account balances and short-term investments redeemable within 90 days of the statement of financial position dates and involving low risk of change in their market value.

The Company considers cash equivalents to be any short-term investment readily convertible into a known cash amount and subject to insignificant risk of change in value. Accordingly, an investment normally qualifies as cash equivalent when it is redeemable in the short term, for example, within three months or less from the investment date.

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021 and 2020

(In thousands of reais - R\$)

3. Accounting policies (Continued)

c) Financial instruments

i) *Financial instruments*

Non-derivative financial instruments include financial investments, accounts receivable and other receivables, cash and cash equivalents, related parties, loans and financing, as well as accounts payable and other debts.

Subsequent to initial recognition, non-derivative financial instruments are measured according to their respective classification:

Financial instruments held to maturity

If the Company has the positive intention and ability to hold its debt instruments to maturity, they are classified as held to maturity. Investments held to maturity are measured at amortized cost using the effective interest rate method, less any impairment losses.

Financial instruments available for sale

The Company's investments in equity instruments and certain assets related to debt instruments are classified as available for sale. Subsequent to initial recognition, they are stated at fair value and their fluctuations, except for reductions in their recoverable value, and foreign currency differences on these instruments are recognized directly in equity, net of tax effects. When an investment is no longer recognized, the accumulated gain or loss in equity is transferred to profit or loss.

Financial instruments at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading, i.e. designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages these investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented investment and risk management strategy. After initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value and their fluctuations are recognized in profit or loss.

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)
March 31, 2021 and 2020
(In thousands of reais - R\$)

3. Accounting policies (Continued)

c) Financial instruments (Continued)

i) *Financial instruments* (Continued)

Other

Other non-derivative financial instruments are measured at amortized cost using the effective interest rate method, reduced by any impairment losses.

ii) *Trade notes receivable*

Trade notes receivable refer to amounts receivable from customers and are reduced to their probable realization value, upon estimated losses. Estimated losses on doubtful accounts are recorded in an amount deemed sufficient by management to cover any losses on the realization of accounts receivable.

d) Accounts receivable and expected credit losses

They are initially recognized at fair value and subsequently measured by the effective interest rate method less the estimated impairment loss (estimated losses on doubtful accounts), if necessary.

Estimated losses on doubtful accounts are set up when there is evidence that management will not be able to receive all amounts due within the original term of the receivables. The method used for this assessment is established based on the Company's history of losses and estimated as a result of the customer's financial strength, current economic climate and changes in payment patterns. Management determines the amount to be provided for in relation to the domestic and foreign markets. Such losses are periodically reviewed to be adjusted if necessary. The estimated loss on doubtful accounts was established by an amount considered sufficient by management to cover possible losses on credit realization.

The restatements of these losses are directly reflected in profit or loss for each year.

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021 and 2020

(In thousands of reais - R\$)

3. Accounting policies (Continued)

e) Inventories

Assessed at average cost, not exceeding market value. Provisions for slow-moving or obsolete inventories are set up when so deemed necessary by management. Imports in transit are recorded at the accumulated cost of each import.

f) Property, plant and equipment and depreciation

Property, plant and equipment are stated at acquisition, buildup or construction cost, taking into consideration the segregation between capital expenditures and expenses for the period. Depreciation is calculated under the straight-line method, based on annual rates that take into consideration the remaining useful and economic life of assets.

Depreciation is calculated on the depreciable value, which is the cost of an asset less its residual value. Depreciation methods, useful lives and residual values are reviewed at each year end and any adjustments are recognized as changes in accounting estimates.

g) Other current and noncurrent assets

These are stated at realizable value, including, when applicable, accrued income, monetary and exchange variations or, in the case of prepaid expenses, at cost.

h) Liabilities

A liability is recognized in the statement of financial position 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 economic benefits. Due to uncertainties with respect to their timing and amount, certain liabilities are estimated as incurred and recorded by means of a provision. Provisions are set up reflecting the best estimates of the risk involved.

