Translation of the German independent auditor's report concerning the audit of the annual financial statements and management report prepared in German

## Independent auditor's report

To PKC SEGU Systemelektrik GmbH

### Opinions

We have audited the annual financial statements of PKC SEGU Systemelektrik GmbH, Barchfeld-Immelborn, which comprise the balance sheet as at 31 December 2019, and the income statement for the fiscal year from 1 January to 31 December 2019 and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of PKC SEGU Systemelektrik GmbH, for the fiscal year from 1 January to 31 December 2019.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2019 and of its financial performance for the financial year from 1 January to 31 December 2019 in compliance with German legally required accounting principles, and

- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Sec. 322 (3) Sentence 1 HGB ["Handelsgesetzbuch": German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

### Basis for the opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Sec. 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the annual financial statements and of the management report" section of our auditor's report. We are independent of the Company in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional 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 opinions on the annual financial statements and on the management report.

## Material uncertainty about the Company's ability to continue as a going concern

We refer to the comments in the section "C.1. Going-concern risk" of the management report and section "VIII. Going-concern risks" of the notes to the financial statements, in which the executive directors describe that due to negative earnings and negative cash flows from operating activities in the past fiscal years the Company is in a tight liquidity situation. Liquidity is made available to the Company via a cash pool agreement with PKC Group PLC as well as via a credit line of the parent company PKC Wiring Systems Oy. In addition, effective from 20 March 2020 the parent company issued a general liquidity commitment and a general equity guarantee (letter of comfort) up to a maximum amount of EUR 14,000,000.00 in favor of PKC SEGU Systemelektrik GmbH for a period ending on 31 December 2022. The maintenance of solvency and thus the ability of the Company to continue as a going concern until it can generate sustainable positive cash flows depends on the maintenance of the cash pool agreement with PKC Group PLC as well as the financial support of the parent company, which has granted the above-mentioned credit line and issued the above-mentioned letter of comfort. This draws attention to the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and that represents a going concern risk pursuant to Sec. 322 (2) Sentence 3 HGB.

Our opinions are not modified in respect of this matter.

## Responsibilities of the executive directors for the annual financial statements and the management report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles. In addition, the executive directors are responsible for such internal control as they, in accordance with [German] legally required accounting principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that, as a whole, provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

## Auditor's responsibilities for the audit of the annual financial statements and of the management report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the IDW will always detect a material misstatement. 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 annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, 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 opinions. 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 of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report 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 these systems of the Company.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' 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 the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. 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 be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles.

- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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.

Freiburg i. Br., 3 July 2020

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Dr. Wetzel | Schmidt |
| Wirtschaftsprüfer | Wirtschaftsprüfer |
| [German Public Auditor] | [German Public Auditor] |

## PKC SEGU Systemelektrik GmbH, Barchfeld-Immelborn
## Balance sheet as of 31 December 2019

| Assets | EUR | EUR | EUR | 31 Dec 2018 EUR k |
|---|---|---|---|---|
| **A. Fixed assets** | | | | |
| **I. Intangible assets** | | | | |
| 1. Purchased franchises, industrial and similar rights and assets, and licenses in such rights and assets | 20,561.00 | | | 29 |
| 2. Goodwill | 0.50 | | | 0 |
| | | 20,561.50 | | 29 |
| **II. Property, plant and equipment** | | | | |
| 1. Land, land rights and buildings, including buildings on third-party land | 1,447,916.99 | | | 1,563 |
| 2. Plant and machinery | 1,774,134.00 | | | 1,982 |
| 3. Other equipment, furniture and fixtures | 375,678.50 | | | 471 |
| 4. Prepayments and assets under construction | 30,743.82 | | | 454 |
| | | 3,628,473.31 | | 4,470 |
| | | | 3,649,034.81 | 4,499 |
| **B. Current assets** | | | | |
| **I. Inventories** | | | | |
| 1. Raw materials, consumables and supplies | 2,272,245.60 | | | 5,083 |
| 2. Work in process | 248,487.65 | | | 320 |
| 3. Finished goods and merchandise | 767,539.02 | | | 1,063 |
| | | 3,288,272.27 | | 6,466 |
| **II. Receivables and other assets** | | | | |
| 1. Trade receivables | 1,876,212.09 | | | 1,802 |
| 2. Receivables from affiliates | 765,378.52 | | | 1,135 |
| 3. Other assets | 86,968.24 | | | 352 |
| | | 2,728,558.85 | | 3,289 |
| **III. Cash on hand, bank balances and checks** | | 327,250.15 | | 357 |
| | | | 6,344,081.27 | 10,112 |
| **C. Prepaid expenses** | | | 44,408.33 | 45 |
| **D. Deferred tax assets** | | | 424,892.50 | 416 |
| **E. Capital deficit** | | | 2,902,198.64 | 3,391 |
| | | | 13,364,615.55 | 18,463 |

