Financial Statements

SMR Automotive Brasil Ltda.

December 31, 2019
with Independent Auditor's Report

SMR Automotive Brasil Ltda.

Financial statements

December 31, 2019

Contents

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

Independent auditor's report on financial statements

To the Management and Shareholders of
SMR Automotive Brasil Ltda.
Campinas - SP

Opinion

We have audited the financial statements of SMR Automotive Brasil Ltda. (the "Company"), which comprise the statement of financial position as at December 31, 2019 and the statements of profit or loss, of comprehensive income, 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 policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of SMR Automotive Brasil Ltda. as at December 31, 2019, and its financial performance and cash flows for the year then ended in accordance with the accounting practices adopted in Brazil.

Basis for opinion

We conducted our audit in accordance with the Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance 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.

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

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Brazilian and International Standards on Auditing will always detect 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 the Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

Campinas, April 24, 2020.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SPO34519/0-6

Marcos Roberto Sponchiado

Marcos Roberto Sponchiado
Accountant CRC 1SP175536/O-5

SMR Automotive Brasil Ltda.

Statement of financial position
December 31, 2019 and 2018
(In thousands of reais)

	Note	2019	2018
Assets			
Current assets			
Cash and cash equivalents	3	**5,854**	1,258
Accounts receivable	4	**11,089**	14,687
Inventories	5	**13,765**	15,460
Taxes recoverable	6	**8,283**	5,000
Related parties	7	**113**	360
Advances to suppliers		**5,077**	5,223
Other receivables		**949**	961
		45,130	42,949
Noncurrent assets			
Taxes recoverable	6	**565**	950
Deferred income and social contribution taxes	8	**6,458**	4,339
Property, plant and equipment	9	**35,332**	38,619
Intangible assets		**1,473**	987
		43,828	44,895
Total assets		**88,958**	87,844

	Note	2019	2018
Liabilities and equity			
Current liabilities			
Loans	10	**10,357**	17,385
Trade accounts payable	11	**16,148**	16,601
Salaries and social charges		**1,809**	1,525
Taxes payable		**102**	85
Related parties	7	**613**	2,864
		29,029	38,460
Non current liabilities			
Contingency liabilities	16	**206**	181
		206	181
Equity	12		
Capital		**82,533**	82,533
Accumulated losses		**(22,810)**	(33,330)
		59,723	49,203
Total liabilities and equity		**88,958**	87,844

See accompanying notes.

SMR Automotive Brasil Ltda.

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

	Note	2019	2018
Net revenue	13	**123,020**	104,141
Cost of sales	14	**(98,513)**	(88,425)
Gross profit		**24,507**	15,716
Operating income (expenses):			
Selling expenses	14	**(1,157)**	(1,111)
General and administrative expenses	14	**(10,739)**	(9,834)
Other operating income, net		**920**	640
		(10,976)	(10,305)
Income before finance income (costs)		**13,531**	5,411
Finance income (costs)			
Finance income	15	**33**	74
Finance costs	15	**(2,056)**	(2,718)
Monetary and exchange differences, net	15	**(254)**	(298)
		(2,277)	(2,942)
Income before income and social contribution taxes		**11,254**	2,469
Current	8	**(2,853)**	(629)
Deferred	8	**2,119**	2,252
Net income for the year		**10,520**	4,092

See accompanying notes.

SMR Automotive Brasil Ltda.

Statement of comprehensive income
Years ended December 31, 2019 and 2018
(In thousands of reais)

	2019	2018
Net income for the year	**10,520**	4,092
Total comprehensive income for the year	**10,520**	4,092

See accompanying notes.

SMR Automotive Brasil Ltda.

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

	Capital	Accumulated losses	Total
Balances at December 31, 2017	82,533	(37,422)	45,111
Net income for the year	-	4,092	4,092
Balances at December 31, 2018	82,533	(33,330)	49,203
Net income for the year	**-**	**10,520**	**10,520**
Balances at December 31, 2019	**82,533**	**(22,810)**	**59,723**

See accompanying notes.

SMR Automotive Brasil Ltda.

