

# ANNUAL REPORT

**beginning of financial year:** 01.01.2018

**end of the financial year:** 31.12.2018

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## MANAGEMENT BOARD ACTIVITY REPORT

### BUSINESS ENVIRONMENT

PKC Eesti AS designs, manufactures and integrates tailored electrical distribution systems and related architecture components, vehicle electronics, wires and cables especially for trucks and buses, light and recreational vehicles, construction equipment and agricultural and forestry equipment.

PKC Estonia's service concept involves cost-effective subcontracting from another group companies combined with its own expertise of product development and design services. This is supported by a global delivery organisation and logistic chain.

As of 2017, PKC Estonia AS belongs to the Motherson Sumi Systems Limited international group.

Many economic analysts have deemed the 2018 world economy volatile and varied, influenced by political risks. Economic growth in Europe slowed down in the second half of the year. Changes in the business environment brings challenges as well as opportunities for new development and growth.

Our clients managed to be successful despite of the modest growth of the European economy, which led to higher order book in 2018 than expected. The increase in orders boosted the company's sales turnover and created the condition for achieving good economic results.

### TURNOVER AND PROFIT

In 2018, the company's turnover was 202.9 million euros, showing a 16.2% increase compared to the previous year. The business profit was 19.1 million euros, which forms 9.4% of the turnover.

The company's net profit in 2018 was 19.0 million euros, which forms 9.4% of the turnover. No dividends were paid in 2018.

### RATIOS

	2018	2017
Increase in sales revenue (%)	16.2%	19.1%
Increase in net profit (%)	10.1%	6.3%
Profit margin (%)	9.4%	9.9%
Current ratio (times)	2.8	1.9
ROA (%)	10.1%	10.0%
ROE (%)	12.4%	12.9%

- Increase in sales revenue (%) = (sales revenue 2018 – sales revenue 2017) / sales revenue 2017 \* 100
- Increase in net profit (%) = (net profit 2018 – net profit 2017) / net profit 2017 \* 100
- Profit margin (%) = net profit / net sales \* 100
- Current ratio (times) = current assets / current liabilities
- ROA (%) = net profit / total assets \* 100
- ROE (%) = net profit / total equity capital \* 100

## PERSONNEL

The average number of employees in 2018 was 85 persons. The number of employees has not changed significantly compared to 2017. Reorganising employee work processes and increasing employee commitment poses a new challenge in a situation where the labour shortage is increasing. We see loyal, dedicated and goal-oriented employees as a valuable resource to the company.

In 2018, the company's labour costs were 4.8 million euros.

## MANAGEMENT BOARD

As of May 2017, the company's Management Board consists of three members. There were no changes in the membership of the Management Board in 2018. The Chairman of the Management Board is Jani Kiljala and the members of the Management Board are Ivo Volkov and Merle Montgomery.

## 2018 SUMMARY AND FUTURE PLANS

We concluded the year 2018 with good economic results. We are pleased that the company's net profit increased by more than 10% and are able to confirm that the 2016 changes in the business model have been successful.

The sales revenue of PKC Estonia increased by 16.2% and the net profit 10.1% compared to the previous year. The company continues to focus on foreign markets, exporting almost 100% of its output. Most of the output is exported to European Union countries. Year-on-year, sales to European Union countries have grown faster than sales outside the European Union market. The sale of services increased considerably in 2018.

The employees of the regional centre established in Estonia offer competent services to clients, company's subsidiaries and other companies of the group. One of the objectives of the regional centre is to further contribute to increasing engineering and development capability in order to offer our clients greater added value.

The biggest challenges of the financial year were launching the mass production of a new generation of Scania products and keeping the security of supply in line with clients' expectations. Problems with the delivery of components caused disruptions in the whole logistic chain. We are proud to have received the Partner Level Award 2018 from our long-time client John Deere.

The company did not make any significant investments in 2018.

PKC Estonia will remain conservative with regard to this year's sales turnover forecasts and does not plan on making any significant changes. The company will focus on raising its competitiveness by increasing the efficiency of processes. We base our further plans and activities above all on the group's international scope, long-term experience and client expectations. We follow the principles of honest and transparent corporate culture in our activities.

The company aims to be successful in the long-term, internationally competitive and profitable.

## ACKNOWLEDGEMENTS

I thank the employees of PKC Estonia and other stakeholders for their contributions to the company's success.

Jani Kiljala  
Chairman of Management Board

## The annual accounts

### Statement of financial position

(In Euros)

	31.12.2018	31.12.2017	Note
<b>Assets</b>			
Current assets			
Cash and cash equivalents	46 067 959	30 303 603	2
Receivables and prepayments	33 039 139	29 878 227	3
Inventories	20 572 168	14 808 158	4
<b>Total current assets</b>	<b>99 679 266</b>	<b>74 989 988</b>	
Non-current assets			
Investments in subsidiaries and associates	72 100 000	72 100 000	6
Receivables and prepayments	16 438 151	26 093 990	3
Property, plant and equipment	113 913	101 513	7
Intangible assets	17 785	0	8
<b>Total non-current assets</b>	<b>88 669 849</b>	<b>98 295 503</b>	
<b>Total assets</b>	<b>188 349 115</b>	<b>173 285 491</b>	
<b>Liabilities and equity</b>			
Liabilities			
Current liabilities			
Payables and prepayments	35 531 122	39 424 532	10
Provisions	34 300	88 136	11
<b>Total current liabilities</b>	<b>35 565 422</b>	<b>39 512 668</b>	
<b>Total liabilities</b>	<b>35 565 422</b>	<b>39 512 668</b>	
Equity			
Issued capital	1 022 714	1 022 714	13
Statutory reserve capital	222 081	222 081	
Retained earnings (loss)	132 528 028	115 258 098	
Annual period profit (loss)	19 010 870	17 269 930	
<b>Total equity</b>	<b>152 783 693</b>	<b>133 772 823</b>	
<b>Total liabilities and equity</b>	<b>188 349 115</b>	<b>173 285 491</b>	

