ANNUAL REPORT

beginning of financial year: 01.01.2019
end of the financial year: 31.03.2020

business name: PKC Eesti AS

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BUSINESS ENVIRONMENT

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

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

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

In 2019, the global economy was affected by political tension and rifts in international trade relations, Brexit, and a notable support of central banks on the economy. There is much uncertainty concerning the future. Analysts have different opinions and estimates on the impact of the aforementioned with regard to the economy in the long run. Uncertainty is even more profound due to the outbreak of COVID-19. Nobody is able to presently provide reliable estimates on the impact thereof in the short or long term on the global economy or European economy.

Changes in the global economy and European economy present an immediate impact on the economic performance of our clients as well as PKC Eesti and provide new challenges. However, in these conditions, our clients were able to perform rather well, creating the prerequisites for our relatively positive economic performance with their order volumes.

TURNOVER AND PROFIT

In November 2019, the sole shareholder of the company adopted the resolution to amend the articles of association of the company and approve a financial year commencing as of 1 April and ending on 31 March. In relation thereto, the present annual report includes the period 01.01.2019 - 31.03.2020, and when interpreting various figures, the difference in the length of the period must be taken into consideration.

The turnover of the company amounted to 231.0 million euros in the reporting period, an increase of 13.9% compared to 2018. The business profit was 17.5 million euros, which forms 7.6% of the turnover.

The net profit of the company in the period of 01.01.2019 - 31.03.2020 was 17.6 million euros, which forms 7.6% of the turnover. No dividends were paid in the 01.01.2019 - 31.03.2020 period.

RATIOS

	01.01.2019-31.03.2020	2018
Increase in sales revenue (%)	13.9%	16.2%
Increase in net profit (%)	-7,5%	10.1%
Profit margin (%)	7.6%	9.4%
Current ratio (times)	3.7	2.8
ROA (%)	8.7%	10.1%

ROE (%)	10.3%	12.4%

• Increase in sales revenue (%) = (sales revenue 01.01.2019-31.03.2020 – sales revenue 2018) / sales revenue 2018 * 100
• Increase in net profit (%) = (net profit 01.01.2019-31.03.2020– net profit 2018) / net profit 2018 * 100
• Profit margin (%) = net profit / net sales * 100
• Current ratio (times) = current assets / current liabilities
• ROA (%) = net profit / total assets * 100
• ROE (%) = net profit / total equity capital * 100

PERSONNEL

The average number of employees during the reporting period was 80. The number of employees has not changed significantly compared to 2018.
In 2019, we started several projects that support the development of the organisation and the staff in the fields of leadership, coaching and mentorship. We value loyal, dedicated and goal-oriented employees and contribute to their development.
During the reporting period, the staff costs amounted to 6.8 million euros (4.8 million euros in 2018).

MANAGEMENT BOARD

As of December 2019, management board of the company consists of two members. The chairman of the management board is Jani Kiljala and the member of the management board is Merle Montgomery.

SUMMARY OF REPORTING PERIOD AND FUTURE PLANS

We finished the financial year with a relatively positive economic performance. We are satisfied that the sales of the company amounted to 231 million euros regardless of the COVID-19 outbreak that affected the first quarter of 2020, and ROE was 10.3% during the reporting period, although it decreased compared to the previous period (12.4%).

PKC Eesti continues to focus on foreign markets, exporting 100% of its output. The majority of the output (94%) is exported to European Union member states, with the largest export markets being Sweden, the Netherlands, Finland, and France.

The company is searching for opportunities to expand its business, and in May 2019, PKC Eesti founded the subsidiary MSSL PKC Wiring Harness Systems FZE in the United Arab Emirates. We are planning to commence manufacturing operations in the subsidiary in the second half of 2020.

We have been successful in flexibly reacting to changes on the market and, in addition to manufacturing wiring harnesses, we offer ever more added value to clients by means of engineering services.
We were included among the top 10 companies in the exporting category within the framework of the Entrepreneurship Competition 2019 of Enterprise Estonia and we are proud of it.

The company did not make any significant investments during the reporting period.

PKC Eesti assumes a conservative approach when estimating the sales for the beginning financial year. The impact of COVID-19 on the global economy and European economy is difficult to assess. The client portfolio of the company includes relatively big automotive industry companies who are estimating that orders will return to the former level and the substantial decrease in sales will rather impact the first and partly second quarter of the financial year. The company is focusing on bringing its internal processes into conformity with the established situation and finding a better cost efficiency by means of improved intragroup integration both in the company and in the processes between the various companies of the group. We place a high value on sustainable and responsible management of the company in relationships with our clients and in our subsidiaries. We follow the principles of honest and transparent corporate culture in our activities.