Statement of cash flows
Years ended December 31, 2019 and 2018
(In thousands of reais)

	2019	2018
Cash flows from operating activities		
Net income for the year	**10,520**	4,092
Adjustments to reconcile net income to cash from (used in) operating activities:		
Depreciation and amortization	**4,865**	4,486
Write-off of property, plant and equipment and intangible assets	**958**	1,479
Deferred taxes	**(2,119)**	(2,252)
Constitution of contingency liabilities	**25**	-
Interest and exchange variations	**1,446**	1,502
Changes in assets and liabilities		
Accounts receivable	**3,598**	63
Inventories	**1,695**	(3,272)
Taxes recoverable	**(73)**	(1,380)
Other receivables and advance to suppliers	**158**	(2,245)
Trade accounts payable	**(453)**	5,206
Related parties	**(2,004)**	(378)
Salaries and social charges	**284**	66
Taxes payable	**17**	(266)
Interest paid	**(1,475)**	(1,519)
Income and social contribution taxes paid	**(2,825)**	(998)
Net cash from (used in) operating activities	**14,617**	4,584
Cash flow from investing activities		
Acquisition of property, plant and equipment, and intangible assets	**(3,022)**	(9,506)
Net cash used in investing activities	**(3,022)**	(9,506)
Cash flows from financing activities		
Loans taken out from third parties	**102,974**	79,874
Repayment of loans	**(109,973)**	(76,847)
Net cash used in financing activities	**(6,999)**	3,027
Increase (Decrease) in cash and cash equivalents	**4,596**	(1,895)
Statement of changes in cash and cash equivalents		
Cash and cash equivalents at beginning of year	**1,258**	3,153
Cash and cash equivalents at end of year	**5,854**	1,258
	4,596	(1,895)

See accompanying notes.

1. Operations

SMR Automotive Brasil Ltda. ("Company"), headquartered at Avenida Pacífico Moneda, 3360 - Jaguariúna-SP, is engaged in the manufacture and sale of external rear-view mirrors for passenger vehicles.

SMR Automotive Brasil is the first manufacturing plant of the "Motherson Group" in South America and, until 2011, underwent production testing to ensure the quality of its products as well as the correct configuration of the machines. The start of the commercial scale production phase began in September 2012 and the plant is currently in full operation and started sales to customers in August 2012.

Investments began in June 2010, and soon after choosing the best location, based on logistical criteria and tax incentives, the plot of land was acquired, and construction began in September 2010, and was completed in December 2011.

2. Presentation of financial statements and summary of significant accounting practices

2.1. Basis of preparation

The financial statements were prepared and are presented in accordance with the accounting practices adopted in Brazil, which comprise the pronouncements issued by the Brazilian Financial Accounting Standards Board - FASB ("CPC") approved by Brazil's National Association of State Boards of Accountancy ("CFC").

The financial statements were prepared on a historical cost basis, except for certain assets and liabilities, such as financial instruments, which are measured at fair value.

The authorization to issue these financial statements was given by the Executive Board on April 24, 2020.

2. Presentation of financial statements and summary of significant accounting practices (Continued)

2.2. Functional and reporting currencies

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

2.3. Translation of foreign-currency denominated balances

Foreign currency transactions are translated into the functional currency using the foreign exchange rate in force at the date of the transaction. Exchange gains and losses arising from the settlement of these transactions and from the conversion of monetary assets and liabilities denominated in foreign currency are recognized in P&L for the year.

2.4. Financial instruments

i) <u>Financial assets</u>

Initial recognition and measurement

Financial assets are classified at initial recognition as subsequently measured at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. The classification of financial assets upon initial recognition depends on the characteristics of the contractual cash flows of the financial asset and the Company's business model for the management of these financial assets. The Company initially measures a financial asset at its fair value plus transaction costs, in the case of a financial asset not measured at fair value through profit or loss. Trade accounts receivable that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined in accordance with CPC 47.

For a financial asset to be classified and measured at amortized cost or at fair value through other comprehensive income, it must generate cash flows that are "solely payments of principal and interest" (SPPI) on the principal amount outstanding. This assessment is carried out at the instrument level.

