Financial Statements

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

March 31, 2019
with Independent Auditor's Report

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Financial statements

March 31, 2019

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A free translation from Portuguese into English of independent auditor's report on financial statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil applicable to small and medium-sized companies (SME)

Independent auditor's report on financial statements

To the
Management and shareholders of
SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.
Guarulhos - SP

Qualified 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, 2019 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. as at March 31, 2019, and its financial performance and cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil applicable to small and medium-sized entities NBC TG 1000 (R1).

Basis for qualified opinion

Provision for rental expenses recorded in incorrect year – corresponding figures

As disclosed in Note 13, as of March 31, 2019 the Company recorded R$ 6,845 thousand related to the straight-lining of rents relating to December 31, 2016 to March 31, 2018. However, this amount was recorded in full and cumulatively in the financial statements for the year ended March 31, 2019, and there was no restatement of the financial statements of previous years, as required by the accounting practices adopted in Brazil, applicable to small and medium-sized entities - NBC TG 1000 (R1). Comparability between years is therefore jeopardized. As a consequence, the loss for the year ended March 31, 2019 is overstated by R$ 4,518 thousand, net of tax effects.

We conducted our audit in accordance with the Brazilian and international standards on auditing. Our responsibilities under those standards are further described in the 'Auditors' responsibilities for the audit of the financial statements' section of our report. We are independent of the Company and comply with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by the 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.

Other matters

The Company's financial statements for the year ended December 31, 2018, presented for comparison purposes, were not audited by us or by other independent auditors.

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 applicable to small and medium-sized enterprises – SME - NBC TG 1000 (R1), 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:

- 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 the override of internal control, collusion, forgery, intentional omissions or misrepresentations.
- 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 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.
- Evaluate 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, August 12, 2019.

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

Marcos Kenji de Sá Pimentel Ohata
Accountant CRC-1SP209240/O-7

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Statements of financial position
March 31, 2019 and 2018
(In thousands of reais)

	Note	2019	2018
Assets			
Current assets			
Cash and cash equivalents	4	**559**	6,603
Trade accounts receivable	5	**24,669**	21,601
Related parties	7	**66**	159
Inventories	6	**60,198**	50,562
Taxes recoverable		**5,418**	2,093
Other receivables		**2,056**	2,348
		92,966	83,366
Noncurrent assets			
Property, plant and equipment	8	**52,164**	35,053
Other receivables		**811**	550
		52,975	35,603
Total assets		**145,941**	118,969

See accompanying notes.

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Statements of financial position
March 31, 2019 and 2018
(In thousands of reais)

	Note	2019	2018
Liabilities			
Current liabilities			
Trade accounts payable	9	**32,851**	11,238
Related parties	7	**173**	-
Tax liabilities		**1,711**	769
Advance from customers	10	**25,968**	49,957
Labor obligations and social charges	11	**11,986**	9,684
Provision for onerous contracts	12	**3,645**	3,817
Other provisions	13	**16,445**	3,897
		92,779	79,362
Noncurrent liabilities			
Provision for onerous contracts	12	**2,721**	6,366
Provision for contingencies	14	**10,190**	6,612
		12,911	12,978
Equity			
Capital	15	**85,630**	70,514
Accumulated losses		**(45,379)**	(43,885)
		40,251	26,629
Total liabilities and equity		**145,941**	118,969

See accompanying notes.

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Statements of profit or loss
Years ended March 31, 2019 and 2018
(In thousands of reais)

	Note	2019	2018
Net operating revenue	16	**295,121**	170,604
Cost of goods sold	17	**(263,501)**	(148,206)
Gross profit		**31,620**	22,398
Other operating income (expenses)			
Personnel		**(16,067)**	(13,100)
General and administrative expenses		**(14,583)**	(4,732)
	18	**(30,650)**	(17,832)
Income/(loss) before finance income (costs)			
Finance income	19	**54**	50
Finance costs	19	**(1,558)**	(520)
		(1,504)	(470)
Income and social contribution taxes	20	**(960)**	-
Income (loss) for the year		**(1,494)**	4,096

See accompanying notes.

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Statements of comprehensive income (loss)
Years ended March 31, 2019 and 2018
(In thousands of reais)

	2019	2018
Income (loss) for the year	**(1,494)**	4,096
Other comprehensive income		
Comprehensive income (loss) for the year, net of taxes	**(1,494)**	4,096

See accompanying notes.