| Equity and liabilities | EUR | EUR | 31 Dec 2018 EUR k |
|---|---|---|---|
| **A. Equity** | | | |
| I. Subscribed capital | 25,580.00 | | 26 |
| II. Capital reserves | 9,500,000.00 | | 9,500 |
| III. Loss brought forward | -12,917,221.70 | | -11,651 |
| IV. Net income for the year (prior year: net loss) | 489,443.06 | | -1,266 |
| V. Capital deficit | 2,902,198.64 | | 3,391 |
| | | 0.00 | 0 |
| **B. Provisions** | | | |
| 1. Provisions for pensions and similar obligations | 1,019,314.17 | | 925 |
| 2. Other provisions | 554,905.46 | | 722 |
| | | 1,574,219.63 | 1,647 |
| **C. Liabilities** | | | |
| 1. Prepayments received on account of orders | 217,845.00 | | 0 |
| 2. Trade payables | 1,672,306.06 | | 3,765 |
| 3. Liabilities to affiliates | 9,493,401.83 | | 12,590 |
| 4. Other liabilities | 406,843.03 | | 461 |
| | | 11,790,395.92 | 16,816 |
| | | 13,364,615.55 | 18,463 |

## PKC SEGU Systemelektrik GmbH, Barchfeld-Immelborn
## Income statement for fiscal year 2019

| | EUR | EUR | EUR | 2018 EUR k |
|---|---|---|---|---|
| 1. Revenue | | 33,168,720.99 | | 25,445 |
| 2. Decrease (prior year: increase) in inventories of finished goods and work in process | | -366,729.45 | | 608 |
| 3. Other operating income | | 191,505.63 | | 481 |
| | | | 32,993,497.17 | 26,534 |
| 4. Cost of materials | | | | |
| a) Cost of raw materials, consumables and supplies and of purchased merchandise | 19,322,484.90 | | | 16,336 |
| b) Cost of purchased services | 19,887.22 | | | 35 |
| | | 19,342,372.12 | | 16,371 |
| 5. Personnel expenses | | | | |
| a) Wages and salaries | 5,816,691.37 | | | 5,053 |
| b) Social security, pension and other benefit costs | 1,189,588.76 | | | 1,111 |
| *thereof for old-age pensions: EUR 135,174.00 (prior year: 153k)* | | | | |
| | | 7,006,280.13 | | 6,164 |
| 6. intangible assets and property, plant and equipment | | 962,247.63 | | 811 |
| 7. Other operating expenses | | 4,714,755.38 | | 4,090 |
| | | | 32,025,655.26 | 27,436 |
| | | | 967,841.91 | -902 |
| 8. Other interest and similar income | | 0.00 | | 0 |
| *thereof income from discounting: EUR 0.00 (prior year: 0k)* | | | | |
| 9. Interest and similar expenses | | 476,939.88 | | 391 |
| *thereof to affiliates: EUR 447,187.90 (prior year: EUR 357k)* | | | | |
| | | | -476,939.88 | -391 |
| 10. Taxes on income | | | -9,205.21 | -37 |
| *thereof income from changes in recognized deferred taxes: EUR 9,205.21 (prior year: 35k)* | | | | |
| **11. Earnings after taxes** | | | 500,107.24 | -1,256 |
| 12. Other taxes | | | 10,664.18 | 10 |
| **13. Net income for the year (prior year: net loss)** | | | 489,443.06 | -1,266 |