The Company's business model for managing financial assets refers to how financial assets are managed to generate cash flows. The business model determines whether cash flows will result from the collection of contractual cash flows, the sale of financial assets or both.

2. Presentation of financial statements and summary of significant accounting practices (Continued)

2.4. Financial instruments (Continued)

i) Financial assets (Continued)

Subsequent measurement

For the purpose of subsequent measurement, the financial assets are classified into four categories:

(i) Financial assets at amortized cost (debt instruments).

(ii) Financial assets at fair value through other comprehensive income and reclassification of accumulated gains and losses (debt instruments).

(iii) Financial assets at fair value through other comprehensive income and no reclassification of accumulated gains and losses upon derecognition (equity instruments).

(iv) Financial assets at fair value through profit or loss.

At December 31, 2019, the financial assets were classified into: financial assets at amortized cost and financial assets measured at fair value through profit or loss.

Financial assets at amortized cost (debt instruments)

The Company measures financial assets at amortized cost if both the following conditions are fulfilled:

(i) The financial asset is held within a business model whose purpose is to hold financial assets in order to receive contractual cash flows.

(ii) The contractual terms of the financial asset give rise on specified dates to cash flows that comprise, exclusively, payments of principal and interest on the principal amount outstanding.

2. Presentation of financial statements and summary of significant accounting practices (Continued)

2.4. Financial instruments (Continued)

i) Financial assets (Continued)

Financial assets at amortized cost (debt instruments) (Continued)

Financial assets at amortized cost are subsequently measured using the effective interest rate method and are subject to impairment. Gains and losses are recognized in P&L when the asset is derecognized, modified or impaired.

The Company's financial assets at amortized cost include accounts receivable, related parties, and other financial assets recorded as other receivables in current and noncurrent assets.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets initially recognized at fair value through profit or loss or financial assets mandatorily measured at fair value. Financial assets are classified as held for trading if acquired for the purpose of sale or repurchase within the short term. Derivative financial instruments, including separated embedded derivatives, are also classified as held for trading, unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, regardless of the business model.

Financial assets at fair value through profit or loss are stated in the statement of financial position at fair value, and net changes in fair value are recognized in the statement of profit or loss.

Derecognition (write-off)

A financial asset (or, whenever the case, a part of a financial asset or a part of a group of similar financial assets) is derecognized when:

(i) The rights to receive cash flows from the assets expire;

2. Presentation of financial statements and summary of significant accounting practices (Continued)

2.4. Financial instruments (Continued)

i) Financial assets (Continued)

Derecognition (write-off) (Continued)

(ii) The Company has transferred the rights to receive cash flows from the financial asset, or has assumed an obligation to pay any cash flows it has received, without material delay, to a third party under a pass-through arrangement; and (a) the Company has transferred substantially all the risks and rewards of ownership of the financial asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but it has transferred control over such asset.

When the Company transfers its rights to receive cash flows from an asset or enters into a pass-through arrangement, it assesses whether and to what extent it has retained the risks and rewards of ownership. When the Company has neither transferred nor retained substantially all the risks and rewards of the asset, nor has it transferred control over the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations retained by the Company.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of (i) the carrying amount of the asset and (ii) the maximum amount of consideration that the Company could be required to repay (guarantee amount).

Impairment of financial assets

The Company recognizes the expected credit losses for all debt instruments not held at fair value through profit or loss. Expected credit losses are based on the difference between contractual cash flows due under the contract and all cash flows the Company expects to receive, to be discounted at an effective interest rate that approximates the original rate of the transaction. Expected cash flows will include cash flows from the sale of guarantees held or other credit enhancements that are part of the contractual terms.

2. Presentation of financial statements and summary of significant accounting practices (Continued)

2.4. Financial instruments (Continued)

i) Financial assets (Continued)

Impairment of non-financial assets (Continued)

Expected credit losses are expected in two stages. For credit exposures for which there has been no significant increase in credit risk since the initial recognition, the expected credit losses arise from possible default events in the next 12 months (expected credit losses for 12 months). For credit exposures for which there has been a significant increase in credit risk since the initial recognition, a supplementary amount is required for expected credit losses over the remaining life of the exposure, regardless of the timing of the default. A financial asset is written off when there is no reasonable expectation of recovery of contractual cash flows.