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Statements of changes in equity
Years ended March 31, 2019 and 2018
(In thousands of reais)

	Note	Capital	Income reserve	Accumulated losses	Total
Balances at March 31, 2017		53,064	7,917	(47,981)	13,000
Capital increase	15	17,450	(7,917)	-	9,533
Net income for the year		-	-	4,096	4,096
Balances at March 31, 2018		70,514	-	(43,885)	26,629
Capital increase	15	**15,116**	**-**	**-**	**15,116**
Loss for the year		**-**	**-**	**(1,494)**	**(1,494)**
Balances at March 31, 2019		**85,630**	**-**	**(45,379)**	**40,251**

See accompanying notes.

SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda.

Cash flow statements – indirect method
Years ended March 31, 2019 and 2018
(In thousands of reais)

	2019	2018
From operating activities		
Income (loss) for the year	**(1,494)**	4,096
Adjustments not affecting cash and cash equivalents		
Depreciation	**6,812**	4,984
Write-down of property, plant and equipment	**(967)**	-
Other provisions	**16,244**	3,348
Provision for onerous contracts	**(3,817)**	(11,324)
Provision for contingencies	**(118)**	697
Provision for obsolescence	**(374)**	(44)
Deferred income	**-**	(825)
Total adjustments not affecting cash	**16,287**	932
(Increase) decrease in assets and increase (decrease) in operating liabilities		
Trade accounts receivable	**(3,068)**	7,671
Accounts receivable from associates	**93**	-
Inventories	**(9,262)**	(30,657)
Goods in transit	**-**	-
Taxes recoverable	**(3,325)**	(784)
Other receivables	**30**	(593)
Trade accounts payable	**21,613**	(3,202)
Related parties	**173**	(159)
Tax liabilities	**942**	(1,922)
Advance from customers	**(23,989)**	30,212
Labor obligations and social charges	**2,302**	58
Total	**(14,491)**	624
Net cash from (used in) operating activities	**1,796**	1,555
Investing activities:		
Acquisition of PP&E and intangible assets	**(22,955)**	(5,568)
Cash used in investing activities	**(22,955)**	(5,568)
Activities in equity		
Capital payment	**15,116**	9,532
Cash used in investing activities	**15,116**	9,532
Increase (decrease) in cash and cash equivalents	**(6,044)**	5,519
Cash and cash equivalents at beginning of year	**6,603**	1,084
Cash and cash equivalents at end of year	**559**	6,603
Increase (decrease) in cash and cash equivalents	**(6,044)**	5,519

See accompanying notes.

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.

On October 23, 2018, by means of the 18th Amendment to its articles of organization, the Company changed its business name and also its fiscal year. The Company had its name changed to SMRC Fabricação e Comércio de Produtos Automotivos do Brasil Ltda. and its fiscal year runs from April 1 through March 31.

The Company’s financial statements were approved by management on August 12, 2019.

2. Presentation of financial statements

The Company’s financial statements were prepared in accordance with accounting practices adopted in Brazil applicable to small and medium-sized enterprises, NBC TG 1000 (R1), comprising the Pronouncements, Interpretations and Guidance issued by the Brazilian Financial Accounting Standards Board - FASB (CPC), as 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.

2. Presentation of financial statements (Continued)

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.

3. Accounting policies

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

a) Statement of profit or loss

i) *Revenues*

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.

3. Accounting policies (Continued)

a) Determination of profit and loss (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.

3. Accounting policies (Continued)

c) Financial instruments (Continued)

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.

3. Accounting policies (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.

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.

3. Accounting policies (Continued)

e) Inventories (Continued)

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.

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.

(In thousands of reais – R$)

3. Accounting policies (Continued)

h) Liabilities (Continued)

Effective results may differ from these estimates. Tax, civil or labor claims to be estimated and accrued at March 31, 2019 and 2018 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:

	Rates
State VAT (ICMS) - São Paulo state	18%
ICMS (other states)	7% to 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.

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.

3. Accounting policies (Continued)

i) Taxation (Continued)

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, 2019 and 2018 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.

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.

3. Accounting policies (Continued)

m) Present value adjustment of assets and liabilities (Continued)

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) New or revised pronouncements adopted for the first time at March 31, 2019

The adoption of new and revised IFRSs applicable to the Company did not have a material impact on the amounts reported and/or disclosed in the current period. The standards adopted are as follows, and the others are not applicable to the Company:

CPC 47 (IFRS 15) Revenue from contracts with customers

CPC 47 (IFRS 15)'s revenue recognition model is based on the concept of control. That is, revenue is recognized when (or as) control over the goods and services is transferred to the customer, and in an amount representing the consideration to which the entity expects to be entitled in exchange for such goods and services. The Company has concluded that there are no significant differences from the current revenue recognition criteria and no change to its processes is required.