**PKC SEGU Systemelektrik GmbH, Barchfeld-Immelborn**
**Notes to the financial statements as of 31 December 2019**

## I. General remarks on the financial statements

The annual financial statements as of 31 December 2019 were prepared in accordance with the generalprovisions and the special provisions of commercial law for medium-sized corporations and the supplementary provisions of the GmbHG ["Gesetz betreffend die Gesellschaften mit beschränkter Haftung": German Limited Liability Companies Act]. The Company operates under the name PKC SEGU Systemelektronik GmbH and has its registered office in Barchfeld-Immelborn. The Company is entered in the commercial register of the Jena Local Court under the number HRB 302198.

The income statement was classified using the nature of expense method.

## II. Accounting policies

The following accounting and valuation methods, which essentially remained unchanged in comparison to the prior year, were used to prepare the financial statements.

The annual financial statements were prepared using the going concern basis of accounting pursuant to Sec. 252 (1) No. 2 HGB ["Handelsgesetzbuch": German Commercial Code]. We refer to section VIII regarding risks to the Company's ability to continue as a going concern.

Purchased **intangible assets** are recognized at acquisition cost less straight-line amortization based on their expected useful lives. Amortization is recorded using the straight-line method pro rata temporis over a period of 3 to 5 years.

**Property, plant and equipment** are stated at acquisition or production cost. They are depreciated using the straight-line method and taking in account the expected useful lives between 3 to 25 years. In addition to direct costs, production cost also includes appropriate amounts of material and manufacturing overheads and the depreciation of fixed assets, insofar as this is due to production.

Low-value assets with acquisition costs of up to EUR 800.00 are fully expensed in the year of acquisition.

**Raw materials, consumables and supplies** are valued at the average historical cost. The necessary depreciation is performed using the lower of cost or market principle.

**Finished goods and work in process** are valued at production cost in accordance with Sec. 255 (2) HGB. In addition to material and direct manufacturing costs, they include an appropriate amount of materials and manufacturing overheads in the form of a lump sum surcharge calculated according to prudent business judgment as well as production-related depreciation of fixed assets. Borrowing costs were not included in production cost. These items are written down on the basis of the lower of cost or market principle.

Inventory risks resulting from slow-moving stock or reduced salability have been accounted for by adequate allowances.

**Receivables and other assets** are generally stated at nominal value. Specific bad debt allowances provide for all foreseeable valuation risks. The general credit risk is provided for by a general bad debt allowance in accordance with Group guidelines.

**Cash and cash equivalents** are stated at nominal value.

Pursuant to Sec. 274 (1) HGB, **deferred taxes** are recognized for differences between the carrying amounts under German commercial law and the tax bases of assets, liabilities and prepaid expenses/deferred income, which are expected to reverse in subsequent fiscal years. Deferred taxes are calculated with a tax rate of 28.3% and relate to goodwill, pension provisions and provision for onerous contracts. If the result is a tax relief (net deferred tax assets), the capitalization option pursuant to Sec. 274 (1) Sentence 2 HGB is exercised.

**Pension** provisions are calculated on the basis of actuarial principles using the projected unit credit method and taking into account biometric probabilities. The basis of calculation was provided by Prof. Dr. Klaus Heubeck’s 2018 G mortality tables, interest rate of 2.71% p.a. (prior year: 3.21%), and future pension increases of 1.5% p. a. (prior year: 1.5%). Wage and salary increases are not accounted for because the beneficiaries are pensioners and former employees. The discount factor applied corresponds to the average market interest rate of the last 10 years as determined by the Deutsche Bundesbank for an assumed residual term of 15 years.