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021 and 2020

(In thousands of reais - R\$)

3. Accounting policies (Continued)

h) Liabilities (Continued)

Determining the estimated obligation related to tax, civil and labor proceedings involves professional judgment by management. The Company is subject to a number of claims and is party to tax, civil and labor lawsuits on various matters arising from the ordinary course of its business activities. The Company records a provision for probable losses on said lawsuits that can be estimated with reasonable accuracy. The Company's judgment is based on the opinion of its outside counsel. Balances are adjusted to reflect changes in the circumstances of ongoing proceedings. Effective results may differ from these estimates. Tax, civil or labor claims to be estimated and accrued at March 31, 2021 and 2020 are stated in Note 14. The Company set up a provision for contracts in which the unavoidable costs of performing the contractual obligations exceed the expected economic benefits to be received over the same contract, as shown in Note 12.

These are restated, when applicable, at exchange rates and financial charges, in accordance with the contracts in force so as to reflect the amounts incurred up to the statement of financial position date. Long-term items are adjusted to present value when applicable.

i) Taxation

Sales revenues are subject to the following taxes and contribution taxes, at the following statutory rates:

	<u>Rates</u>
State VAT (ICMS) - São Paulo state	18%
ICMS (other states)	7% a 12%
Federal VAT (IPI)	0%
Contribution Tax on Gross Revenue for Social Integration Program (PIS)	1.65%
COFINS (Contribution Tax on Gross Revenue for Social Security Financing)	7.60%

These charges are presented as sales deductions in the statement of profit or loss. The credits arising from the noncumulative PIS/COFINS are presented deductively from the cost of the services rendered in the statement of profit or loss.

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021 and 2020

(In thousands of reais - R\$)

3. Accounting policies (Continued)

i) Taxation (Continued)

Income taxes include both income and social contribution taxes. Income tax is determined on taxable profit at the rate of 15%, plus 10% surtax on profits that exceed R\$ 240 thousand over a 12-month period. Social contribution tax is calculated at a rate of 9% on taxable profit, and both IRPJ and CSLL are recognized on an accrual basis; therefore, additions to taxable profit, deriving from temporarily nondeductible expenses, or exclusions from temporarily non-taxable profit, upon determination of current taxable profit, generate deferred tax assets or liabilities.

Prepaid or recoverable amounts are stated in current or noncurrent assets, based on their estimated realization. Deferred income and social contribution taxes are recognized on temporary differences arising from differences between asset and liability tax bases and their book value in the financial statements. Deferred income and social contribution taxes are determined at the tax rates (and tax legislation) 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.

Deferred income and social contribution tax assets are recognized on IRPJ and CSLL tax losses to the extent that their realization is probable. There were no deferred income and social contribution tax assets as at March 31, 2021 and 2020 due to lack of track record and uncertainty regarding profitability expectations. Deferred income tax losses are not barred by statutes of limitation, but its offsetting in future years is capped at 30% of taxable profit computed for each year.

j) Impairment of assets

The Company periodically reviews whether there is evidence that the carrying amount of an asset will not be recovered. The recoverable amount of an asset is the higher of: (a) its fair value less costs to sell, and (b) its value in use. The value in use is equivalent to the discounted cash flow (before taxes) derived from the continuous use of the asset until the end of its useful life. When the net value of the asset exceeds its recoverable amount, the Company recognizes a reduction in the carrying amount of this asset (impairment). The recoverable value analysis is carried out by business unit, which is the smallest possible cash-generating unit to identify cash flows.