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

ACKNOWLEDGEMENTS

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

Jani Kiljala
Chairman of Management Board

The annual accounts

Statement of financial position

(In Euros)

	31.03.2020	31.12.2018	Note
Assets			
Current assets			
Cash and cash equivalents	37 494	105 512	2
Receivables and prepayments	99 255 591	79 001 586	3
Inventories	14 693 044	20 572 168	4
Total current assets	**113 986 129**	**99 679 266**	
Non-current assets			
Investments in subsidiaries and associates	72 137 017	72 100 000	6
Receivables and prepayments	15 135 420	16 438 151	3
Property, plant and equipment	74 673	113 913	7
Intangible assets	12 935	17 785	8
Total non-current assets	**87 360 045**	**88 669 849**	
Total assets	**201 346 174**	**188 349 115**	
Liabilities and equity			
Liabilities			
Current liabilities			
Payables and prepayments	30 976 221	35 531 122	10
Provisions	8 885	34 300	11
Total current liabilities	**30 985 106**	**35 565 422**	
Total liabilities	**30 985 106**	**35 565 422**	
Equity			
Issued capital	1 022 714	1 022 714	13
Statutory reserve capital	222 081	222 081	
Retained earnings (loss)	151 538 898	132 528 028	
Annual period profit (loss)	17 577 375	19 010 870	
Total equity	**170 361 068**	**152 783 693**	
Total liabilities and equity	**201 346 174**	**188 349 115**	

Income statement
(In Euros)

	01.01.2019 - 31.03.2020	2018	Note
Revenue	231 032 228	202 852 936	14
Cost of sales	-205 535 665	-177 917 456	16
Gross profit (loss)	**25 496 563**	**24 935 480**	
Distribution costs	-2 067 265	-1 648 752	17
Administrative expense	-6 515 082	-4 798 984	18
Other income	1 311 891	1 180 706	15
Other expense	-759 673	-575 349	20
Operating profit (loss)	**17 466 434**	**19 093 101**	
Other financial income and expense	110 941	-82 231	21
Profit (loss) before tax	**17 577 375**	**19 010 870**	
Annual period profit (loss)	**17 577 375**	**19 010 870**	

Statement of cash flows

(In Euros)

	01.01.2019 - 31.03.2020	2018	Note
Cash flows from operating activities			
Operating profit (loss)	17 466 434	19 093 101	
Adjustments			
Depreciation and impairment loss (reversal)	46 231	30 716	7,8
Profit (loss) from sale of non-current assets	0	-15	
Total adjustments	**46 231**	**30 701**	
Changes in receivables and prepayments related to operating activities	-39 303 920	-11 132 040	3
Changes in inventories	5 879 124	-5 764 010	4
Changes in payables and prepayments related to operating activities	-4 580 316	-3 947 246	10
Total cash flows from operating activities	**-20 492 447**	**-1 719 494**	
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	-2 142	-61 914	7,8
Proceeds from sales of property, plant and equipment and intangible assets	0	1 027	7,8
Other cash payments to acquire subsidiaries	-37 017	0	6
Loans given	-1 250 000	0	22
Repayments of loans given	21 036 600	991 930	22
Interest received	926 698	900 070	21
Total cash flows from investing activities	**20 674 139**	**1 831 113**	
Cash flows from financing activities			
Other cash outflows from financing activities	-249 710	-229 705	21
Total cash flows from financing activities	**-249 710**	**-229 705**	
Total cash flows	**-68 018**	**-118 086**	
Cash and cash equivalents at beginning of period	105 512	223 598	2
Change in cash and cash equivalents	**-68 018**	**-118 086**	
Cash and cash equivalents at end of period	37 494	105 512	2

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Statement of changes in equity
(In Euros)

				Total
	Issued capital	Statutory reserve capital	Retained earnings (loss)	
31.12.2017	1 022 714	222 081	132 528 028	133 772 823
Annual period profit (loss)	0	0	19 010 870	19 010 870
31.12.2018	1 022 714	222 081	151 538 898	152 783 693
Annual period profit (loss)	0	0	17 577 375	17 577 375
31.03.2020	1 022 714	222 081	169 116 273	170 361 068

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

Notes

Note 1 Accounting policies

General information

The financial statements of PKC Eesti AS were prepared in accordance with the Estonian Financial Reporting Standard and using the acquisition cost principle, except where otherwise stated in the accounting principles below. The Estonian Financial Reporting Standard is based on internationally recognised accounting and reporting principles whose basic requirements are set forth in the Accounting Act of the Republic of Estonia, which is supplemented by the Guidelines issued by the Estonian Accounting Standards Board.
The income statement has been prepared on the basis of Income Statement Layout 2 set out in Annex 2 to the Republic of Estonia Accounting Act.
The financial statements have been prepared in euros unless otherwise indicated.
In the reporting year the company decided to change the end date of the financial year in order to use the same financial year as the parent company. The new end date of the financial year is 31 March. Due to the change, these financial statements cover the financial year that lasted for 15 months, i.e. from 1 January 2019 to 31 March 2020.