## Income statement

(In Euros)

	2018	2017	Note
Revenue	202 852 936	174 625 851	14
Cost of sales	-177 917 456	-148 933 074	16
<b>Gross profit (loss)</b>	<b>24 935 480</b>	<b>25 692 777</b>	
Distribution costs	-1 648 752	-4 846 232	17
Administrative expense	-4 798 984	-5 044 130	18
Other income	1 180 706	1 225 220	15
Other expense	-575 349	-823 416	20
<b>Operating profit (loss)</b>	<b>19 093 101</b>	<b>16 204 219</b>	
Other financial income and expense	-82 231	1 065 711	21
<b>Profit (loss) before tax</b>	<b>19 010 870</b>	<b>17 269 930</b>	
<b>Annual period profit (loss)</b>	<b>19 010 870</b>	<b>17 269 930</b>	



## Statement of cash flows

(In Euros)

	2018	2017	Note
Cash flows from operating activities			
Operating profit (loss)	19 093 101	16 204 219	
Adjustments			
Depreciation and impairment loss (reversal)	30 716	-75 359	7
Profit (loss) from sale of non-current assets	-15	-13 701	15,20
<b>Total adjustments</b>	<b>30 701</b>	<b>-89 060</b>	
Changes in receivables and prepayments related to operating activities	4 750 402	-2 730 418	3
Changes in inventories	-5 764 010	-1 360 037	4
Changes in payables and prepayments related to operating activities	-3 947 246	8 644 752	10
<b>Total cash flows from operating activities</b>	<b>14 162 948</b>	<b>20 669 456</b>	
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	-61 914	-87 660	7,8
Proceeds from sales of property, plant and equipment and intangible assets	1 027	115 162	7
Loans given	0	-21 256 800	22
Repayments of loans given	991 930	975 330	22
Interest received	900 070	979 773	21
<b>Total cash flows from investing activities</b>	<b>1 831 113</b>	<b>-19 274 195</b>	
Cash flows from financing activities			
Other cash inflows from financing activities	0	94 153	21
Other cash outflows from financing activities	-229 705	0	21
<b>Total cash flows from financing activities</b>	<b>-229 705</b>	<b>94 153</b>	
<b>Total cash flows</b>	<b>15 764 356</b>	<b>1 489 414</b>	
Cash and cash equivalents at beginning of period	30 303 603	28 814 189	2
<b>Change in cash and cash equivalents</b>	<b>15 764 356</b>	<b>1 489 414</b>	
Cash and cash equivalents at end of period	46 067 959	30 303 603	2

## Statement of changes in equity

(In Euros)

	Issued capital	Statutory reserve capital	Retained earnings (loss)	Total
<b>31.12.2016</b>	1 022 714	222 081	115 258 098	116 502 893
Annual period profit (loss)	0	0	17 269 930	17 269 930
<b>31.12.2017</b>	1 022 714	222 081	132 528 028	133 772 823
Annual period profit (loss)	0	0	19 010 870	19 010 870
<b>31.12.2018</b>	1 022 714	222 081	151 538 898	152 783 693

Further information on the company's share capital and other changes in equity is provided in Note 13.



## Notes

### Note 1 Accounting policies

#### General information

The financial statements of PKC Eesti AS were prepared in accordance with the Estonian Financial Reporting Standard and using the acquisition cost principle, except where otherwise stated in the accounting principles below. The Estonian Financial Reporting Standard is based on internationally recognised accounting and reporting principles whose basic requirements are set forth in the Accounting Act of the Republic of Estonia, which is supplemented by the Guidelines issued by the Estonian Accounting Standards Board.

The income statement has been prepared on the basis of Income Statement Layout 2 set out in Annex 2 to the Republic of Estonia Accounting Act.

The financial statements have been prepared in euros unless otherwise indicated.

#### Cash and cash equivalents

Short-term (acquired with a term of up to 3 months) investments of high liquidity, which can be converted against a known amount of money and are not affected by a significant risk of changes in the market value, incl. cash in hand and on current accounts in banks, term deposits of up to 3 months and units in interest market funds, are recognised as cash equivalents.

#### Foreign currency transactions and assets and liabilities denominated in a foreign currency

The accounting currency of the company is the euro and all other currencies are deemed to be foreign currencies.

Foreign currency transactions are recognised using the official euro exchange rates quoted by the European Central Bank on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies as of the reporting date are restated in euros using the official euro exchange rates of the European Central Bank as of the reporting date.