For trade accounts receivable, the Company applies a simplified approach to the calculation of expected credit losses. Therefore, the Company does not track changes in credit risk, but recognizes losses based on lifetime expected losses at each reporting date. The Company has established a matrix that is based on its historical experience of credit losses adjusted for specific prospective factors for borrowers and for the economic environment.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified as financial liabilities measured at fair value through profit or loss, or financial liabilities at amortized cost, as the case may be. The Company determines how its financial liabilities are classified upon their initial recognition.

The financial liabilities are initially recognized at fair value and, in the case of financial liabilities at amortized cost, include directly related transaction costs.

2. Presentation of financial statements and summary of significant accounting practices (Continued)

2.4. Financial instruments (Continued)

ii) Financial liabilities (Continued)

Initial recognition and measurement (Continued)

The Company's financial liabilities include trade accounts payable, financings with third parties and related parties.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

a) *Financial liabilities measured at fair value through profit or loss*

The Company's financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the CPC 48 criteria are satisfied. The Company did not designate any financial liabilities at fair value through profit or loss.

After initial recognition, interest-bearing loans and financing are subsequently measured at amortized cost using the effective interest rate (EIR) method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

b) *Financial Liabilities at amortized cost*

This is de most relevant category for de Company. After initial recognition, loans and financing contracted and granted subject to interest are subsequently measured at amortized cost, using the effective interest rate method. Gains and losses are recognized in the income statement when liabilities are written off, as well as through the effective interest rate amortization process.

2. Presentation of financial statements and summary of significant accounting practices (Continued)

2.4. Financial instruments (Continued)

ii) Financial liabilities (Continued)

b) Financial liabilities at amortized cost (Continued)

Amortized cost is calculated by considering any discount or goodwill on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and financing. For more information, see Note 10.

Derecognition (write-off)

A financial liability is derecognized when the obligation under the liability is discharged or canceled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

2. Presentation of financial statements and summary of significant accounting practices (Continued)

2.5. Accounting pronouncements that became effective in 2019

The following interpretation of the standard was also adopted for the first time as of January 1, 2019, however, it had no significant effects on the Company's accounting information:

CPC 06 (R2) – Leases

This establishes the principles for measurement, recognition and disclosure of leases and requires that the lessees account for these transactions in the statement of financial position in a model similar to that of finance leases. In the model proposed by this standard, the lessee must recognize all leases (leases) as part of the balance sheet in the account of the fixed assets "right of use", with a corresponding entry in the liability account. This recognition must initially be measured at present value, considering a discount rate that is adapted to the local reality of each entity. In the model proposed by this standard, there are no significant changes in accounting recognition to be made by the lessor.

It addresses the new concepts from the tenant's point of view. In the model proposed by this standard, the lessee must recognize all leases (leases) as part of the balance sheet in the account of the fixed assets "right of use", with a corresponding entry in the liability account. This recognition must initially be measured at present value, considering a discount rate that is adapted to the local reality of each entity. In the model proposed by this standard, there are no significant changes in accounting recognition to be made by the lessor.

The Company analyzed the new accounting pronouncement, as well as the application in existing transactions and concluded that the impacts on the financial statements are immaterial.

(In thousands of reais, unless otherwise stated)

2. Presentation of financial statements and summary of significant accounting practices (Continued)

2.5. Accounting pronouncements that became effective in 2019 (Continued)

ICPC 22 – Uncertainty over Income Tax Treatments

This is an interpretation of the CPC 32 Income Taxes standard, whose initial application occurred as of January 1, 2019. The Company surveyed all the circumstances addressed by this pronouncement in order to assess its possible impacts. According to the interpretation, there are two possibilities for adopting the interpretation: (1) retrospective, where the application is disregarded without the effect of using facts or later knowledge and (2) retrospective with accumulated effect, an effect in which the interpretation is applied with all the effect of previous periods accumulated in shareholders' equity. The Company adopted this standard retrospectively with an accumulated effect, with all effects, if any, in the retained earnings account, or another component of the most appropriate shareholders' equity.