The assets which serve exclusively to fulfill the pension obligations and which are protected against claims asserted by all other creditors (covering assets as defined by Sec. 246 (2) Sentence 2 HGB) are measured at their fair value and offset against the corresponding provisions. As there was no active market which could be used to determine the market price, their amortized cost was used to determine the fair value of the assets.

**Other provisions** account for all identifiable risks and uncertain liabilities and are recorded at the value deemed necessary according to prudent business judgment. If there are provisions with a residual term of more than one year, they are discounted at the average market interest rate of the last seven years for their respective residual term.

**Liabilities** are recorded at the settlement value.

Upon initial recognition, liabilities in foreign currency are translated at the mean spot rate on the date of the transaction in euros. As of the reporting date they are measured at the mean spot rate, provided the residual term of liabilities is not more than one year. All other liabilities denominated in foreign currency are stated at the exchange rate at the time of invoicing or at the higher mean spot rate as of the reporting date.

## III. Notes to the balance sheet

The breakdown of the fixed assets item summarized in the balance sheet under fixed assets and its development in 2019 is presented in the attachment (statement of changes in fixed assets) to the notes to the financial statements.

As in the prior year, all receivables are due within one year.

Receivables from affiliates contain trade receivables of EUR 765k (prior year: EUR 1,135k).

Pursuant to Sec. 268 (8) HGB, EUR 425k (prior year: EUR 416k) is not distributable due to the recognition of deferred tax assets in the balance sheet. In addition, there is ban on distribution on the difference between the recognition of provisions in accordance with the corresponding average market interest rate of the past ten fiscal years (2.71%) and the recognition of provisions in accordance with the corresponding average market interest rate of the past seven fiscal years (1.97%). This difference amounts to EUR 232k (prior year: EUR 271k).

The Company’s subscribed capital remains unchanged at EUR 25,580.00 and 100% of it is held by PKC Wiring Systems Oy, Kempele, Finland.

In accordance with Sec. 246 (2) Sentence 2 HGB, the fair value (which is the same as acquisition cost) of the existing employer’s pension liability insurance policy of EUR 1,373k was offset against the settlement value of the pension provisions of EUR 2,393k as of the reporting date. Income from the covering assets to be offset of EUR 44k was netted with the expenses from unwinding the discount on pension provisions of EUR 71k.

Other provisions primarily contain personnel-related provisions of EUR 276k (prior year: EUR 361k), warranty provisions of EUR 75k (prior year: EUR 58k), costs of preparing the financial statements of EUR 51k (prior year: EUR 55k), contributions to employer’s liability insurance of EUR 33k (prior year: EUR 36k), provision for archiving old records of EUR 17k (prior year: EUR 17k) and provisions for energy costs of EUR 52k (prior year: EUR 31k).

Liabilities break down as follows:

| | Total | Due in up to one year | Due in one to five years | Due in more than five years |
|---|---|---|---|---|
| | EUR k | EUR k | EUR k | EUR k |
| Prepayments received on account of orders | 218 | 218 | - | - |
| *Prior year* | *(0)* | *(-)* | *(-)* | *(-)* |
| Trade payables | 1,672 | 1,672 | - | - |
| *Prior year* | *(3,765)* | *(3,765)* | *(-)* | *(-)* |
| Liabilities to affiliates | 9,493 | 7,493 | 2,000 | - |
| *Prior year* | *(12,590)* | *(12,590)* | *(-)* | *(-)* |
| Other liabilities | 407 | 407 | - | - |
| *Prior year* | *(461)* | *(461)* | *(-)* | *(-)* |
| | 11,790 | 9,790 | 2,000 | 0 |
| | *(16,816)* | *(16,816)* | *(-)* | *(-)* |

With the exception of individual retention of title by suppliers, no collateral has been provided for liabilities.