Changes in accounting policies or presentation of information

In the annual report for 2019, Note 2 and Note 3 have been adjusted due to changes in the presentation of information in the annual report of the previous financial year as of 31 December 2018.
The changes in the presentation of information have been made due to the reclassification of the cash pool account.
Due to the principle of comparability, respective changes were also made retrospectively in 2018. The explanatory table is presented in thousands of euros.

Additional item name	31.12.2018	Change	31.12.2018
Accounts receivable	9 723	0	9 723
Allowance for doubtful receivables	39 654	45 962	85 616
Tax prepayments and receivables	24	0	24
Prepayments	76	0	76
Total receivables and prepayments	49 477	45 962	95 439
Total cash and cash equivalents	46 068	-45 962	106

Cash and cash equivalents

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

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

The accounting currency of the company is the euro and all other currencies are deemed to be foreign currencies.
Foreign currency transactions are recognised using the official euro exchange rates quoted by the European Central Bank on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies as of the reporting date are restated in euros using the official euro exchange rates of the European Central Bank as of the reporting date.
Foreign exchange gains and losses arising from restatement are recognised in the income statement for the accounting period, while foreign exchange gains and losses from settlements with suppliers and buyers are recognised as operating revenue and charges; any other gains and losses from foreign currency transactions are recognised as financial income and expenses in the income statement.

Shares of subsidiaries and associates

Investments in subsidiaries are recognised in the balance sheet using the acquisition cost method. This means that an investment is initially registered at its acquisition cost, which is the fair value of the consideration paid on acquisition, which is later adjusted, if necessary, with write-downs arising from impairment of the investment. PKC Eesti AS does not prepare consolidated financial statements. Consolidated financial statements are prepared by MSSL ESTONIA WH OÜ.

Receivables and prepayments

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

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

Should the expensed receivable or part of it be received later, an offsetting entry will be made about the amount received:
• debit uncollectible amounts;
• credit loss from doubtful accounts.

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

Factoring

PKC Eesti AS uses factoring with the right of recourse in the case of the sales invoices of major clients. The company waives the seller's monetary claim against the buyer to the factoring company. Factoring allows the company to offer buyers longer payment deadlines and releases the company's working capital.
Factoring makes cash flow planning and collection of receipts easier and increases control over debtors by improving their payment discipline. Sales invoices are the collateral in the case of factoring.

Inventories

Finished goods and work in progress are registered at their cost price, which comprises those direct and indirect production outlays without which the inventories would not appear in their current condition and quantity. Production overheads are divided between goods in progress and finished goods proceeding from normal production volumes.
Other inventories are registered at the acquisition cost, which comprises the purchase price of the inventories, the customs duties associated with the purchase, other non-refundable taxes, and transport expenses directly attributable to the acquisition, less trade discounts. The weighted average acquisition method is used to determine the acquisition cost of inventories.
Inventories are recognised in the balance sheet at the lower of their acquisition cost or net realisable value. Write-downs of inventories to their net realisation cost are recognised in the income statement for the financial year under cost of goods sold.

Plant, property and equipment and intangible assets

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

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

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

Replaced parts are written off the balance sheet. All other expenditure is recognised as expenses in the period when the expenses were incurred.
The linear method is used for the depreciation of tangible assets. The depreciation rates are established separately for each item of fixed assets on the basis of its useful life.
Depreciation of assets is discontinued when the residual value of the assets, which equals the amount the company would receive from the transfer of the assets today if the assets were of the same age and in the same condition as they are expected to be at the end of their useful lives, exceeds the carrying amount of the assets. The depreciation methods, rates and residual values of property, plant and equipment are reviewed at least at the end of each financial year and, if the new estimates differ from the previous ones, the variations are recognised as changes in the accounting estimates, i.e. they are carried forward.