Foreign exchange gains and losses arising from restatement are recognised in the income statement for the accounting period, while foreign exchange gains and losses from settlements with suppliers and buyers are recognised as operating revenue and charges; any other gains and losses from foreign currency transactions are recognised as financial income and expenses in the income statement.

#### Shares of subsidiaries and associates

Investments in subsidiaries are recognised in the balance sheet using the acquisition cost method. This means that an investment is initially registered at its acquisition cost, which is the fair value of the consideration paid on acquisition, which is later adjusted, if necessary, with write-downs arising from impairment of the investment. PKC Eesti AS does not compile consolidated financial statements, as its subsidiaries are consolidated in the financial statements of parent company PKC Group OY.

#### Receivables and prepayments

Short-term receivables and prepayments made are thereafter recognised using the adjusted acquisition cost method that is generally equal to their nominal value minus write-downs, if necessary.

Trade receivables are inventories as at the reporting date by assessing accounts receivable considering the probability of their receipt. The probability of receipt of each invoice is assessed separately. If the buyer is insolvent and debt collection attempts have failed (e.g. no responses have been received to letters sent), the invoice must be deemed to be doubtful accounts and loss from doubtful accounts is recognised in the amount of the claim. The receivables whose collection is unlikely are included in the expenses of the accounting period and shown in the balance sheet with a minus.

Should the expensed receivable or part of it be received later, an offsetting entry will be made about the amount received:

- debit uncollectible amounts;
- credit loss from doubtful accounts.

Should a receivable become uncollectible, the amount of the claim will be written off from the trade receivables.

A receivable is uncollectible if collection of the debt is not economically practical (costs exceed income) or possible (e.g. the debtor has gone bankrupt or cannot be found). Account of uncollectible receivables is kept off the balance sheet and their monitoring and collection will continue routinely. Amounts received from clients are recognised as other operating revenue if the circumstances change (e.g. the client's solvency improves, receivables are summarised).

## Factoring

PKC Eesti AS uses factoring with the right of recourse in the case of the sales invoices of major clients. The company waives the seller's monetary claim against the buyer to the factoring company. Factoring allows the company to offer buyers longer payment deadlines and releases the company's working capital.

Factoring makes cash flow planning and collection of receipts easier and increases control over debtors by improving their payment discipline. Sales invoices are the collateral in the case of factoring.

## Inventories

Finished goods and work in progress are registered at their cost price, which comprises those direct and indirect production outlays without which the inventories would not appear in their current condition and quantity. Production overheads are divided between goods in progress and finished goods proceeding from normal production volumes.

Other inventories are registered at the acquisition cost, which comprises the purchase price of the inventories, the customs duties associated with the purchase, other non-refundable taxes, and transport expenses directly attributable to the acquisition, less trade discounts. The weighted average acquisition method is used to determine the acquisition cost of inventories.

Inventories are recognised in the balance sheet at the lower of their acquisition cost or net realisable value. Write-downs of inventories to their net realisation cost are recognised in the income statement for the financial year under cost of goods sold.

## Plant, property and equipment and intangible assets

Assets that cost 1000 euros and more and whose useful lives exceed one year are deemed to be tangible assets. Assets whose useful lives exceed 1 year but whose acquisition cost is less than 1000 euros are recognised as low value inventory (stock) until taken in use and transferred into expenses in the extent of 100% at the time they are taken in use. Expensed low value inventory is recognised off the balance sheet.

Tangible assets are registered at their acquisition cost, which comprises the purchase price and expenses directly attributable to their acquisition. Tangible assets are subsequently recognised in the balance sheet at their acquisition cost less accumulated depreciation and any possible write-downs resulting from impairment.

If an item of tangible assets consists of distinguishable components with different useful lives, such components are registered in accounting as separate items of assets and different depreciation rates are assigned to them according to their useful lives. Further expenditure related to registered property, plant and equipment (e.g. replacement of certain parts of some asset items) is added to the book value of the assets if they comply with the definition of fixed assets.

Replaced parts are written off the balance sheet. All other expenditure is recognised as expenses in the period when the expenses were incurred.

The linear method is used for the depreciation of tangible assets. The depreciation rates are established separately for each item of fixed assets on the basis of its useful life.

Depreciation of assets is discontinued when the residual value of the assets, which equals the amount the company would receive from the transfer of the assets today if the assets were of the same age and in the same condition as they are expected to be at the end of their useful lives, exceeds the carrying amount of the assets. The depreciation methods, rates and residual values of property, plant and equipment are reviewed at least at the end of each financial year and, if the new estimates differ from the previous ones, the variations are recognised as changes in the accounting estimates, i.e. they are carried forward.

The possible impairment of tangible assets is assessed if certain events or developments imply that the recoverable amounts of the assets may be smaller than their book value. If such events or developments have occurred, the company will carry out an evaluation of the recoverable amount of its assets. If the estimated recoverable amount of the assets is below their book value, the assets or assets constituting a cash-generating unit are written down to their recoverable amount, which is equal to the higher of the present value (or value in use) of the future cash flow from the assets or the fair value of the assets less costs to sell. The fair value of assets is determined with the help of external experts, if necessary.

The write-down is recorded as an expense of the accounting period on the same row of the income statement where the depreciation on the written down assets or the assets belonging to a cash generating unit has been recognised.