However, to date, the Company has no transactions or circumstances considered to be “uncertain treatment” that have had an impact on the financial statements.

Other accounting standards have been changed or are in the process of being changed and will come into force in the coming years, however they were not mentioned, as, according to the Company's assessment, no impact arising from their application is expected.

3. Cash and cash equivalents

Cash and cash equivalents comprise cash, bank deposits and other short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value.

	2019	**2018**
Cash and bank checking accounts	**5,854**	1,258
	5,854	1,258

(In thousands of reais, unless otherwise stated)

4. Accounts receivable

Accounts receivable are stated at present value less allowance for doubtful accounts, when applicable.

	2019	2018
Accounts receivable	**11,089**	14,687
	11,089	14,687

At December 31, 2019 and 2018, the aging list of accounts receivable is as follows:

	2019	2018
Falling due	**8,321**	7,918
Overdue:		
Within 3 months	**2,673**	3,500
From 3 to 6 months	**95**	3,269
	11,089	14,687

At the date of the financial statements, the Company did not record any provisions for losses on receivables, since it understands that there are no risks of default.

The maximum exposure to credit risk at the statement of financial position date is the book value of each class of accounts receivable referred to above. The Company has no security as collateral for trade accounts receivable.

5. Inventories

Inventories are carried at average cost of acquisition or production, not exceeding their net realizable value. Provisions for losses on inventories are recorded when considered necessary by management.

	2019	2018
Raw materials	**5,346**	6,621
Semifinished products	**917**	1,263
Finished products	**1,519**	1,593
Imports in transit	**2,706**	3,137
Tooling	**3,277**	2,846
	13,765	15,460

(In thousands of reais, unless otherwise stated)

6. Taxes recoverable

	2019	2018
State VAT (ICMS)	**4,620**	4,036
Contribution Tax on Gross Revenue for Social Integration Program (PIS) and for Social Security Financing (COFINS)	**4,217**	1,456
Other taxes to refund	**11**	458
	8,848	5,950
Current	**8,283**	(5,000)
Noncurrent	**565**	950

Long-term recoverable tax balances are basically related to credits arising from the acquisition of fixed assets, which are being recovered in the proportion of 1/48th per year. Short-term credits relate to the acquisition of goods and raw materials, and Company management estimates that the balances existing in current assets as of December 31, 2019 will be realized in the normal course of its operations, without losses.

7. Related parties

The Company has relationships and carries out transactions in significant amounts with its parent company and associated companies. These transactions with related parties mainly refer to loans obtained for working capital purposes and the purchase of services and materials. The balances arising from these transactions are subject to US dollar (USD), Euro (EUR) and Yen (JPY) exchange rate fluctuation.

a) Balances at end of year

	2019	2018
Accounts receivable		
SMR Mexico	**-**	80
SMR France	**61**	163
SMR USA	**7**	87
SMR Germany	**45**	30
	113	360
Accounts payable		
SMR USA	**392**	1,084
SMR India	**-**	161
SMR Germany	**164**	139
SMR Mexico	**-**	1
SMR Hungary	**-**	7
SMR Korea	**23**	664
SMR Japan	**4**	1
SMR Thailand	**-**	352
SMR Australia	**26**	455
SMR Yancheng	**4**	
	613	2,864

(In thousands of reais, unless otherwise stated)

7. Related parties (Continued)

b) Hard Currency Value

	2019	2018
Accounts receivable		
USD	**1**	43
EUR	**23**	43

	2019	2018
Accounts payable		
USD	**110**	700
EUR	**36**	32
YEN	**94**	33

c) Purchases of services and materials

	2019	2018
SMR USA	**643**	3
SMR Korea	**1,010**	1,270
SMR Stuttgart	**2,647**	1,270
SMR India	**134**	773
SMR Mexico	**4**	-
SMR Australia	**562**	1,418
SMR Hungary	**4**	7
SMR Japan	**22**	8
SMR Thailand	**224**	304
SMR Spain	**-**	1
	5,250	6,043

d) Remuneration to key management personnel

The remuneration of key management personnel on December 31, 2019 was R$ 407.

e) Sales of products and services

	2019	2018
SMR Mexico	**-**	-
SMR Hungary	**-**	1
	-	1

(In thousands of reais, unless otherwise stated)

8. Income and social contribution taxes

a) Reconciliation of income and social contribution tax expense

The income and social contribution taxes for the year correspond to the taxes calculated on the taxable profit for the year, based on the rates currently in force, as follows:

- Income tax is calculated at a rate of 15%, plus a surtax of 10% on taxable profit; and
- Social contribution tax is calculated at a rate of 9% on adjusted book income.