The possible impairment of tangible assets is assessed if certain events or developments imply that the recoverable amounts of the assets may be smaller than their book value. If such events or developments have occurred, the company will carry out an evaluation of the recoverable amount of its assets. If the estimated recoverable amount of the assets is below their book value, the assets or assets constituting a cash-generating unit are written down to their recoverable amount, which is equal to the higher of the present value (or value in use) of the future cash flow from the assets or the fair value of the assets less costs to sell. The fair value of assets is determined with the help of external experts, if necessary.
The write-down is recorded as an expense of the accounting period on the same row of the income statement where the depreciation on the written down assets or the assets belonging to a cash generating unit has been recognised.
If the recoverable amount of the assets increases later, exceeding their book value, the write-down will be reversed and the book value of the assets will be increased, but not in excess of the amount of the book value that the assets would have if no write-down had been made.
The reversal of a write-down of assets is recognised in the income statement on the same account where the previous write-down was recognised.

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

Intangible assets

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

The linear method is used for depreciation of intangible assets. The annual depreciation rates for intangible assets are as follows:
Purchased licenses, trademarks 20%
Other intangible assets 33%

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

Minimal acquisition cost 1,000 euros

Useful life by assets group (years)

Assets group name	Useful life
Buildings and constructions	33
Machinery and equipment	5
Computers and computer systems	4
Other tangible assets	7

Leases

Lease transactions where all substantial risks and benefits incidental to ownership of an asset item are transferred to the lessee are recognised as finance lease. All other lease transactions are recognised as operating lease.
In the case of an operating lease, the lessor reports the leased asset in its balance sheet. The lessor records operating lease payments as income and the lessee records the operating lease payments as expenses pursuant to the linear method.

Financial liabilities

Financial liabilities are initially recognised at the acquisition cost that is equal to the fair value of the consideration received for the financial liability in question.
Thereafter financial liabilities are accounted for at the adjusted acquisition cost, using the effective interest rate. Transaction costs are taken into consideration upon calculation of the effective interest rate and are written off during the useful life of the financial liability in question.
Interest expenses attributable to financial liabilities are reported on the accrual basis as periodic expenses on the 'financial income and expenses' (under 'interest expenses' in Note 21) account of the income statement, except for the interest expenses which are related to the funding of tangible assets to be constructed for internal use.
Financial liabilities are derecognised after they have been paid, cancelled or expired.

Provisions and contingent liabilities

The company establishes provisions for liabilities of uncertain timing or amount. The amount and timing of a provision is determined on the basis of estimates made by the management or relevant experts.
A provision is recognised when the company has incurred a legal or operational liability before the reporting date, the realisation of the provision in the form of outgoing resources is likely (over 50%) and the size of the provision can be reliably estimated.
The expenses associated with the realisation of a provision are evaluated as of the reporting date and the amount of the provision is evaluated again on each reporting date. If the provision is likely to be realised after a period of longer than one year, it is recognised at its discounted present value, unless the impact of discounting is insignificant. Discounting is based on the market interest rate on similar liabilities.
Liabilities whose probability of realisation is below 50% or whose amount cannot be reliably assessed are classified as contingent liabilities. Contingent liabilities are accounted for off the balance sheet.

Revenue recognition

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

Taxation

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

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

Related parties

A related party is a person or company who is related to AS PKC Eesti to such a degree that the transactions between them may not take place on the market terms.
A person or a close family member of that person is a related party if:
(a) they are a member of the management of AS PKC Eesti or the parent company of AS PKC Eesti; or
(b) they exercise control or significant influence over AS PKC Eesti (e.g. through equity holding).
A company is a related party if any of the following conditions applies:
(a) the other company and AS PKC Eesti are under joint control;
(b) one company is a company controlled by a third party and the other company is a company under significant influence of this third party;

(c) AS PKC Eesti is under the control or significant influence of the other company;
(d) the other company is under the control or significant influence of AS PKC Eesti;
(e) companies over which a member of the management of AS PKC Eesti (or their close family members) has control or significant influence;
(f) companies whose management includes persons who have control or significant influence over AS PKC Eesti (or their close family members).

Note 2 Cash and cash equivalents

(In Euros)

	31.03.2020	31.12.2018
Bank accounts	37 494	105 512
Total cash and cash equivalents	**37 494**	**105 512**

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Note 3 Receivables and prepayments

(In Euros)

	31.03.2020	Allocation by remaining maturity		Note
		Within 12 months	1 - 5 years	
Accounts receivable	7 569 821	7 569 821	0	
Accounts receivables	7 722 566	7 722 566	0	
Allowance for doubtful receivables	-152 745	-152 745	0	
Receivables from related parties	106 340 223	91 204 803	15 135 420	22
Tax prepayments and receivables	402 320	402 320	0	5
Prepayments	78 647	78 647	0	
Total receivables and prepayments	**114 391 011**	**99 255 591**	**15 135 420**	