If the recoverable amount of the assets increases later, exceeding their book value, the write-down will be reversed and the book value of the assets will be increased, but not in excess of the amount of the book value that the assets would have if no write-down had been made.

The reversal of a write-down of assets is recognised in the income statement on the same account where the previous write-down was recognised.

Recognition of tangible assets is discontinued upon transfer of the assets or when the company no longer expects an economic benefit from the use or sale of the assets. Gains and losses from derecognition of property, plant and equipment are recognised in the income statement under 'other operating revenue' or 'other operating charges' for the period when the property, plant and equipment were derecognised.

## Intangible assets

Intangible assets are initially registered at their acquisition cost, which consists of the purchase price and the expenses directly attributable to acquisition. Intangible assets are further recognised in the balance sheet at their acquisition cost less accumulated depreciation and possible write-downs resulting from the impairment of the assets.

The linear method is used for depreciation of intangible assets. The annual depreciation rates for intangible assets are as follows:

Purchased licenses, trademarks 20%

Other intangible assets 33%

Research and development costs are usually recognised as expenses. An exception to this is identifiable development costs which probably play a role in generating profit in the future.

**Minimal acquisition cost** 1,000 euros

## Useful life by assets group (years)

Assets group name	Useful life
Buildings and structures	33
Machinery and equipment	5
IT equipment	4
Other fixtures, fittings and tools	7

## Leases

Lease transactions where all substantial risks and benefits incidental to ownership of an asset item are transferred to the lessee are recognised as finance lease. All other lease transactions are recognised as operating lease.

In the case of an operating lease, the lessor reports the leased asset in its balance sheet. The lessor records operating lease payments as income and the lessee records the operating lease payments as expenses pursuant to the linear method.

## Financial liabilities

Financial liabilities are initially recognised at the acquisition cost that is equal to the fair value of the consideration received for the financial liability in question.

Thereafter financial liabilities are accounted for at the adjusted acquisition cost, using the effective interest rate. Transaction costs are taken into consideration upon calculation of the effective interest rate and are written off during the useful life of the financial liability in question.

Interest expenses attributable to financial liabilities are reported on the accrual basis as periodic expenses on the 'financial income and expenses' (under 'interest expenses' in Note 21) account of the income statement, except for the interest expenses which are related to the funding of tangible assets to be constructed for internal use.

Financial liabilities are derecognised after they have been paid, cancelled or expired.

## Provisions and contingent liabilities

The company establishes provisions for liabilities of uncertain timing or amount. The amount and timing of a provision is determined on the basis of estimates made by the management or relevant experts.

A provision is recognised when the company has incurred a legal or operational liability before the reporting date, the realisation of the provision in the form of outgoing resources is likely (over 50%) and the size of the provision can be reliably estimated.

The expenses associated with the realisation of a provision are evaluated as of the reporting date and the amount of the provision is evaluated again on each reporting date. If the provision is likely to be realised after a period of longer than one year, it is recognised at its discounted present value, unless the impact of discounting is insignificant. Discounting is based on the market interest rate on similar liabilities.

Liabilities whose probability of realisation is below 50% or whose amount cannot be reliably assessed are classified as contingent liabilities. Contingent liabilities are accounted for off the balance sheet.

## Revenue recognition

Revenue is reported at the fair value of the payments received or to be received. If payment is made in a period longer than the average, revenue is recognised at the present value of the consideration to be received.



Revenue from the sale of goods is recognised when all substantial risks incidental to ownership have transferred to the buyer and the sales revenue and transaction-related expenses can be reliably measured. If the company is also obliged to install the goods in association with selling them and that forms a substantial portion of the transaction value, the revenue is recognised after the completion of the installation process. As an exception, revenue is recognised immediately after the delivery of the goods to the buyer, when installation is not essentially complex and time-consuming. Revenue from the sale of services is recognised upon the provision of the service. Interest income is reported on an accrual basis using the effective interest rate. Dividend income is recognised according to the emergence of the right of claim.

### Taxation

Pursuant to the Income Tax Act, dividends to be disbursed are subject to income tax in Estonia instead of corporate profits. The income tax on dividends until 31.12.2018 was 20%. The Income Tax Act was amended as of 01.01.2018, as a result of which companies can use a discount rate of 14% in respect of dividends paid out regularly. The 14% discount rate can be used in respect of dividends paid out as of 01.01.2019. A third of the dividends paid out in the previous financial year are subject to the discount rate of 14% and the part of dividends that exceeds this are subject to the 20% tax rate. The 14% discount rate can be used to the extent of the average amount of dividends paid out in the last three years.

Since dividends to be paid out are the object of income tax instead of corporate profits, there are no differences between the taxable amounts and carrying amounts of assets and liabilities that could entail deferred tax receivable or payable. The potential income tax payable relating to the available equity of the company, which would be created upon the disbursement of the available equity as dividends, is not recognised in the balance sheet. Income tax arising from the disbursement of dividends is recognised under expenses in the income statement at the moment the dividends are declared.

### Related parties

A related party is a person or company who is related to AS PKC Eesti to such a degree that the transactions between them may not take place on the market terms.

A person or a close family member of that person is a related party if:

- (a) they are a member of the management of AS PKC Eesti or the parent company of AS PKC Eesti; or
- (b) they exercise control or significant influence over AS PKC Eesti (e.g. through equity holding).