CPC 48 (IFRS 9) - Financial Instruments

This standard establishes a new methodology for the classification, measurement and impairment of financial assets and liabilities. The Company did not identify any significant effects, the main changes refer to the new classifications of financial assets.

(In thousands of reais – R$)

3. Accounting policies (Continued)

o) Pronouncements issued but not yet effective

The following standards have been published and will be mandatory for accounting periods beginning on or after January 1, 2019. There was no early adoption of these standards and amendments to the standards by the Company.

CPC 06/IFRS 16 – Leases

This standard is intended to replace IAS 17 - CPC 06 - Leases, and related interpretations. This standard establishes the principles for the recognition, measurement, presentation and disclosure of leases. It is effective for annual periods beginning on or after January 1, 2019.

The Company will elect to use the exemptions proposed by the standard for lease agreements whose term expires in 12 months from the date of initial adoption, and lease agreements whose underlying assets are of low value. The Company has leases for certain office equipment, such as coffee machines, water purifiers, printers and copiers, fixtures for use in factories considered to be of low value, as well as vehicles and some machinery. The Company intends to adopt the new standards and/or amendments on the required effective date based on the method applicable to each pronouncement, and they may be presented retrospectively or prospectively. The Company is currently assessing the possible impacts of adopting the new pronouncements on its financial statements.

4. Cash and cash equivalents

	2019	2018
Banks	**559**	6,603
Total	**559**	6,603

(In thousands of reais – R$)

5. Trade accounts receivable

	2019	2018
Domestic customers	**24,644**	21,568
Foreign customers	**25**	33
	24,669	21,601
Allowance for doubtful accounts	**-**	-
Total	**24,669**	21,601
Aging list of receivables		
Falling due	**20,422**	17,454
Less than 30 days	**1,199**	525
Above 30 days	**-**	66
Above 60 days (a)	**3,048**	3,556
Total	**24,669**	21,601

(a) 2019: The amount is approximately R$3,000 GM tooling; and in 2018, the amount corresponds to R$3,400 Scania tooling and R$ 96 GM tooling.

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.

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.

(In thousands of reais – R$)

6. Inventories

	2019	2018
Raw materials	**6,628**	3,285
Work-in-process	**1,539**	1,018
Finished products	**3,289**	3,037
Advances on projects (tooling) (a)	**47,187**	43,968
Other materials (b)	**1,927**	-
	60,570	51,308
Obsolete items	**(372)**	(746)
Total	**60,198**	50,562

	2019	2018
Changes in obsolete items		
Prior-period balance	**(746)**	(480)
Additions	**(216)**	(644)
Write-offs	**590**	378
Current period balance	**(372)**	(746)

	2019	2018
Changes in advances on projects (tooling)		
GM – BSUV	**28,009**	8,035
GM – GVT	**19,030**	7,962
GM – PM7/Onix	**-**	5,070
Dailmer	**133**	-
VW – Scania	**-**	16,005
PSA – F3	**-**	6,784
Other	**15**	112
	47,187	43,968

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” are those which did not have any changes in sales or production over the surveyed period, thus the Company provisions 100% of their stocks.

6. Inventories (Continued)

(In thousands of reais – R$)

Items classified as “Service” are those not regularly purchased, but must be held in inventories by the Company for a period of 10 years in order to meet future contingencies and replacement as provided for by contract. In the case of these items, the logistics area performs an analysis of the time they are in stock, and checks with the dealers about expectations of purchases of these products. With this information, the provision can reach up to 50%.

(a) Advance on projects (tooling) equivalent to Advances to suppliers, in which the purpose of expenses incurred is to making the ‘Molds’ of new products. The balance is reduced as invoices are issued. In 2019, there were two major projects with spending/advances that would be GM - BSUV/Tracker and GVT, and in 2018 the largest projects were GM and VW - Scania.

(b) The account under concern is substantially represented by balances of material in transit and also inventory loss reserves; in March 2018, the amount of (R$330) is due to the reserve for losses recorded in the period.