	31.12.2018	Allocation by remaining maturity		Note
		Within 12 months	1 - 5 years	
Accounts receivable	9 723 477	9 723 477	0	
Accounts receivables	9 914 239	9 914 239	0	
Allowance for doubtful receivables	-190 762	-190 762	0	
Receivables from related parties	85 616 084	69 201 408	16 414 676	22
Tax prepayments and receivables	23 984	23 984	0	5
Prepayments	76 192	52 717	23 475	
Total receivables and prepayments	**95 439 737**	**79 001 586**	**16 438 151**	

Note 4 Inventories

(In Euros)

	31.03.2020	31.12.2018
Raw materials	9 419 748	13 580 184
Goods in progress	997 136	1 322 295
Finished goods	4 269 123	5 647 701
Prepayments for inventories	7 037	21 988
Total Inventories	**14 693 044**	**20 572 168**

As the sales price of some of the inventories dropped lower than the acquisition cost, the inventories were written down in the total amount of 1,723 thousand euros in the period from 1 January 2019 to 31 March 2020 (2018: 1,435 thousand euros).

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Note 5 Tax prepayments and liabilities
(In Euros)

	31.03.2020		31.12.2018	
	Tax prepayments	Tax liabilities	Tax prepayments	Tax liabilities
Corporate income tax	0	2 000 000	0	2 000 000
Value added tax	389 089	0	0	139 702
Personal income tax	0	93 666	0	82 062
Fringe benefit income tax	0	3 407	0	3 846
Social tax	0	167 589	0	161 531
Contributions to mandatory funded pension	0	5 588	0	5 823
Unemployment insurance tax	0	11 074	0	10 429
Other tax prepayments and liabilities	0	0	0	1 444
Prepayment account balance	13 231		23 984	
Total tax prepayments and liabilities	**402 320**	**2 281 324**	**23 984**	**2 404 837**

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

Note 6 Shares of subsidiaries
(In Euros)

Shares of subsidiaries, general information					
Subsidiary's registry code	**Name of subsidiary**	**Country of incorporation**	**Principal activity**	**Ownership interest (%)**	
				31.12.2018	**31.03.2020**
303297652	PKC Group Lithuania UAB	Lithuania	Design and production of wiring harnesses and cabling	100	100
KRS0000309537	PKC Group Poland Sp.z o.o.	Poland	Design and production of wiring harnesses and cabling	100	100
2151031032227	AEK OOO	Russian Federation	Design and production of wiring harnesses and cabling	98.06	98.06
0000004026552	MSSL PKC Wiring Harness Systems FZE	United Arab Emirates	Design and production of wiring harnesses and cabling	0	100

Shares of subsidiaries, detaild information:			
Name of subsidiary	**31.12.2018**	**Acquisition**	**31.03.2020**
PKC Group Lithuania UAB	7 500 000	0	7 500 000
PKC Group Poland Sp.z o.o.	61 400 000	0	61 400 000
AEK OOO	3 200 000	0	3 200 000
MSSL PKC Wiring Harness Systems FZE	0	37 017	37 017
Total shares of subsidiaries, at end of previous period	**72 100 000**	**37 017**	**72 137 017**

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Acquired ownership interests:			
Name of subsidiary	**Acquired ownership interest %**	**Acquisition date**	**Cost of acquired ownership interest**
MSSL PKC Wiring Harness Systems FZE	100	05.12.2019	37 017

At the end of 2016, PKC Eesti AS tool over the holding in PKC Group companies AEK OOO, PKC Group Lithuania UAB and PKC Group Poland Sp.z o.o. from PKC Wiring Systems OY. PKC Eesti AS paid for the holdings in AEK OOO and PKC Group Poland So.z o.o. by non-monetary contributions, which were balanced with the short-term loan granted to PKC Wiring Systems OY and amounted to 64.6 million euros. The holding in PKC Group Lithuania UAB was paid for by a non-monetary contribution to cover the short-term loan of the parent company in the amount of 5.4 million euros and by a monetary contribution in the amount of 2.1 million euros.
At the end of 2019, the subsidiary MSSL PKC Wiring Harness Systems FZE of the acquisition cost of AED 150,000 was founded.

Note 7 Property, plant and equipment

(In Euros)

	Computers and computer systems	**Other property, plant and equipment**	**Total**
31.12.2018			
Carried at cost	136 693	121 036	257 729
Accumulated depreciation	-104 370	-39 446	-143 816
Residual cost	32 323	81 590	113 913
Acquisitions and additions	2 142	0	2 142
Depreciation	-17 675	-23 707	-41 382
31.03.2020			
Carried at cost	138 835	121 036	259 871
Accumulated depreciation	-122 045	-63 153	-185 198
Residual cost	16 790	57 883	74 673

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Note 8 Intangible assets
(In Euros)