A company is a related party if any of the following conditions applies:

- (a) the other company and AS PKC Eesti are under joint control;
- (b) one company is a company controlled by a third party and the other company is a company under significant influence of this third party;
- (c) AS PKC Eesti is under the control or significant influence of the other company;
- (d) the other company is under the control or significant influence of AS PKC Eesti;
- (e) companies over which a member of the management of AS PKC Eesti (or their close family members) has control or significant influence;
- (f) companies whose management includes persons who have control or significant influence over AS PKC Eesti (or their close family members).

## Note 2 Cash and cash equivalents

(In Euros)

	31.12.2018	31.12.2017
Cash pool account	45 962 447	30 080 005
Bank accounts	105 512	223 598
<b>Total cash and cash equivalents</b>	<b>46 067 959</b>	<b>30 303 603</b>

## Note 3 Receivables and prepayments

(In Euros)

	31.12.2018	Allocation by remaining maturity		Note
		Within 12 months	1 - 5 years	
Accounts receivable	9 723 477	9 723 477	0	
Accounts receivables	9 914 239	9 914 239	0	
Allowance for doubtful receivables	-190 762	-190 762	0	
Receivables from related parties	39 653 637	23 238 961	16 414 676	22
Tax prepayments and receivables	23 984	23 984	0	5
Prepayments	76 192	52 717	23 475	
<b>Total receivables and prepayments</b>	<b>49 477 290</b>	<b>33 039 139</b>	<b>16 438 151</b>	

	31.12.2017	Allocation by remaining maturity		Note
		Within 12 months	1 - 5 years	
Accounts receivable	13 859 167	13 859 167	0	
Accounts receivables	14 271 567	14 271 567	0	
Allowance for doubtful receivables	-412 400	-412 400	0	
Receivables from related parties	41 878 154	15 807 639	26 070 515	22
Tax prepayments and receivables	113 718	113 718	0	5
Other receivables	84 885	84 885	0	
Prepayments	36 293	12 818	23 475	
<b>Total receivables and prepayments</b>	<b>55 972 217</b>	<b>29 878 227</b>	<b>26 093 990</b>	

## Note 4 Inventories

(In Euros)

	31.12.2018	31.12.2017
Raw materials	13 580 184	10 124 786
Goods in progress	1 322 295	1 648 375
Finished goods	5 647 701	3 005 034
Prepayments for inventories	21 988	29 963
<b>Total Inventories</b>	<b>20 572 168</b>	<b>14 808 158</b>

As the sales price of some of the stock dropped lower than the acquisition costs, the stock was written down in the total amount of 1,435 thousand euros in 2018 (2017: 820 thousand euros).

## Note 5 Tax prepayments and liabilities

(In Euros)

	31.12.2018		31.12.2017	
	Tax prepayments	Tax liabilities	Tax prepayments	Tax liabilities
Corporate income tax	0	2 000 000	0	2 000 000
Value added tax	0	139 702	88 120	0
Personal income tax	0	82 062	0	72 693
Fringe benefit income tax	0	3 846	0	3 051
Social tax	0	161 531	0	159 182
Contributions to mandatory funded pension	0	5 823	0	6 237
Unemployment insurance tax	0	10 429	0	10 229
Other tax prepayments and liabilities	0	1 444	0	16
Prepayment account balance	23 984		25 598	
<b>Total tax prepayments and liabilities</b>	<b>23 984</b>	<b>2 404 837</b>	<b>113 718</b>	<b>2 251 408</b>

Tax payables are set out in Note 3 and tax liabilities in Note 10.

## Note 6 Shares of subsidiaries

(In Euros)

Shares of subsidiaries, general information					
Subsidiary's registry code	Name of subsidiary	Country of incorporation	Principal activity	Ownership interest (%)	
				31.12.2017	31.12.2018
303297652	PKC Group Lithuania UAB	Lithuania	Design and production of wiring harnesses and cabling	100	100
KRS0000309537	PKC Group Poland Sp.z o.o	Poland	Design and production of wiring harnesses and cabling	100	100
2151031032227	AEK OOO	Russian Federation	Design and production of wiring harnesses and cabling	98.06	98.06

Shares of subsidiaries, detailed information:		
Name of subsidiary	31.12.2017	31.12.2018
PKC Group Lithuania UAB	7 500 000	7 500 000
PKC Group Poland Sp.z o.o	61 400 000	61 400 000
AEK OOO	3 200 000	3 200 000
<b>Total shares of subsidiaries, at end of previous period</b>	<b>72 100 000</b>	<b>72 100 000</b>

At the end of 2016, PKC Eesti AS took over the holding in PKC Group companies AEK OOO, PKC Group Lithuania UAB and PKC Group Poland Sp.z o.o. from PKC Wiring Systems OY. PKC Eesti AS paid for the holdings in AEK OOO and PKC Group Poland Sp.z o.o. by

non-monetary contributions, which were balanced with the short-term loan granted to PKC Wiring Systems OY and amounted to 64.6 million euros. The holding in PKC Group Lithuania UAB was paid for by a non-monetary contribution to cover the short-term loan of the parent company in the amount of 5.4 million euros and by a monetary contribution in the amount of 2.1 million euros.