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021 and 2020

(In thousands of reais - R\$)

3. Accounting policies (Continued)

k) Loans and financing

Loans and financing are restated by monetary or exchange variations, as applicable, plus interest incurred through the statement of financial position date.

l) Cash flow statements

Cash flow statements have been prepared using the indirect method and are presented in accordance with accounting pronouncement CPC 03 (R2) - Cash Flow Statement, issued by the Brazilian FASB (CPC).

m) Present value adjustment of assets and liabilities

Noncurrent monetary assets and liabilities are adjusted to present value and so are current monetary assets and liabilities whenever the effects are considered significant on the overall financial statements. The present value adjustment is calculated using contractual cash flows and the explicit, and sometimes implicit, interest rates of the respective assets and liabilities. Thus, interest embedded in revenues, expenses and costs associated with these assets and liabilities is discounted to recognize them on an accrual basis.

This interest is subsequently reallocated to financial income and expenses in P&L through use of the effective interest rate method in relation to contractual cash flows. Implicit interest rates were determined based on assumptions, and accounting estimates are considered. As per the Company's management assessment, there are no material adjustments to the overall financial statements.

n) Lease

The Company assesses, on the start date, whether the agreement is or contains a lease, that is, if the agreement transfers the right to control the use of an identified asset over a period of time in exchange for consideration.

The Company applies a recognition and measurement approach for all leases, except short-term leases and leases of low-value assets. The Company recognizes lease liabilities to make lease payments and right-of-use assets that represent the right to use the underlying assets.

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021 and 2020

(In thousands of reais - R\$)

3. Accounting policies (Continued)

n) Lease (Continued)

Right-of-use assets

The Company recognizes right-of-use assets on the lease start date (that is, the date on which the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any new remeasurements of lease liabilities. The cost of right-of-use assets includes the amount of recognized lease liabilities, initial direct costs incurred, and lease payments made up to the start date, less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shortest period between the lease term and the estimated useful life of the assets, as follows:

- Buildings: 2019 to 2026, 7 years.

In certain cases, if the ownership of the leased asset is transferred to the Company at the end of the lease term or if the cost represents the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Right-of-use assets are also subject to impairment.

Lease liabilities

On the lease start date, the Company recognizes lease liabilities measured at the present value of lease payments to be made during the lease term. Lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or rate, and amounts expected to be paid under residual value guarantees. Lease payments also include the exercise price of a purchase option if the Company is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate the lease.

Variable lease payments that do not depend on an index or rate are recognized as expenses (unless incurred to produce inventories) in the period in which the event or condition that generates these payments occurs.

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021 and 2020

(In thousands of reais - R\$)

3. Accounting policies (Continued)

n) Lease (Continued)

Lease liabilities (Continued)

When calculating the present value of lease payments, the Company uses its incremental borrowing rate on the start date, as the interest rate implicit in the lease is not easily determinable. After the start date, the amount of the lease liability is increased to reflect the increase in interest and reduced for lease payments made. In addition, the book value of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (for example, changes in future payments resulting from a change in an index or rate used to determine such lease payments), or a change in the valuation of a purchase option on the underlying asset.

Short-term and low-value asset leases

The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is, leases whose lease term is equal to or less than 12 months from the start date and that do not contain a purchase option). The low-value asset recognition exemption is also applied to leases of office equipment considered to be of low value. Short-term lease and low-value asset lease payments are recognized as expenses using the straight-line method over the lease term.

o) New or revised pronouncements applied for the first time at March 31, 2021

The Company adopted for the first time certain standards and amendments, effective for annual periods beginning on or after January 1, 2020. The Company elected not to early adopt any other standard, interpretation or amendment that has been issued, but is not yet effective.

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021 and 2020

(In thousands of reais - R\$)

3. Accounting policies (Continued)

o) New or revised pronouncements applied for the first time at March 31, 2021 (Continued)

Amendments to CPC 15 (R1) – Business definition

The amendments to CPC 15 (R1) clarify that, in order to be considered a business, an integrated set of activities and assets must include, at least, an input – inflow of funds and a substantive process which, together, contribute significantly for the capacity to generate output – outflow of funds. In addition, these amendments clarified that a business may exist without including all inputs – inflows of funds and processes necessary for creating outputs – outflows of funds. Referred to amendments had no impact on the Company's financial statements but may affect future periods in case the Company engages in any business combinations.