Of the liabilities to affiliates, EUR 807k (prior year: EUR 957k) relate to trade payables and EUR 2,000k (prior year: EUR 2,000k) to loan payables to the shareholders. There are cash pool liabilities of EUR 6,686k (prior year: EUR 9,633k) to the ultimate parent company PKC Group PLC, Helsinki, Finland.

Other liabilities contain tax liabilities of EUR 61k (prior year: EUR 51k) and liabilities relating to social security of EUR 11k (prior year: EUR 5k).

## IV. Notes to the income statement

**Other operating income** primarily contains income from the reversal of provisions of EUR 69k (prior year: EUR 225k), book gains on the disposal of assets of EUR 23k (prior year: EUR 216k) and income from impaired receivables of EUR 14k (prior year: EUR 0k). This item also contains income from currency translation of EUR 0k (prior year: EUR 4k).

**Other operating expenses** contain expenses for temporary workers of EUR 1,547k (prior year: EUR 1,161k) and expenses for services rendered through other group companies of PKC Group PLC of EUR 1,067k (prior year: EUR 1,160k). Out-of-period expenses mainly relates to bad debts of EUR 5k (prior year: EUR 0k). This item contains expenses from currency translation of EUR 5k (prior year: EUR 4k).

The Company participates in the cash pool system of PKC Group PLC. **Interest and similar expenses** increased by EUR 86k compared to the prior year and total EUR 477k. Interest and similar expenses include expenses from unwinding the discount on pension provisions amounting to EUR 71k (prior year: EUR 76k).

**Income taxes** contain income of EUR 9k (prior year: EUR 35k) from the change in deferred taxes.

## V. Contingent liabilities and other financial obligations

There are other financial obligations of EUR 153k from rent and lease agreements, of which EUR 70k is due in the next fiscal year.

## VI. Notes on off-balance-sheet transactions

A factoring agreement with a total financing limit of EUR 1,400k was concluded in 2018 to optimize the Company’s working capital. As of the reporting date, the Company had sold receivables totaling EUR 1,072k due to this agreement. As a result, PKC received cashs of this amount from the factoring bank by the balance sheet date and the credit risk of the sold receivables of this amount was transferred to the buyers. The risk arising from the variable interest of the financing arrangement up to the date of payment by the customers is deemed immaterial given the current conditions on the capital market for interest rates.

## VII. Other notes

The Company was managed by the following persons in the past fiscal year:

- Mr. Christian Storandt, general manager technology and sales
- Mr. Andreas Heuser, general manager for activities in Europe and Americas of the Samvardhana Motherson Group

As regards disclosures pursuant to Sec. 285 No. 9 letter a and b HGB, the protective regulation in accordance with Sec. 286 (4) HGB was exercised.

On annual average, the Company had 123.75 wage earners and 57.25 salaried employees in the fiscal year.

The Company is a wholly owned subsidiary of PKC Wiring Systems Oy with its registered office in Kempele, Finland. Both companies are included in the consolidated financial statements of PKC Group PLC with its registered office in

Helsinki, Finland (smallest group of companies). The consolidated financial statements can be obtained from the head office of the Company. At the highest level PKC SEGU Systemelektrik GmbH is included in the consolidated financial statements of Motherson Sumi Systems Limited (MSSL), Noida, India (largest group of companies). The consolidated financial statements of MSSL have been published on the Company's website (www.motherson.com).

## VIII. Risks to the Company's ability to continue as a going concern

There are risks jeopardizing the Company's ability to continue as a going concern, which are presented in section "C.1. Going-concern risk" in the management report.

## IX. Subsequent events

Effective 20 March 2020 the parent company issued a general liquidity commitment and a general equity guarantee (letter of comfort) up to a maximum amount of EUR 14,000,000.00 in favor of PKC SEGU Systemelektrik GmbH for a period ending on 31 December 2022. This letter of comfort replaces the previous letter of comfort dated 12 April 2019.