## Note 7 Property, plant and equipment

(In Euros)

				Total
	Computers and computer systems	Machinery and equipment	Other property, plant and equipment	
<b>31.12.2017</b>				
Carried at cost	131 619	131 619	86 238	217 857
Accumulated depreciation	-89 077	-89 077	-27 267	-116 344
<b>Residual cost</b>	<b>42 542</b>	<b>42 542</b>	<b>58 971</b>	<b>101 513</b>
Acquisitions and additions	7 714	7 714	34 798	42 512
Depreciation	-16 920	-16 920	-12 179	-29 099
Disposals	-1 013	-1 013	0	-1 013
<b>31.12.2018</b>				
Carried at cost	136 693	136 693	121 036	257 729
Accumulated depreciation	-104 370	-104 370	-39 446	-143 816
<b>Residual cost</b>	<b>32 323</b>	<b>32 323</b>	<b>81 590</b>	<b>113 913</b>

### Disposed property, plant and equipment at selling price

	2018
Machinery and equipment	1 027
Computers and computer systems	1 027
<b>Total</b>	<b>1 027</b>



## Note 8 Intangible assets

(In Euros)

	Computer software	Total
<b>31.12.2017</b>		
Carried at cost	0	0
Accumulated depreciation	0	0
<b>Residual cost</b>	0	0
Acquisitions and additions	19 402	19 402
Depreciation	-1 617	-1 617
<b>31.12.2018</b>		
Carried at cost	19 402	19 402
Accumulated depreciation	-1 617	-1 617
<b>Residual cost</b>	17 785	17 785

## Note 9 Operating lease

(In Euros)

Accounting entity as lessee

	2018	2017
Operating lease expenses	340 083	249 867

The objects of operating lease in 2018 were the company's office and production buildings, cars, packaging materials and other equipment used for general needs.

## Note 10 Payables and prepayments

(In Euros)

	31.12.2018	Within 12 months
Trade payables	13 738 234	13 738 234
Employee payables	642 336	642 336
Tax payables	2 404 837	2 404 837
Other payables	8 118 269	8 118 269
Dividend payables	8 000 000	8 000 000
Other accrued expenses	118 269	118 269
Related party payables	10 627 446	10 627 446
<b>Total payables and prepayments</b>	<b>35 531 122</b>	<b>35 531 122</b>
	31.12.2017	Within 12 months
Trade payables	19 607 433	19 607 433
Employee payables	667 217	667 217
Tax payables	2 251 408	2 251 408
Other payables	8 174 139	8 174 139
Dividend payables	8 000 000	8 000 000
Other accrued expenses	174 139	174 139
Related party payables	8 724 335	8 724 335
<b>Total payables and prepayments</b>	<b>39 424 532</b>	<b>39 424 532</b>

The due dates of the debts to suppliers are 7-90 days and the base currency is the euro: 22,754 thousand euros (2017: 24,977 thousand euros) and other currencies: 1,612 thousand euros (2017: 3,355 thousand euros). Detailed information about tax arrears is given in Note 5.

## Note 11 Provisions

(In Euros)

	31.12.2017	Provision used	31.12.2018
Redundancy provision	88 136	-53 836	34 300
<b>Total provisions</b>	<b>88 136</b>	<b>-53 836</b>	<b>34 300</b>

Short-term provisions were formed in 2016 in relation to the closure of the Keila plant and the transfer of production for related expenses.

## Note 12 Contingent liabilities and assets

(In Euros)

	31.12.2018	31.12.2017
Contingent liabilities		
Income tax liability on distributable dividends	30 307 780	26 505 606
<b>Total contingent liabilities</b>	<b>30 307 780</b>	<b>26 505 606</b>

The retained earnings of the company as of 31 December 2018 amounted to 151,538,898 euros (132,528,028 euros as at 31 December 2017). Paying out dividends to owners would create tax expenses of 20/80 of the sum disbursed as net dividends. This means that as of the reporting date, it would be possible to pay out 121,231,118 euros (106,022,422 euros in 2017) as dividends to owners from the company's earnings and if the dividends were paid out, the income tax payable on this would be 30,307,780 euros (26,505,606 euros in 2017).

## Note 13 Share capital

(In Euros)

	31.12.2018	31.12.2017
Share capital	1 022 714	1 022 714
Number of shares (pcs)	1 600 200	1 600 200

PKC Wiring Systems OY owns 100% of the shares of PKC Eesti AS. According to the articles of association of PKC Eesti AS, the minimum share capital of the company is 1,000,000 euros and the maximum share capital is 4,000,000 euros.

As at 31 December 2018, the share capital of PKC Eesti AS divided in 1,600,200 registered shares of the same class without nominal value.