Amendments to CPC 38, CPC 40 (R1) and CPC 48: Interest Rate Benchmark Reform

The amendments to CPC 38 and CPC 48 provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the Company's financial statements as it does not have any interest rate hedge relationships.

Amendments to CPC 26 (R1) and CPC 23: Definition of material

These amendments provide a new definition of material, which affirms that “information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific report of the entity”. The amendments clarify that materiality will depend on the nature and magnitude of the information, individually or in combination with other information, in the context of the financial statements. Misstated information is material if it could be reasonably expected to influence the decision taken by the primary users. These amendments had no impact on the financial statements and no future impacts are expected for the Company.

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021 and 2020

(In thousands of reais - R\$)

3. Accounting policies (Continued)

o) New or revised pronouncements applied for the first time at March 31, 2021 (Continued)

Revised CPC 00 (R2): Financial Reporting Framework

The revised pronouncement sets out new concepts, provides updated definitions and criteria for recognition of assets and liabilities, also clarifying key concepts. These changes had no impact on the Company's financial statements.

Amendments to CPC 06 (R2): Benefits Related to Covid-19 Granted to Lessees in Lease Agreements.

The amendments provide for grants to lessees in applying the guidance set out in CPC 06 (R2) on the change in lease agreements, for recording the related benefits as a direct consequence of Covid-19 pandemic. As a practical expedient, a lessee may choose not to assess whether a benefit related to Covid-19 granted by the lessor is a change to the lease agreement. The lessee that makes this option should account for any change in lease payments resulting from the benefit granted in the lease agreement relating to Covid-19 in the same manner as this lessee would record the change under CPC 06 (R2) in case such change were not a change to the lease agreement.

This change had no impact on the Company's financial statements.

p) Standards issued, but not yet in effect

New and amended standards and interpretations issued but not yet effective until the date of Company financial statements are described below. The Company intends to adopt these new and revised standards, if applicable, when they become effective.

CPC 17 – Insurance contracts

In May 2017, IASB issued IFRS 17 – Insurance Contracts (still with no equivalent issued by the CPC in Brazil, but which will be named CPC 50 – Insurance Contracts and replace CPC 11 – Insurance Contracts), a new comprehensive accounting standard that includes recognition and measurement, presentation and disclosure. As soon as it comes into effect, IFRS 17 (CPC 50) will replace IFRS 4 – Insurance Contracts (CPC 11) issued in 2005. IFRS 17 applies to all types of insurance contracts (such as life, non-life, direct insurance and reinsurance), irrespective of the type of entity that issues these contracts, as well as certain guarantees and financial instruments with discretionary participation features.

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021 and 2020

(In thousands of reais - R\$)

3. Accounting policies (Continued)

p) Standards issued, but not yet in effect (Continued)

CPC 17 – Insurance contracts (Continued)

Certain scope exceptions apply. IFRS 17 general purpose is to provide insurance companies with an accounting model for insurance contracts that is more useful and consistent. In contract with IFRS 4 requirements, which are widely based on local accounting policies effective in prior periods, IFRS 17 provides a comprehensive model for insurance contracts, comprising all significant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (variable rate approach).
- A simplified approach (premium allocation approach) mainly for short-term contracts.

IFRS 17 is effective for periods beginning on or after January 01, 2023, and presentation of amounts for comparison purposes is required. Early adoption is allowed if the entity also adopts IFRS 9 and IFRS 15 on the same date or before first-time adoption of IFRS 17. This standard does not apply to the Company.

Amendments to IAS 1: Classification of liabilities as current or non-current

In January 2020, IASB issued amendments to paragraphs 69 through 76 of IAS 1, correlated with CPC 26, in order to specify the requirements for classifying liabilities as current or noncurrent. These amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are valid for periods beginning on or after January 1, 2023 and should be applied retrospectively. The Company currently assesses the impact that the changes will have on current practice and whether existing loan agreements may require renegotiation.