Reconciliation of income and social contribution tax expense at the statutory and effective rates is as follows:

	2019	2018
Income before income and social contribution taxes	**11,254**	2,469
Current income and social contribution taxes (nominal rate of 34%)	**(3,826)**	(839)
Adjustments for statement of effective tax rate:		
Transfer pricing adjustment	**(25)**	(19)
Reduction in the provision for the realization of deferred tax credits recorded	**3,051**	2,458
Other	**66**	23
Income and social contribution tax expense	**(734)**	1,623
Current	**(2,853)**	(629)
Deferred	**2,119**	2,252
Effective rate	**25%**	25%

b) Deferred

Deferred tax assets are recognized on all deductible temporary differences, credits and unused tax loss carryforwards, when applicable, to the extent taxable profit is likely to be available so that deductible temporary differences, credits and tax loss carryforwards may be realized.

Deferred taxes related to items recognized directly in equity are also recognized in equity, rather than in the statement of profit or loss. Deferred tax items are recognized based on the transaction that triggered the deferred tax, in other comprehensive income or directly in equity.

(In thousands of reais, unless otherwise stated)

8. Income and social contribution taxes (Continued)

b) Deferred (continued)

At December 31, 2019 and 2018, the Company recorded deferred income and social contribution taxes to reflect future tax effects on existing temporary differences between the tax base of assets and liabilities and their respective net book values calculated at a combined tax rate of 34% as follows:

	2019	2018
Temporary differences		
Provision for profit sharing	**79**	78
Provision on imports	**40**	24
Other provisions	**433**	128
Accumulated tax losses	**11,099**	12,354
Total deferred tax assets	**11,651**	12,584
Provision for recoverability of deferred taxes	**(5,193)**	(8,245)
Net amount	**6,458**	4,339

Deductible temporary differences and accumulated tax losses do not expire in accordance with current tax legislation. Deferred tax assets were recognized in relation to these items, as it is probable that future taxable profits will be available for the company to be able to use their benefits. The use of tax loss and negative base balances is limited to 30% of the taxable income for the year in which it will be used. According to management estimates, future taxable profits allow the realization of the deferred tax asset, existing on December 31, 2019, in three years.

9. Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and/or accumulated impairment losses, as the case may be. When significant parts of property, plant and equipment are replaced, the Company recognizes these parts as an individual asset item, with a specific useful life and depreciation. Likewise, when a material inspection is carried out, its cost is recognized in the book value of property and equipment, if recognition criteria are met. All the other repair and maintenance costs are recognized in the statement of profit or loss as incurred.

In the current year, the Company reviewed the depreciation rates of its assets and changed their estimated individual useful lives. Management concluded that the rates used reflect the estimated useful life of assets.

Depreciation is calculated on a straight-line basis over the useful life of the asset, at rates that take into consideration the estimated useful life of the assets.

An item of property, plant and equipment is written off on disposal or when no future economic benefits are expected from its use or disposal. Any gains or losses arising from derecognition of an asset (calculated as the difference between the net sale price and the carrying amount of the asset) are recognized in the statement of profit or loss for the year when the asset is derecognized.