## Note 14 Net sales

(In Euros)

	2018	2017
Net sales by geographical location		
Net sales in European Union		
Finland	16 252 002	14 958 384
Estonia	257 776	383 206
Sweden	107 292 540	100 559 498
Germany	547 096	420 236
Belgium	3 047 059	2 964 146
Netherlands	36 482 251	24 971 604
United Kingdom	104 629	273 034
Poland	3 038 778	6 339 671
France	22 513 290	8 236 646
Czech Republic	162 900	317 470
Denmark	2 073 446	3 949 870
Lithuania	135 843	93 246
Spain	66 101	250 578
Italy	425 834	649 596
Romania	11 619	3 658
Other European Union net sales	2 071	554
<b>Total net sales in European Union</b>	<b>192 413 235</b>	<b>164 371 397</b>
Net sales outside of European Union		
Brazil	2 657 780	3 335 765
Russian Federation	3 361 648	3 061 825
China	2 987 279	2 710 891
United States of America	931 029	782 085
Australia	17 191	10 314
Japan	142 079	177 904
Serbia	138 563	2 288
Switzerland	99 584	57 790
Turkey	21 835	22 801
India	51 923	19 202
Tunisia	133	46 146
Taiwan	29 300	27 443
Thailand	1 357	0
<b>Total net sales outside of European Union</b>	<b>10 439 701</b>	<b>10 254 454</b>
<b>Total net sales</b>	<b>202 852 936</b>	<b>174 625 851</b>
Net sales by operating activities		
Services	3 387 183	2 355 431
Sales of raw materials and goods	9 150 658	13 314 536
Production	190 315 095	158 955 884
<b>Total net sales</b>	<b>202 852 936</b>	<b>174 625 851</b>

The sales transactions of related parties are disclosed in Note 22.

## Note 15 Other operating income

(In Euros)

	2018	2017
Profit from sale of plant, property and equipment	15	84 915
Profit from exchange rate differences	362 652	442 588
Lease income	0	165
Income from intermediation of supporting materials to Russia	513	16 403
Income from intermediation of group expenses	808 516	668 000
Other	9 010	13 149
<b>Total other operating income</b>	<b>1 180 706</b>	<b>1 225 220</b>

## Note 16 Cost of goods sold

(In Euros)

	2018	2017
Raw materials	-127 409 707	-107 498 054
<b>Energy</b>	<b>-5 584</b>	<b>-4 121</b>
Electricity	-5 584	-1 461
Heat energy	0	-2 660
Subcontracting work	-40 685 316	-32 951 081
Transportation expense	-2 759 706	-2 238 554
Logistics expense	-625 441	-481 812
Leases	-270 455	-195 102
Miscellaneous office expenses	-35 391	-52 464
Travel expense	-256 304	-269 761
Training expense	-667	-890
Labor expense	-2 139 599	-1 948 101
Depreciation	-25 449	80 606
Purchasing work and services	-139 935	-140 521
Group's subcontracting service	-3 307 079	-3 094 325
Other	-256 823	-138 894
<b>Total cost of goods sold</b>	<b>-177 917 456</b>	<b>-148 933 074</b>

The purchase transactions of related parties are disclosed in Note 22.

## Note 17 Distribution expense

(In Euros)

	2018	2017
Leases	-16 770	-17 984
Transportation expense	-561 743	-3 389 680
Logistics expense	-8 717	-8 765
Miscellaneous office expenses	-9 470	-13 293
Travel expense	-94 362	-102 850
Training expense	-199	-500
Allowance for doubtful receivables	221 639	-268 548
Labor expense	-598 724	-560 935
Depreciation	-2 261	-1 913
Group's subcontracting service	-572 515	-475 645
Other	-5 630	-6 119
<b>Total distribution expense</b>	<b>-1 648 752</b>	<b>-4 846 232</b>

The purchase transactions of related parties are disclosed in Note 22.

## Note 18 Administrative expense

(In Euros)

	2018	2017
Leases	-52 857	-36 781
Logistics expense	-8 131	-6 675
Miscellaneous office expenses	-15 732	-18 360
Travel expense	-183 002	-72 521
Training expense	-3 552	-1 440
Labor expense	-2 038 407	-2 247 436
Depreciation	-3 006	-3 334
Other	-432 911	-635 628
Group's subcontracting service	-2 061 386	-2 021 955
<b>Total administrative expense</b>	<b>-4 798 984</b>	<b>-5 044 130</b>

The purchase transactions of related parties are disclosed in Note 22.



## Note 19 Labor expense

(In Euros)

	2018	2017
Wage and salary expense	-3 611 592	-3 589 899
Social security taxes	-1 165 138	-1 166 573
<b>Total labor expense</b>	<b>-4 776 730</b>	<b>-4 756 472</b>
Average number of employees in full time equivalent units	85	81
Average number of employees by types of employment:		
Person employed under employment contract	82	78
Member of management or controlling body of legal person	3	3

The remuneration calculated for the management board is disclosed in Note 22.

## Note 20 Other operating expenses

(In Euros)

	2018	2017
Loss from exchange rate differences	-518 440	-659 402
Fines, penalties and compensations	-387	-3 397
Donations and gifts	0	-908
Losses from disposals of property, plant and equipment	0	-71 214
Other	-56 522	-88 495
<b>Total other operating expenses</b>	<b>-575 349</b>	<b>-823 416</b>

## Note 21 Other financial income and expense

(In Euros)

	2018	2017
Profit (loss) from exchange rate differences	-791 932	270 483
Interest income	939 406	971 558
Factoring service charges	-229 636	-176 330
Other financial income and expenses	-69	0
<b>Total other financial income and expense</b>	<b>-82 231</b>	<b>1 065 711</b>

## Note 22 Related parties

(In Euros)

Name of accounting entity's parent company	PKC Wiring Systems OY
Country where accounting entity's parent company is registered	Finland
Group name where parent company belongs	Motherson Sumi Systems Limited
Country where group's parent company is registered	India