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021 and 2020

(In thousands of reais - R\$)

4. Cash and cash equivalents

	2021	2020
Banks	2,349	6,137
Total	2,349	6,137

5. Trade accounts receivable

	2021	2020
Domestic trade accounts receivable	44,551	33,403
Foreign trade accounts receivable	3	25
	44,554	33,428
Allowance for doubtful accounts	-	(436)
Total	44,554	32,992
Aging list		
Falling due	44,437	31,299
Overdue		
Within 30 days	80	453
From 31 to 60 days	11	94
From 61 to 90 days	3	367
From 91 to 180 days	8	575
Above 181 days	15	640
Total	44,554	33,428

As of March 31, 2021, amounts overdue for more than 61 days are basically comprised of Debts in negotiation with the customers.

The Company has a policy for doubtful accounts, whereby an allowance is recorded after an appropriate and detailed case-by-case analysis in a joint effort with the legal department, where the history of each customer is considered for setting up the allowance.

The policy determines the following criteria for establishing an allowance:

- 25% for due dates over 90 days;
- 50% for due dates over 180 days; and
- 100% for due dates over 360 days.

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021 and 2020

(In thousands of reais - R\$)

5. Trade accounts receivable (Continued)

With respect to tooling receivables (molds in production), considering the business duration and its particulars, specific rules should be applied, as follows:

- 25% for due dates over 180 days;
- 50% for due dates over 360 days; and
- 100% for due dates above 2 years.

Changes in the allowance for doubtful accounts are as follows:

	2021	2020
Balance at beginning of year	(436)	-
Reversion (additions)	436	(436)
Balance at end of year	-	(436)

6. Inventories

	2021	2020
Raw materials	11,884	9,661
Work-in-process	2,232	2,857
Finished products	3,789	5,222
Advances on projects (tooling) (a)	8,830	14,530
Other materials (b)	2,375	2,370
	29,110	34,640
Obsolete items	(599)	(463)
Total	28,511	34,177

(a) Advances on projects (tooling) equivalent to advances from suppliers account, in which the expenses incurred are for the purpose of making "Molds" for new products. The balance decreases as the invoices are issued.

(b) This account consists substantially of balances of materials in transit and reserves for inventory losses..

Changes in the provision for obsolescence are as follows:

	2021	2020
Balance at beginning of year	(463)	(372)
Additions	(251)	(342)
Reversion	115	251
Balance at end of year	(599)	(463)

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021 and 2020

(In thousands of reais - R\$)

6. Inventories (Continued)

The Company analyzes the realizable value of inventories based on market conditions and also on indicators of its customers. When there is evidence from the market in which it operates or from customers that sales will present negative margins, the Company makes a provision for onerous contracts (see Note 12).

A provision for obsolescence is established by the Company based on analysis of daily consumption of sales and production of products in the last 12 months.

Based on this analysis, the Company classifies the items as follows:

- Prod: products that are still produced and sold regularly;
- Service: These are the products that automakers do not buy regularly, but are necessary to keep inventories to meet demands of spare parts, for a period of up to 10 years;
- Obsolete: These are products that have no prospect of sale or reuse.

The items classified as "Obsolete" refer to items for which there were no sales or production activities in the period under analysis, therefore the Company sets up provision for 100% of inventories of these items. The items classified as "Service" are not regularly purchased, but the Company needs to keep them in stock for a period of 10 years, in order to meet a future eventuality and replacement established in contracts. In the case of these items, the logistics sector conducts an analysis of the time in which they remain in stock, and checks with the dealerships the expectations for acquisition of these products. Based on this information, the provision can reach up to 50%.