On 30 January 2020, the World Health Organization (WHO) declared a Public Health Emergency of International Concern due to the outbreak of the coronavirus. Since 11 March 2020, the WHO has classified the spread of the coronavirus as a pandemic (COVID-19 pandemic). As a result of the pandemic, the Ifo economic research institute expects a burden of up to EUR 730b due to a contracting German economy of between 7.2 and 20.6 percentage points.

The outbreak of the coronavirus may have negative effects on deliveries of outgoing goods as well as on the Company's assets, liabilities, financial position and financial performance in fiscal year 2020. The shutdown in April 2020 and the gradual ramp-up of production planned by the automotive manufacturers led to further loss of revenue in the months of May and June 2020, however, it is expected that, starting from July 2020, production can return to around 85% of the level seen prior to the outbreak of the coronavirus pandemic.

The crisis resulting from the COVID-19 pandemic can have significant effects on the outlook of the Company, which in their scale and duration are difficult to estimate. However, we endeavor to counter the situation in the best possible way and have applied the short-term work furlough scheme since end-March. Further explanations can be found in the chapters “Opportunities and risks of future development” and “Outlook” in the management report. There were no further significant events after the reporting date requiring consideration either in the income statement or in the balance sheet.

Barchfeld, 30 June 2020

PKC SEGU Systemelektrik GmbH

The Management Board

………………………………

Christian Storandt

………………………………

Andreas Heuser

**PKC SEGU Systemelektrik GmbH, Barchfeld-Immelborn**

**Statement of changes in fixed assets for fiscal year 2019**

| | Acquisition and production cost | | | | | Accumulated amortization, depreciation and impairment | | | | | Book values | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1 Jan 2019 | Additions | Disposals | Reclassifications | 1 Jan 2019 | 1 Jan 2019 | Additions | Disposals | Reclassifications | 1 Jan 2019 | 1 Jan 2019 | 31 Dec 2018 |
| | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR k |
| **I. Intangible assets** | | | | | | | | | | | | |
| 1. Purchased franchises, industrial and similar rights and assets, and licenses in such rights and assets | 741,416.49 | 4,863.70 | 0.00 | 0.00 | 746,280.19 | 712,879.99 | 12,839.20 | 0.00 | 0.00 | 725,719.19 | 20,561.00 | 29 |
| 2. Goodwill | 1,001,000.00 | 0.00 | 0.00 | 0.00 | 1,001,000.00 | 1,000,999.50 | 0.00 | 0.00 | 0.00 | 1,000,999.50 | 0.50 | 0 |
| | 1,742,416.49 | 4,863.70 | 0.00 | 0.00 | 1,747,280.19 | 1,713,879.49 | 12,839.20 | 0.00 | 0.00 | 1,726,718.69 | 20,561.50 | 29 |
| **II. Property, plant and equipment** | | | | | | | | | | | | |
| 1. Land, land rights and buildings, including buildings on third-party land | 4,738,959.18 | 0.00 | 0.00 | 0.00 | 4,738,959.18 | 3,175,578.19 | 115,464.00 | 0.00 | 0.00 | 3,291,042.19 | 1,447,916.99 | 1,563 |
| 2. Plant and machinery | 13,160,236.93 | 15,847.20 | 48,238.16 | 460,147.00 | 13,587,992.97 | 11,178,829.43 | 682,490.20 | 47,460.66 | 0.00 | 11,813,858.97 | 1,774,134.00 | 1,982 |
| 3. Other equipment, furniture and fixtures | 4,357,778.52 | 45,182.73 | 45,934.00 | 11,070.00 | 4,368,097.25 | 3,886,889.02 | 151,454.23 | 45,924.50 | 0.00 | 3,992,418.75 | 375,678.50 | 471 |
| 4. Prepayments and assets under construction | 454,340.90 | 87,875.33 | 40,255.41 | -471,217.00 | 30,743.82 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 30,743.82 | 454 |
| | 22,711,315.53 | 148,905.26 | 134,427.57 | 0.00 | 22,725,793.22 | 18,241,296.64 | 949,408.43 | 93,385.16 | 0.00 | 19,097,319.91 | 3,628,473.31 | 4,470 |
| | 24,453,732.02 | 153,768.96 | 134,427.57 | 0.00 | 24,473,073.41 | 19,955,176.13 | 962,247.63 | 93,385.16 | 0.00 | 20,824,038.60 | 3,649,034.81 | 4,499 |