	Computer software	Total
31.12.2017		
Carried at cost	0	0
Accumulated depreciation	0	0
Residual cost	0	0
Acquisitions and additions	19 402	19 402
Depreciation	-1 617	-1 617
31.12.2018		
Carried at cost	19 402	19 402
Accumulated depreciation	-1 617	-1 617
Residual cost	17 785	17 785
Depreciation	-4 850	-4 850
31.03.2020		
Carried at cost	19 402	19 402
Accumulated depreciation	-6 467	-6 467
Residual cost	12 935	12 935

Note 9 Operating lease
(In Euros)

Accounting entity as lessee

	01.01.2019 - 31.03.2020	2018
Operating lease expenses	336 993	340 083

The objects of operating lease in the period from 1 January 2019 to 31 March 2020 were the company’s office and production buildings, cars, packaging materials and other equipment used for general needs.

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Note 10 Payables and prepayments

(In Euros)

	31.03.2020	Within 12 months
Trade payables	13 139 419	13 139 419
Employee payables	483 208	483 208
Tax payables	2 281 324	2 281 324
Other payables	8 107 496	8 107 496
Dividend payables	8 000 000	8 000 000
Other accrued expenses	107 496	107 496
Related party payables	6 964 774	6 964 774
Total payables and prepayments	**30 976 221**	**30 976 221**
	31.12.2018	**Within 12 months**
Trade payables	13 738 234	13 738 234
Employee payables	642 336	642 336
Tax payables	2 404 837	2 404 837
Other payables	8 118 269	8 118 269
Dividend payables	8 000 000	8 000 000
Other accrued expenses	118 269	118 269
Related party payables	10 627 446	10 627 446
Total payables and prepayments	**35 531 122**	**35 531 122**

The due dates of the debts to suppliers are 7-90 days and the base currency is the euro: 19,847 thousand euros (2018: 22,754 thousand euros) and other currencies: 257 thousand euros (2018: 1,612 thousand euros).
Detailed information about tax arrears is given in Note 5.

Note 11 Provisions

(In Euros)

	31.12.2018	Provision used	31.03.2020
Total provisions	**34 300**	**-25 415**	**8 885**

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

Note 12 Contingent liabilities and assets

(In Euros)

	31.03.2020	31.12.2018
Contingent liabilities		
Income tax liability on distributable dividends	33 823 255	30 307 780
Total contingent liabilities	**33 823 255**	**30 307 780**

The retained earnings of the company as of 31 March 2020 amounted to 169,116,274 euros (151,538,898 euros as at 31 December 2018). Paying out dividends to owners would create tax expenses of 20/80 of the sum disbursed as net dividends. This means that as of the reporting date, it would be possible to pay out 135,293,019 euros (121,231,118 euros in 2018) as dividends to owners form the company's earnings and if the dividends were paid out, the income tax payable on this would be 33,823,255 euros (30,307,780 euros in 2018).

Note 13 Share capital

(In Euros)

	31.03.2020	31.12.2018
Share capital	1 022 714	1 022 714
Number of shares (pcs)	1 600 200	1 600 200

PKC Wiring Systems OY owns 100% of the shares of PKC Eesti AS. According to the articles of association of PKC Eesti AS, the minimum share capital of the company is 1,000,000 euros and the maximum share capital is 4,000,000 euros.
As at 31 March 2020, the share capital of PKC Eesti AS divided in 1,600,200 registered shares of the same class without nominal value.

Note 14 Net sales
(In Euros)

	01.01.2019 - 31.03.2020	2018
Net sales by geographical location		
Net sales in European Union		
Finland	17 435 632	16 252 002
Estonia	0	257 776
Sweden	120 747 534	107 292 540
Germany	1 359 526	547 096
Belgium	3 762 336	3 047 059
Netherlands	56 285 942	36 482 251
United Kingdom	67 922	104 629
Poland	3 632 432	3 038 778
France	9 950 626	22 513 290
Czech Republic	127 458	162 900
Denmark	2 644 943	2 073 446
Lithuania	421 352	135 843
Spain	-1 823	66 101
Italy	1 294 023	425 834
Romania	5 821	11 619
Other European Union net sales	3 206	2 071
Total net sales in European Union	**217 736 930**	**192 413 235**
Net sales outside of European Union		
Brazil	3 890 107	2 657 780
Russian Federation	3 987 912	3 361 648
China	3 209 290	2 987 279
United States of America	1 134 261	931 029
Australia	5 783	17 191
Japan	42 047	142 079
Serbia	967 445	138 563
Switzerland	8 032	99 584
Turkey	0	21 835
India	18 599	51 923
United Arab Emirates	1 346	0
Taiwan	28 700	29 300
Thailand	1 647	1 357
Other net sales outside of European Union	129	133
Total net sales outside of European Union	**13 295 298**	**10 439 701**
Total net sales	**231 032 228**	**202 852 936**
Net sales by operating activities		
Services	4 547 820	3 387 183
Sales of raw materials and goods	10 346 902	9 150 658
Production	216 137 506	190 315 095
Total net sales	**231 032 228**	**202 852 936**