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021 and 2020

(In thousands of reais - R\$)

7. Related parties

The main balances with related parties are reflected in the financial statements as follows:

	2021		2020	
	Assets	Liabilities	Assets	Liabilities
SMRC Barcelona (a)	46	-	180	-
SMRC Argentina (a)	1,612	-	612	-
SMRC India (c)	-	(13)	-	-
SMRC Automotive B.V. (NL) (b)	-	(6,771)	-	(2,649)
Total	1,658	(6,784)	792	(2,649)

(a) Refers to expenses with Brazilian employees working in the respective countries.

(b) Refers to cost sharing.

(c) Products purchase

Management compensation

Key management personnel are represented by the Company's senior management.

In the year ended March 31, 2021, compensation paid or payable for the services rendered by these professionals, including labor charges, totaled R\$3.207 (R\$2,682 in 2020).

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)
 March 31, 2021 and 2020
 (In thousands of reais - R\$)

8. Property, plant and equipment

	Land	Buildings	IT equipment	Facilities	Machinery and equipment	Furniture and fixtures	Vehicles	Construction in progress	Total
Annual depreciation rate		4%	20%	10%	10%	10%	20%		
Acquisition cost:									
Balance at March 31, 2019	650	1,917	3,237	2,045	66,389	53	6	14,389	88,686
Additions	-	26,370	-	-	-	-	-	13,503	39,873
Transfers	-	9,437	661	1,781	1,219	20	-	(13,118)	-
Balance at March 31, 2020	650	37,724	3,898	3,826	67,608	73	6	14,774	128,559
Additions	-	1,150	31	-	-	-	-	5,080	6,261
Transfers	-	-	-	3,451	7,660	-	-	(11,111)	-
Balance at March 31, 2021	650	38,874	3,929	7,277	75,268	73	6	8,743	134,820
Accumulated depreciation:									
Balance at March 31, 2019	-	(51)	(2,357)	(1,825)	(32,255)	(28)	(6)	-	(36,522)
Depreciation	-	(3,003)	(497)	(152)	(5,908)	(6)	-	-	(9,566)
Balance at March 31, 2020	-	(3,054)	(2,854)	(1,977)	(38,163)	(34)	(6)	-	(46,088)
Depreciation	-	(5,488)	(438)	(1,006)	(6,894)	(8)	-	-	(13,834)
Balance at March 31, 2021	-	(8,542)	(3,292)	(2,983)	(45,057)	(42)	(6)	-	(59,922)
Net Balance at March 31, 2020	650	34,670	1,044	1,849	29,445	39	-	14,774	82,471
Net Balance at March 31, 2021	650	30,332	637	4,294	30,211	31	-	8,743	74,898

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021 and 2020

(In thousands of reais - R\$)

9. Trade accounts payable

	2021	2020
Local suppliers	32,338	28,938
International suppliers	3,869	6,692
Suppliers in transit	2,075	2,844
Total	38,282	38,474

10. Advances from customers

	2021	2020
Advance from customers	423	57
Revenues from future services (b)	305	715
Projects to be billed (a)	7,926	17,650
Total	8,654	18,422

(a) Unbilled projects of new products (tooling, i.e., molds of new product models that the Company will sell to customers. In 2020, expenses/advances occurred in relation to the major projects.

(b) The changes refer to advance billing of tooling with future delivery to the customer.

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021 and 2020

(In thousands of reais - R\$)

11. Labor obligations and social charges

	2021	2020
Salaries payable	223	97
Profit sharing payable	2,024	1,052
Accrued vacation pay	2,755	1,546
Accrued 13th monthly salary pay	635	665
Retirement plan payable	93	96
Directors' bonus	2,180	4,542
Other deductions payable	53	126
Employees' withholding income tax (IRRF) payable	238	338
Unemployment Compensation Fund (FGTS) payable	491	499
Social Security Tax (INSS) payable	2,064	2,152
Total	10,756	11,113

12. Provision for onerous contracts

	2021	2020
Current liabilities		
Provision for onerous contracts	736	2,400
Noncurrent liabilities		
Provision for onerous contracts	2,413	747
Total	3,149	3,147

The Onerous contracts account refers to projects closed with automakers that will generate negative sales margins due to a decrease in production. This reduction in production hinges on certain external factors, but the main one is the automaker's communication that the car model in which there are parts produced will go out of line and will no longer be produced. Parts already produced or in production by the Company will only be used for replacement purposes (see Note 18). Segregation of the balance is based on the time of contract, where contracts older than one year are classified as noncurrent liabilities.