(In thousands of reais, unless otherwise stated)

9. Property, plant and equipment (Continued)

	Land	Buildings and improvements	Machinery and equipment	Furniture and fixtures	Total in operation	Construction in progress	Total PP&E
Balances at December 31, 2017	1,695	13,009	19,132	1,444	35,280	490	35,770
Acquisitions	-	249	963	591	1,803	6,958	8,761
Transfers	-	80	70	114	264	(395)	(131)
Write-offs	-	(1,179)	(103)	(6)	(1,288)	(213)	(1,501)
Depreciation	-	(659)	(3,142)	(479)	(4,280)	0	(4,280)
Balances at December 31, 2018	1,695	11,500	16,920	1,664	31,779	6,840	38,619
Acquisitions	**-**	**348**	**936**	**371**	**1,655**	**985**	**2,640**
Transfers	**-**	**2,988**	**1,940**	**123**	**5,051**	**(5,051)**	**-**
Write-offs	**-**	**(17)**	**(44)**	**(5)**	**(66)**	**(890)**	**(956)**
Depreciation	**-**	**(693)**	**(3,348)**	**(509)**	**(4.550)**	**-**	**(4,550)**
Balances at December 31, 2019	**1,695**	**14,126**	**16,404**	**1,644**	**33,869**	**1,463**	**35,332**
% - Yearly depreciation rate	-	4%	10%	12%	-	-	-

(In thousands of reais, unless otherwise stated)

10. Loans

	2019	2018
Bank loans	**10,357**	17,385
	10,357	17,385

Bank loans mature up to 2019 and bear interest of CDI + 3.95% p.a. The total amount of bank loans is guaranteed by the parent company.

Changes in the balance of loans with third parties are as follows:

	2019	2018
January 1	**17,385**	14,375
Loans raised	**102,974**	79,874
Interest incurred	**1,446**	1,502
Repayment of loans	**(109,973)**	(76,847)
Interest paid	**(1,475)**	(1,519)
December 31	**10,357**	17,385

11. Trade accounts payable

	2019	2018
Trade accounts payable - domestic suppliers	**12,571**	13,553
Trade accounts payable – foreign suppliers	**3,577**	3,048
	16,148	16,601

12. Equity

As of December 31, 2019, and 2018, fully subscribed and paid-in capital is divided into 82,532,702 shares with a par value of R$1.00 each, distributed as follows:

	Number of of units of interest	R$ (thousand)
SMR Automotive Mirror Technology	**82,532,702**	82,532,702
Sukant Gupta	**1**	1
	82,532,703	82,532,703

Foreign capital is registered with the Central Bank of Brazil (BACEN) in the amount of 11,750,000 Euros on May 12, 2016. The remittance of profits, repatriation of capital and foreign reinvestments are subject to BACEN regulations.

(In thousands of reais, unless otherwise stated)

13. Net revenue

Revenues from sales of products are recognized when all significant risks and rewards inherent in the ownership of products and goods are transferred by the Company to the purchaser, when they were delivered, there is no right to return, prices are measurable on the sale date and when it is probable that economic benefits associated with the transaction will flow to the Company.

Revenue is recognized net of discounts, trade benefits granted and sales taxes, such as:

	Rates
State VAT (ICMS)	7 to 18%
Contribution Tax on Gross Revenue for Social Integration Program (PIS)	1.65%
Contribution Tax on Gross Revenue for Social Security Financing (COFINS)	7.6%
Federal VAT (IPI)	0 to 5%

These charges are presented as sales deductions in the statement of profit or loss.

	2019	**2018**
Gross sales revenue	**140,674**	126,784
Tooling gross sales	**7,243**	3,534
Taxes and deductions on sales	**(24,897)**	(26,177)
	123,020	104,141

14. Costs and expenses by nature

The Company elected to present the statement of profit or loss by function and details by nature are as follows:

	2019	**2018**
Raw Material and inputs	**76,442**	66,634
Personnel expenses	**17,398**	17,487
Depreciation and amortization	**4,870**	4,486
Consumption material, energy, gas and maintenance	**4,733**	4,128
Rent	**662**	651
Taxes and fees	**1,662**	-
Subsidiary expense allocation	**2,571**	-
Other expenses	**2,071**	5,984
	110,409	99,370
Breakdown:		
Cost of sales	**98,513**	88,425
Selling expenses	**1,157**	1,111
General and administrative expenses	**10,739**	9,834
	110,409	99,370

(In thousands of reais, unless otherwise stated)

15. Finance income (costs)

	2019	2018
Finance income		
Other finance income	**33**	74
	33	74
Finance costs		
Interest and charges on loans	**(1,797)**	(1,730)
Other finance costs	**(259)**	(988)
	(2,056)	(2,718)
Foreign exchange differences		
Foreign exchange losses	**(3,032)**	(1,607)
Foreign exchange gains	**2,778**	1,309
	(254)	(298)
Finance income (costs)	**(2,277)**	(2,942)

16. Provision for contingencies

The Company is a party to legal proceedings arising from the ordinary course of its business.