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

Note 15 Other operating income
(In Euros)

	01.01.2019 - 31.03.2020	2018
Profit from sale of plant, property and equipment	0	15
Profit from exchange rate differences	380 399	362 652
Income from intermediation of supporting materials to Russia	295	513
Income from intermediation of group expenses	919 492	808 516
Other	11 705	9 010
Total other operating income	**1 311 891**	**1 180 706**

Note 16 Cost of goods sold
(In Euros)

	01.01.2019 - 31.03.2020	2018
Raw materials	-151 262 567	-127 409 707
Energy	**-12 179**	**-5 584**
Electricity	-12 179	-5 584
Subcontracting work	-41 510 774	-40 685 316
Transportation expense	-3 283 946	-2 759 706
Logistics expense	-813 156	-625 441
Leases	-257 331	-270 455
Miscellaneous office expenses	-40 408	-35 391
Travel expense	-296 334	-256 304
Training expense	-27 626	-667
Labor expense	-3 373 560	-2 139 599
Depreciation	-42 025	-25 449
Purchasing work and services	-187 227	-139 935
Group’s subcontracting service	-4 081 211	-3 307 079
Other	-347 321	-256 823
Total cost of goods sold	**-205 535 665**	**-177 917 456**

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

Note 17 Distribution expense

(In Euros)

	01.01.2019 - 31.03.2020	2018
Leases	-20 420	-16 770
Transportation expense	-308 619	-561 743
Logistics expense	-8 205	-8 717
Miscellaneous office expenses	-13 147	-9 470
Travel expense	-159 265	-94 362
Training expense	0	-199
Allowance for doubtful receivables	33 220	221 639
Labor expense	-810 185	-598 724
Depreciation	-1 774	-2 261
Group's subcontracting service	-770 547	-572 515
Other	-8 323	-5 630
Total distribution expense	**-2 067 265**	**-1 648 752**

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

Note 18 Administrative expense

(In Euros)

	01.01.2019 - 31.03.2020	2018
Leases	-59 242	-52 857
Logistics expense	-10 010	-8 131
Miscellaneous office expenses	-11 367	-15 732
Travel expense	-173 552	-183 002
Training expense	-3 199	-3 552
Labor expense	-2 533 162	-2 038 407
Depreciation	-2 434	-3 006
Other	-487 489	-432 911
Group's subcontracting service	-3 234 627	-2 061 386
Total administrative expense	**-6 515 082**	**-4 798 984**

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

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Note 19 Labor expense
(In Euros)

	01.01.2019 - 31.03.2020	2018
Wage and salary expense	-4 966 769	-3 611 592
Social security taxes	-1 750 138	-1 165 138
Total labor expense	**-6 716 907**	**-4 776 730**
Average number of employees in full time equivalent units	80	85
Average number of employees by types of employment:		
Person employed under employment contract	78	82
Member of management or controlling body of legal person	2	3

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

Note 20 Other operating expenses
(In Euros)

	01.01.2019 - 31.03.2020	2018
Loss from exchange rate differences	-690 429	-518 440
Fines, penalties and compensations	-1 221	-387
Donations and gifts	-320	0
Other	-67 703	-56 522
Total other operating expenses	**-759 673**	**-575 349**

Note 21 Other financial income and expense
(In Euros)

	01.01.2019 - 31.03.2020	2018
Profit (loss) from exchange rate differences	-609 671	-791 932
Interest income	970 322	939 406
Factoring service charges	-249 710	-229 636
Other financial income and expenses	0	-69
Total other financial income and expense	**110 941**	**-82 231**

Note 22 Related parties

(In Euros)

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

Related party balances according to groups

	31.03.2020		31.12.2018	
	Receivables	Liabilities	Receivables	Liabilities
Parent company	0	133 386	20 003 826	188 653
Subsidiary	18 315 752	3 127 905	18 797 401	6 637 318
Other entities belonging into same consolidation group	88 017 819	2 820 784	46 813 950	3 777 263
Legal person with material ownership interest and material influence of management and higher	6 652	882 699	907	24 212