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021 and 2020

(In thousands of reais - R\$)

13. Other provisions

	2021	2020
Current		
Provision for expenses	6,348	4,295
Lease (a)	4,229	2,180
Provision for guarantee	239	259
Total	10,816	6,734
Noncurrent		
Provision for rent	-	9,800
Lease (a)	28,629	24,190
Total	28,629	33,990

(a) The provision for rent refers to the accounting for the linearization of the liabilities of the rental contract referring to the Company's headquarters - Guarulhos / SP. The respective rental agreement has a grace period for the first 27 months, so payments will start from Apr/19. The Company fully recorded in the income for the year of March 31, 2019, the amount of R\$11,427 related to the linearization of rents, of which R\$6,845 refers to the linearized rental expenses related to the 1st period. from December 2016 to March 2018. In May/19, we started to account for the linearization of the additional of the rented building and in Feb/20 we started to account for the rules to comply with IFRS16.

Provision for expenses includes overhead service expenses, retroactive price to suppliers, projects and *Lauching*.

14. Provision for contingencies

	2021	2020
Labor contingencies	7,361	6,721
Tax contingencies	1,032	1,032
Total	8,393	7,753

The change in the provision for contingencies is as follows:

	2019	Provision	Reversion	2020	Provision	Reversion	2021
Labor	6,494	227	-	6,721	640	-	7,361
Tax	3,696	1,032	(3,696)	1,032	-	-	1,032
Total	10,190	1,259	(3,696)	7,753	640	-	8,393

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021 and 2020

(In thousands of reais - R\$)

14. Provision for contingencies (Continued)

At March 31, 2021, the Company is aware of other civil, tax and labor contingencies. Based on the assessment of legal advisors, the likelihood of loss estimated as possible amounted to R\$640 (R\$1,259 in 2020), considering the historical average of monitored proceedings adjusted to current estimates, for which the Company management understands that a provision for losses, if any, is unnecessary.

15. Equity

Capital

At March 31, 2021 and 2020, subscribed capital amounts to R\$85,630 and is represented by 85,630,119 units of interest with a par value of R\$1.00 each, held as follows:

Members	Units of interest	R\$
SMRC Automotive Holding South America B.V.	85,630,118	85,629
SMRC Automotive Modules South America Minority Holdings B.V.	1	1
	85,630,119	85,630

16. Receita operacional líquida

	2021	2020
Sale of products - domestic market	329,625	354,038
Sale of services/tooling	28,970	79,441
Gross revenue	358,595	433,479
Sales deductions		
Sales taxes	(76,584)	(89,158)
Total	282,011	344,321

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021 and 2020

(In thousands of reais - R\$)

17. Cost of goods sold

	2021	2020
Cost of goods sold	(145,396)	(159,386)
Cost of services/tooling	(17,146)	(54,621)
Personnel	(42,755)	(50,015)
Depreciation	(12,396)	(9,541)
Other costs	(39,749)	(48,152)
	(257,442)	(321,715)

18. Expenses by type

	2021	2020
ADM personnel	(11,536)	(14,583)
Outsourced services	(1,896)	(2,899)
New business	(51)	(501)
Travel expenses	(305)	(1,335)
Transportation expenses	(192)	(138)
Vehicle rental	(384)	(289)
Depreciation	(24)	(24)
Labor proceedings	(657)	(3,740)
Onerous contracts (a)	(2)	3,218
Other income (expenses) (b)	(5,057)	4,808
	(20,104)	(15,483)

(a) Onerous contracts (expected negative margin on product sales) - the amount corresponds to the reversal of provisions from previous years based on sales made.