7. Related parties

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

	2019		**2018**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
SMRC Barcelona	**-**	**-**	55	-
SMRC Argentina	**66**	**-**	104	-
SMRC Automotive B.V.	**-**	**(173)**	-	-
Total	**66**	**(173)**	159	-

(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:									
Balances at March 31, 2017	-	62	1,932	1,864	53,947	23	6	2,232	60,066
Additions	-	41	1,092	-	2,049	-	-	2,386	5,568
Write-offs	-	-	-	-	-	-	-	-	-
Revaluations	-	-	-	-	-	-	-	-	-
Balances at March 31, 2018	-	103	3,024	1,864	55,996	23	6	4,618	65,634
Additions	**650**	**1,814**	**213**	**161**	**12,313**	**30**	**-**	**9,771**	**24,952**
Write-off	**-**	**-**	**-**	**-**	**(1,995)**	**-**	**-**	**-**	**(1,995)**
Revaluations	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balances at March 31, 2019	**650**	**1,917**	**3,237**	**2,025**	**66,314**	**53**	**6**	**14,389**	**88,591**
Accumulated depreciation:									
Balances at March 31, 2017	-	-	(1,705)	(1,678)	(22,184)	(23)	(6)	-	(25,596)
Depreciation	-	(2)	(248)	(25)	(4,710)	-	-	-	(4,985)
Write-offs	-	-	-	-	-	-	-	-	-
Balances at March 31, 2018	-	(2)	(1,953)	(1,703)	(26,894)	(23)	(6)	-	(30,581)
Depreciation	**-**	**(49)**	**(404)**	**(45)**	**(6,310)**	**(5)**	**-**	**-**	**(6,813)**
Write-offs	**-**	**-**	**-**	**-**	**967**	**-**	**-**	**-**	**967**
Balances at March 31, 2019	**-**	**(51)**	**(2,357)**	**(1,748)**	**(32,237)**	**(28)**	**(6)**	**-**	**(36,427)**
Net balance at March 31, 2018	-	100	1,071	161	29,103	-	-	4,618	35,053
Net balance at March 31, 2019	**650**	**1,866**	**880**	**277**	**34,077**	**25**	**-**	**14,389**	**52,164**

(In thousands of reais – R$)

9. Trade accounts payable

	2019	2018
Local suppliers	**29,150**	10,503
International suppliers	**1,797**	734
Suppliers in transit	**1,904**	-
Total	**32,851**	11,238

10. Advances from customers

	2019	2018
GM	**2,004**	83
Continental	**500**	-
Revenues from future services (b)	**-**	18,678
Projects to be billed (a)	**23,464**	31,196
Total	**25,968**	49,957

	2019	2018
Changes in projects to be billed		
GM – PM7/Onix	**-**	3,994
VW – Scania	**125**	217
PSA – F3	**-**	4,228
GM – BSUV	**14,121**	14,121
GM – GVT	**8,962**	8,559
Daimler	**255**	-
Other	**1**	77
	23,464	31,196

(a) Projects to be billed for new products (consisting of tooling, i.e. molds of new product models that the Company will sell to customers). In 2019 two major projects with spending/advances were in place, GM - BSUV/Tracker and GVT, and in 2018 the largest projects were GM and VW - Scania.

(b) This change refers to an advanced billing of tooling with future delivery to Scania Latin America customer due to an advance made by them. Future revenue fell due to the sale, project wrap-up and tooling delivery in January 2019.

11. Labor obligations and social charges

	2019	2018
Salaries payable	**94**	92
Profit sharing payable	**1,040**	541
Accrued vacation pay	**2,849**	2,532
Accrued 13th monthly salary pay	**671**	519
Retirement plan payable	**96**	80
Directors' bonus	**4,063**	3,360
Other deductions payable	**147**	153
Employees' withholding income tax (IRRF) payable	**361**	223
Unemployment Compensation Fund (FGTS) payable	**522**	429
Social Security Tax (INSS) payable	**2,143**	1,755
Total	**11,986**	9,684

(In thousands of reais – R$)

12. Provision for onerous contracts

	2019	2018
Current liabilities		
Provision for onerous contracts	**3,645**	3,817
Noncurrent liabilities		
Provision for onerous contracts - NC	**2,721**	6,366
Total	**6,366**	10,183

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.

13. Other provisions

	2019	2018
Provision for expenses	**4,292**	3,742
Provision for rent (a)	**11,427**	-
Provision for warranty costs	**489**	148
Provision for freight	**237**	7
Total	**16,445**	3,897

(a) The provision for rent refers to the accounting for straight-lining of the liability of the rental agreement referring to the Company's headquarters in the city of Guarulhos/SP. The respective rental agreement has a grace period for the first 27 months, so payments will start from April 19. The Company fully recorded the amount of R$ 11,427 in the statement of profit or loss for the year ended March 31, 2019 referring to the straight-lining of rents, of which R$ 6,845 refers to the straight-lined rent expenses regarding the period from December 1, 2016 through March 31, 2018.

Provision for expenses includes overhead, retroactive pricing for suppliers, projects and launching.