Periodically, management evaluates contingent risks based on legal, economic and tax bases, with the purpose of classifying them, according to their chances of occurrence and enforceability, as probable, possible and remote, taking into account, as the case may be, the analysis of the legal department responsible for the Company's legal proceedings.

The Company has a share in the passive pole classified as the probable loss risk in the amount of R$ 206 as of December 31, 2019 (R$ 181 as of December 31, 2019) for which a provision was constituted.

There are legal proceedings whose likelihood of loss is assessed by the external legal advisors and by Company management as possible in the amount of R$494 thousand as of December 31, 2019 (R$221 thousand in 2018) for which no provision has been recorded since accounting practices adopted in Brazil do not require it.

17. Risk management and financial instruments

a) General considerations

The estimated realizable values of financial assets and liabilities of the Company have been determined using available market information and appropriate valuation methodologies. Considerable judgment, though, was required in interpreting market data to produce the most adequate estimated realizable value.

The book value of financial instruments recorded in the statement of financial position, when compared to the amounts that could be obtained from their trading in an active market, or in the absence of such markets, using the net present value adjusted for the current market interest rate, substantially approximates the related market value. The Company does not adopt the practice of carrying out transactions with financial derivatives.

b) Risk management

Liquidity risk

Liquidity risk consists of the likelihood that the Company will not have sufficient resources to comply with its commitments by virtue of different currencies and term for the settlement of its rights and obligations.

The Company’s liquidity and cash flow control is monitored by the Company’s financial management department, to assure that cash flow from operations and the previous funding, when necessary, are sufficient to meet its commitment schedule, not generating liquidity risks to the Company.

Currency risk

The Company’s profit or loss is susceptible to significant changes due to the effects of the volatility of foreign exchange rates on balances pegged to foreign currencies, mainly the Euro.

Company management believes that the exchange rates between the Real and the Euro will not be subject to significant additional volatility; consequently, it did not enter into any financial instrument to protect the Company's exchange exposure as of December 31, 2019 and 2018.

(In thousands of reais, unless otherwise stated)

18. Insurance

The Company seeks the assistance of insurance consultants in the market to establish coverage compatible with its size and operations. At December 31, 2019, insurance coverage was contracted at the following amounts pursuant to the respective insurance policies:

Insurance lines	Amount insured
Named perils	159,715

The work scope of our auditors does not include expressing an opinion on the sufficiency of the insurance coverage, which was determined by Company management and considered sufficient to cover any losses.

19. Subsequent Events

On January 31, 2020, the World Health Organization (WHO) announced the coronavirus (COVID-19) as a global health emergency and on March 11, 2020, the outbreak was declared by the WHO as a pandemic since the virus has spread to all continents.

The outbreak triggered significant decisions by governments and private sector entities, which added to the potential impact of the outbreak, increased the degree of uncertainty for economic agents and can have significant impacts on the amounts recognized in the financial statements. Considering the current situation of the spread of the outbreak, the Company understands that its projection of revenues and operating cash flows for year 2020 should be revised.

Management constantly assesses the impact of the outbreak on the Company’s operations and financial position, to implement appropriate measures to mitigate the impacts of the outbreak on operations and financial statements.

Until the date of authorization for the issuance of these financial statements, measures were taken to face this situation, such as, since March 16, 2020, the Company’s employees are on vacation or working in home office to protect the health of each one.

As such, at this moment the Company’s crisis management is focused on the health issue, protecting its employees and protecting the cash flow, aiming at the continuity of the business operations.

However, at this time, the Company's Management is unable to accurately predict or estimate the magnitude of the adverse impacts generated by COVID-19 on the Company's operations and, consequently, on its financial statements.