Translation from the German language

**PKC SEGU Systemelektrik GmbH, Barchfeld-Immelborn**
**Management report as of 31 December 2019**

## A. Business activities and overall economic environment

### 1. Company background

PKC SEGU Systemelektrik GmbH is a long-standing partner in the automotive industry in the area of ABS wires and customized cables. Leading automotive manufacturers have also been reliably supplied over many years with internally developed electronic modules and plastic components.

The ultimate parent company is PKC Group PLC with its registered office in Helsinki, Finland. As of 24 March 2017, Motherson Sumi Systems Ltd, (MSSL), Noida, India, acquired 93.75% of the shares and share options via its wholly owned subsidiary MSSL Estonia WH ÖU, Talin, Estonia. Thereafter PKC Group PLC applied for permanent delisting from the stock exchange in Helsinki, Finland, on 16 August 2017. The acquisition of the remaining minority interests by MSSL Estonia WH ÖU was approved by the court of arbitration of the Finnish chamber of Commerce on 7 September 2017.

### 2. Development of the industry

The strong cost pressure exercised by the automotive manufacturers on the supply industry worldwide continues. Some of the suppliers have therefore, in addition to their location in Germany, established or expanded their wage-intensive production in low-wage countries. Large corporations with both a passenger car and commercial vehicle division are currently working to bundle volume by reducing the number of suppliers in order to further decrease prices. Moreover, the amount of electric and electronic equipment in vehicles is on the rise: Optional components are becoming standard and new optional features, driven by $CO_2$ reduction, GPS, safety components and ethernet modules will follow.

This requires the automotive supply industry to adapt to the change in requirements by

- Increasing competencies in the area of development
- Increasing the logistics competence
- Increasing the high quality standards
- Ongoing specification of products
- Increasing vertical integration/added value within the company
- Increasing flexibility

## 3. Customer development

The business with key accounts was and remains our prime focus. Through PKC Group PLC's global presence, we want to support and supply our customers in Europe, Asia as well as in North and South America. The required development competence should be constantly increased and expanded. Due to the affiliation with the Samvardhana Motherson Group, we expect steady growth in our customer portfolio of leading automotive manufacturers in the future.

## 4. Supplier development

The activities to develop our supplier base were continued in the reporting year, partly in cooperation with our customers. Our regular suppliers are still active on the market and guarantee the quality of our upstream products.

In fiscal year 2019, needs were bundled in close cooperation with the global sourcing department and supplier development continued in close coordination with the central purchasing department. This applies to both directly and indirectly sourced material.

## 5. Investments

Investments in fiscal year 2019 amounted to EUR 154k and mainly relate to plant and machinery for electronics and injection molding. The investment volume was thus down EUR 2,009k on the prior-year level.

## 6. Our strategy for the future

The future strategy is significantly influenced by the affiliation to PKC Group PLC and also by the Samvardhana Motherson Group (SMG).

The key components of our strategy remain:

- Enhancement of plastic components manufacturing with new projects in the passenger car segment and increasing vertical integration in the area of commercial vehicles

- Safeguarding the vehicle electronics division by expanding the degree of automation and launching new customer projects

- Expanding the German location into a competence center for electrical distribution systems and components in vehicles

- Expanding development services in R&D, both for customers and for other PKC and SMG locations.