Loans

01.01.2019 - 31.03.2020	Given loans	Given loans repayments	Interest received	Interest rate	Base currencies	Due date
Parent company						
PKC Wiring Systems OY	0	20 000 000	66 078	0,626%	EUR	28.06.2019
Subsidiaries						
AEK OOO	0	1 036 600	208 058	9,075%	RUB	20.06.2022
MSSL PKC Wiring Harness Systems FZE	1 000 000	0	0	4,79%+12 kuu EURIBOR	EUR	05.12.2024
MSSL PKC Wiring Harness Systems FZE	250 000	0	0	4,79%+12 kuu EURIBOR	EUR	26.02.2025
PKC Group Lithuania UAB	0	0	148 019	5,353%+6 kuu EURIBOR	EUR	03.10.2021
PKC Group Poland Sp.z o.o.	0	0	504 537	3 kuu WIBOR+1,5%	PLN	27.12.2023

2018	Given loans	Given loans repayments	Interest received	Interest rate	Base currencies	Due date
Parent company						
PKC Wiring Systems OY	0	0	126 939	0,626%	EUR	28.06.2019
Subsidiaries						
AEK OOO	0	991 930	275 389	9,075%	RUB	20.06.2022
PKC Group Lithuania UAB	0	0	148 018	5,353%+6 kuu EURIBOR	EUR	03.10.2021
PKC Group Poland Sp.z o.o.	0	0	349 719	3 kuu WIBOR+1,5%	PLN	27.12.2023

Purchases and sales of goods and services

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	01.01.2019 - 31.03.2020		2018	
	Purchases of goods and services	Sales of goods and services	Purchases of goods and services	Sales of goods and services
Parent company	2 188 703	3 649	1 912 423	23 074
Subsidiary	54 254 241	7 799 987	71 300 956	7 062 607
Associate	53 261 166	6 578 276	23 490 976	4 961 613
Legal person with material ownership interest and material influence of management and higher	1 057 239	14 032	105 782	39 567

Remuneration and other significant benefits calculated for members of management and highest supervisory body		
	01.01.2019 - 31.03.2020	**2018**
Remuneration	918 745	729 338

The related parties of PKC Eesti AS were parent company PKC Wiring Systems OY, subsidiaries PKC Group Lithuania UAB, PKC Group Poland Sp.z o.o. and AEK OOO acquired at the end of 2016, subsidiary MSSL PKC Wiring Harness Systems FZE founded in 2019, group companies PKC Group PLC, PK Cables do Brasil Ltda, PKC Electronics (Suzhou) Co.Ltd, AEES Inc., AEES Power Systems LP, PKC Segu Systemelektrik GmbH, PKC Wiring Systems DOO, PKC Vehicle Technology (Suzhou) Co.Ltd, Arneses y Accesorios de Mexico, S.de R.L.de C.V., Kabel-Technik-Polska Sp.z o.o., Jiangsu Huakai-PKC Wire Harness Co.Ltd. and members of the managing bodies. Motherson Sumi Systems Ltd and the companies related to it are related parties as of 1 April 2017.

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

Note 23 Events after the reporting date

Emergency situation due to a new coronavirus (Covid-19) has been declared in many countries, incl. in Estonia, in the period between the reporting date and the date of approval of the annual report. This has had or is having a direct impact on the business activities of the company, particularly through its impact on the business activities of our customers and the volumes of orders that they place with us.
The management has prepared an action plan for the crisis situation and performs a regular impact analysis of the business activities of the company. As the virus started to spread before the reporting date, the management board has assessed who the virus has affected the financial position of the company as of 31 March 2020.
In the light of the emergency situation of COVID-19, the management board of PKC Eesti AS assessed the collection of receivables, value of inventories (sales) and value of fixed assets (incl. investments) and sees no need for write-down of receivables, value of inventories or value of fixed assets as of 31 March 2020.
After having assessed, due to the emergency situation, the turnover and profit forecast for the period from 1 April 2020 to 31 March 2021, the management board of the company believes that although the situation that has arisen has an adverse impact on the turnover and profit of the company, the indication of the going concern of the company is very good.
No other events of significant impact occurred between the preparation of the annual report and the reporting date that should be recognised in the annual report or notes thereto.

Signatures to the annual report

We hereby confirm the annual report (beginning of financial year: 01.01.2019; end of the financial year: 31.03.2020) of PKC Eesti AS:

Jani Taneli Kiljala
Chairman of the Management Board

Merle Montgomery
Member of the Management Board

Tallinn, 29 May 2020

Building a better
working world

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Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of PKC Eesti AS

Opinion

We have audited the financial statements of PKC Eesti AS, which comprise the balance sheet as at 31 March 2020, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of PKC Eesti AS as at 31 March 2020, and its financial performance and its cash flows for the year then ended in accordance with the Estonian Financial Reporting Standard.

Basis for opinion

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

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

Other information

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Tallinn, 29 May 2020

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