## Related party balances according to groups

	31.12.2018		31.12.2017	
	Receivables	Liabilities	Receivables	Liabilities
Parent company	20 003 826	188 653	20 006 186	155 788
Subsidiary	18 797 401	6 637 318	21 089 517	7 899 397
Other entities belonging into same consolidation group	851 502	3 777 263	774 111	669 151
Legal person with material ownership interest and material influence of management and higher	907	24 212	8 340	0

2018	Given loans	Given loans repayments	Interest rate	Base currencies	Due date
Subsidiaries					
AEK OOO	0	991 930	9,075	RUB	20.06.2022

## Purchases and sales

	2018		2017	
	Purchases	Sales	Purchases	Sales
Parent company	1 912 423	23 074	1 850 385	23 542
Subsidiary	71 300 956	7 062 607	60 940 824	9 804 537
Other entities belonging into same consolidation group	23 490 976	4 961 613	3 963 213	5 535 618
Legal person with material ownership interest and material influence of management and higher	105 782	39 567	1 056	9 542

Remuneration and other significant benefits calculated for members of management and highest supervisory body	2018	2017
Remuneration	729 338	1 193 954

The related parties of PKC Eesti AS were parent company PKC Wiring Systems OY, subsidiaries PKC Group Lithuania UAB, PKC Group Poland Sp.z o.o. and AEK OOO acquired at the end of 2016, group companies PKC Group PLC, PK Cables do Brasil Ltda, PKC Electronics (Suzhou)Co.Ltd, AEES Inc., AEES Power Systems LP, PKC Segu Systemelektrik GmbH, PKC Wiring Systems DOO, PKC Vehicle Technology (Suzhou) Co.Ltd, Arneses y Accesorios de Mexico, S.de R.L.de C.V., Kabel-Technik-Polska Sp.z o.o., Jiangsu Huakai-PKC Wire Harness Co.Ltd. and members of the managing bodies.

Motherson Sumi Systems Ltd and the companies related to it are related parties as of 1 April 2017.

The sales transactions carried out with related parties cover the sales transactions of goods and services. Note 14.

Purchase transactions with related parties cover the purchase transactions of goods and processing services, and the services purchased on the basis of the management contract. Notes 16, 17, 18, 19.

The interest rate of the loan of 20 million euros granted to parent company KC Wiring Systems OY in 2017 is 0.626% and the maturity date of the loan is 28 June 2019.

Loans of 2.5 million euros with an interest rate of 3,81% + 12 months EURIBOR and maturity date of 3 October 2021 and of 947,896 euros with an interest rate of 5.353% + 6 months EURIBOR and maturity date of 12 September 2021 were granted to subsidiary PKC Group Lithuania UAB in 2016.

A loan of 50 million Polish zloty with an interest rate of 3 months WIBOR + 1.5% and a maturity date of 27 December 2018 was granted to subsidiary PKC Group Poland Sp.z o.o. in 2016. The maturity date was extended by 5 years in 2018.

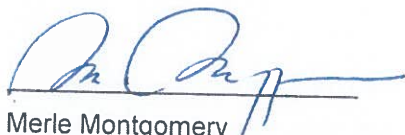
The balance of the loan granted to subsidiary AEK OOO in 2016 as at 31 December 2018 is 180 million Russian roubles. The interest rate of the given loan is 9.075%.

## Note 23 Events after the reporting date

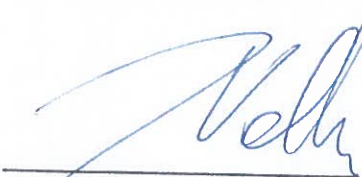
The supervisory board decided to establish a subsidiary of PKC Eesti AS in the United Arab Emirates.

## Signatures to the annual report

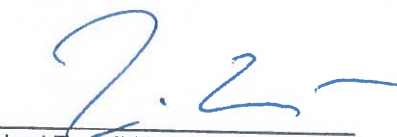
I hereby confirm the 2018 annual report of PKC Eesti AS:



Merle Montgomery  
Member of the Management Board



Ivo Volkov  
Member of the Management Board



Jani Taneli Kiljala  
Chairman of the Management Board

11 June 2019

Translation of the Estonian Original

## INDEPENDENT AUDITOR'S REPORT

To the Shareholder of PKC Eesti AS

### *Opinion*

We have audited the financial statements of PKC Eesti AS, which comprise the balance sheet as at 31 December 2018, and the income statement, statement of changes in equity and statement 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 PKC Eesti AS as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with the Estonian Financial Reporting Standard.

### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants (Estonia), and we have fulfilled our other ethical responsibilities in accordance with the requirements of code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Other information*

Management is responsible for the other information. Other information consists of management report, but does not consist of the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### *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 the Estonian Financial Reporting Standard, 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***

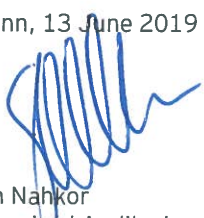
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee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

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

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

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

Tallinn, 13 June 2019



Stan Nahkor  
Authorised Auditor's number 508  
Ernst & Young Baltic AS  
Audit Company's Registration number 58



Herki Didvig  
Authorised Auditor's number 573