(In thousands of reais – R$)

14. Provision for contingencies

	2019	2018
Labor contingencies	**6,494**	6,612
Tax contingencies (a)	**3,696**	-
Total	**10,190**	6,612

	Labor	Tax and civil	Total
Balance at March 31, 2018	6,612	-	6,612
Other provisions	**-**	**3,696**	**3,696**
Payments	**-**	**-**	**-**
Reversals	**(118)**	**-**	**(118)**
Monetary restatement	**-**	**-**	**-**
Balance at March 31, 2019	**6,494**	**3,696**	**10,190**

(a) The increase in tax contingencies refers to the proceeding concerning ICMS tax exclusion from the PIS and COFINS contribution tax bases, in that in October 2018, Cosit Internal Letter Ruling No. 13 - published on the Brazilian IRS website – states the criteria and procedures to be followed for the purpose of excluding ICMS from the PIS/Pasep and COFINS contribution tax basis, on a cumulative or non-cumulative basis. The lawsuit is in progress, and management has an injunction to carry out that exclusion.

As at March 31, 2019, the Company is aware of other tax, civil and labor claims and risks. Based on the opinion of the legal advisors, the likelihood of loss was assessed as possible in the amount of R$ 1,774, based on the historical average of follow-up of proceedings, as adjusted to the current estimates, for which the Company's management understands that no provision is required for losses, if any.

15. Equity

Capital

The capital subscribed for is R$ 85,630 (R$ 70,514 in 2018), divided into 85,630,119 units of interest at a par value of R$ 1.00 each, 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**

Throughout the year at March 2018, there were capital increases in the amount of R$ 17,450, of which R$ 7,917 was paid up through Capital Reserves and the remainder in cash.

(In thousands of reais – R$)

15. Equity (Continued)

Throughout the year at March 2019, there were four capital increases, and the total increase amounted to R$ 15,117. The capital increased from R$ 70,514 to R$ 85,630, the increase being represented by 15,117 new units of interest at a par value of R$ 1.00 each.

16. Operating revenue, net

	2019	2018
Sale of products - domestic market	**322,914**	216,308
Sale of services/tooling	**45,620**	17,893
Gross revenue	**368,534**	234,201
Sales deductions		
Sales taxes	**(73,413)**	(63,597)
Total	**295,121**	170,604

17. Cost of goods sold

	2019	2018
Cost of goods sold	**(142,613)**	(84,214)
Service/tooling cost	**(31,888)**	(7,752)
Cost of personnel	**(44,410)**	(33,180)
Other costs	**(44,590)**	(23,060)
	(263,501)	(148,206)

18. Expenses by type

	2019	2018
ADM personnel	**(16,067)**	(13,100)
Outsourced services	**(2,136)**	(2,195)
New business	**(7,388)**	(4,529)
Travel expenses	**(1,599)**	(983)
Transportation expenses	**(155)**	(146)
Vehicle rental	**(314)**	(298)
Depreciation	**(6,771)**	(4,984)
Labor proceedings	**(82)**	(966)
Onerous contracts (a)	**3,817**	11,324
Other income (expenses) (b)	**45**	(1,955)
	(30,650)	(17,832)

(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 stated in 2019 derives from sales of scrap and property, plant and equipment items

(In thousands of reais – R$)

19. Finance income (costs)

	2019	2018
Finance income		
Other finance income	**54**	50
	54	50
Finance costs		
Interest, penalties and adjustment	**(1,558)**	(520)
	(1,558)	(520)
Finance income (costs), net	**(1,504)**	(470)

20. Income and social contribution taxes

At March 31, the reconciliation between income and social contribution tax expenses at nominal and effective rates is as follows:

	2019	2018
Loss before income and social contribution taxes	**(534)**	4,095
Combined tax rate	**34%**	34%
Combined tax rate	**(181)**	1,393
Changes in temporary nondeductible accounting provision		
Permanent differences, nondeductible amounts and offsets	**1,207**	(1,966)
Other	**(65)**	573
Income and social contribution taxes for the year	**(960)**	-

21. Financial instruments

The financial instruments used by the Company are substantially represented by trade accounts receivable, accounts payable and receivable and related parties and trade accounts payable, and are fully recognized in the financial statements at amounts that approximate their fair values. These instruments are managed through operating strategies aimed at liquidity, profitability and risk minimization.

In March 2019, the Company did not enter into any derivative financial instrument transactions.

22. Subsequent events

In April 2019, the Company raised funds totaling R$ 8,000 from Deutsche Bank financial institution as a source of working capital and to finance its operations, maturing on October 14, 2019 and bearing interest of 100% of the Interbank Deposit Certificate (CDI) index + 3.95% p.a.