(b) The balance recorded in 2021 results from cost sharing expenses incurred in the amount of R\$(1.941); expense arising from São Paulo tax expense R\$(2.481).

19. Finance income (costs)

	2021	2020
Finance income		
Other finance income	69	140
	69	140
Finance costs		
Interest, penalties and adjustments	(5,258)	(6,784)
	(5,258)	(6,784)
Finance income (costs), net	(5,189)	(6,644)

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021 and 2020

(In thousands of reais - R\$)

20. Income and social contribution taxes

Deferred income and social contribution taxes

Deferred income and social contribution taxes break down as follows:

	2021	2020
Accumulated losses	-	1,614
	-	1,614
Deferred tax assets – beginning balance	1,614	-
Changes in P&L for the year	(1,614)	1,614

On March 31, 2021, the Company reversed tax credits on accumulated losses, as there is no provision for future taxable profits to record deferred tax in the statutory books.

Reconciliation of income and social contribution tax expenses (Continued)

As of March 31, the reconciliation between income tax and social contribution at the nominal and effective rates is shown below:

	2021	2020
Profit (loss) before income and social contribution taxes	(724)	479
Combined tax rate	34%	34%
Taxa at the combined rate	246	(163)
<i>Changes in temporarily non-deductible provision</i>		
Permanent exclusion (additions)	(641)	(485)
Temporary differences *	(1,614)	1614
Other	-	(60)
(-) Income tax exemption limit (R\$24)	24	24
Income and social contribution taxes in the year	(1,985)	930

(*) In 2020, the amount of R\$(1,614) related to the deferred income tax recorded in 2019, was reversed.

21. Financial instruments

The Company's financial instruments are presented in accordance with Accounting Pronouncements CPC 38, 39 and 40, and are represented by cash and cash equivalents, short-term investments, accounts receivable and payable. They are stated at cost plus income or charges incurred, which at March 31, 2021 and 2020, approximate market values, and are not expected to generate a loss for the Company.

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Notes to financial statements (Continued)

March 31, 2021 and 2020

(In thousands of reais - R\$)

21. Financial instruments (Continued)

a) Valuation of financial instruments

Financial assets and liabilities are stated at cost and include the respective recognition of income and expenses through the statement of financial position date, which approximate market value due to their short-term nature.

In the years ended March 31, 2021 and 2020, the Company did not carry out transactions with derivatives in US dollars, only in Chinese yuan.

b) Credit risk

Credit risk refers to risk of a counterparty not meeting its contractual obligations, resulting in financial losses to the Company. The Company's sales policy is subject to the credit policies established by management and are designed to minimize any issues arising from customer default.

c) Currency and interest rate risk

The Company's results are subject to variations, since part of its payables is denominated in foreign currency, mainly the US dollar, Chinese yuan, euro, and Japanese yen.

At March 31, 2021 and 2020 rights and obligations in foreign currency are as follows:

	2021			2020		
	Foreing currency			Foreing currency		
	Type	In thousands	R\$	Type	In thousands	R\$
Accounts receivable						
US Dollar	USD	295	1,661	USD	159	825
Accounts payable						
US Dollar	USD	(1,713)	(9,648)	USD	(878)	(4,570)
Japanese Yen	JPY	(1,124)	(57)	JPY	(810)	(39)
Euro	EUR	(5)	(32)	EUR	(93)	(532)
Chinese yuan	CNY	(1,066)	(916)	CNY	(5,713)	(4,199)
Total obligations			<u>(8,992)</u>			<u>(8,515)</u>

As of March 31, 2021, the Company is basically exposed to the risk of fluctuation in the US dollar, mainly for SMRC Automotive B.V. (NL) in the amount of R\$6,771. There are no derivative instruments to hedge such transactions in US dollars.