## B. Economic position of the Company

### 1. Financial performance

The Company is managed in accordance with group-wide guidelines as part of the internal accounting function. The main performance indicators used by management for setting their targets are revenue and net income for the year. Revenue in fiscal year 2019 amounted to EUR 33,169k and is thus around 30% higher than in the prior year (EUR 25,445k), thus achieving the revenue target of EUR 33m forecast in the prior year. The increase compared to the prior year mainly results from the increase in external product sales in the area of injection molded components.

The cost of materials as a percentage of revenue improved by 6.0% to 58.3% due to the change in product portfolio.

Gross profit increased by EUR 3,488k to EUR 13,651k. The increase is attributable to two opposite effects: The first is the increase of EUR 7,435k in revenue and other operating income and the second the increase of EUR 2,971k in cost of materials.

Personnel expenses increased by EUR 842k in the reporting period primarily due to the increase in wages and salaries.

Amortization and depreciation increased by EUR 151k to EUR 962k compared to the prior year primarily due to higher investments in the prior year. Other operating expenses increased by EUR 625k from EUR 4,090k to EUR 4,715k.

The Company participates in the cash pool system of PKC Group PLC. Overall, interest expenses (EUR 477k) increased by EUR 86k compared to the prior year, primarily due to higher cash pool liabilities during the year.

The net income for the year of fiscal year 2019 amounts to EUR 489k, thus improving by EUR 1,755k compared to the prior year. The forecast made in the prior-year was almost matched due to the better financial performance. A major factor in this regard was the increase in revenue, without any significant increase in fixed costs.

### 2. Financial position

As in prior years, in 2019 also the Company was financially equipped via intragroup measures. The required liquidity was provided by the participation in the group-wide cash pool system. Additional shareholder loans were not drawn and capital was not increased.

The cash flow from operating activities of EUR 3,452k is counterbalanced by cash outflow from investing activities of EUR 57k and cash outflow from financing activities of EUR 477k. Liabilities from the intragroup cash pool – which are included in the calculation of cash and cash equivalents – decreased in the reporting year from EUR 9,633k to EUR 6,686k. Cash and cash equivalents decreased accordingly by EUR 30k to EUR 327k.

The capital deficit as of the reporting date amounts to EUR 2,902k (prior year: EUR 3,391k), the equity ratio is -21.7% (prior year: -18.4%). The reduction in the deficit is attributable to the increase in the net income for the year (EUR 489k).

## 3. Assets and liabilities

Total assets decreased year-on-year by EUR 5,098k to EUR 13,365k. On the assets side, this is mainly attributable to the decrease in current assets (EUR 3,769k), primarily to the decrease in inventories (EUR 3,178k) as well as receivables from affiliates (EUR 370k). On the liabilities side, the decrease in the balance sheet total is mainly due to lower liabilities to affiliates (EUR 3,097k). The decrease in liabilities to affiliates mainly results from the decrease in cash pool liabilities (EUR 2,947k). As of the reporting date, the Company has a cash pool liability of EUR 6,686k to PKC Group PLC, Helsinki, Finland.

The book value of fixed assets accounts for around 27% (prior year: around 24%) of total assets.

The covering assets from employer’s pension liability insurance of EUR 1,373k were offset against pension provisions (EUR 2,393k) in accordance with Sec. 246 (2) Sentence 2 HGB.

## 4. Non-financial indicators

To be able to respond flexibly to changes in demand, the Company’s workforce primarily comprises permanent employees as well as employees with temporary contracts and employee leasing.

The idea of quality is firmly anchored in all units in the Company. Quality performance of the Company is measured, analyzed and evaluated according to the manual using process indicators (including returns ratio, on-time delivery, OEE (overall equipment effectiveness), absence due to sickness, employee churn). The following certificates were confirmed by supervision audits or recertification audits in the reporting year:

- Quality management system in compliance with DIN EN ISO 9001:2015 No. 144573-2013-AQ-FIN-FINAS for product and process development, the production and distribution of cable harnesses, cable manufacturing and electronic assemblies and plastic components.

- Quality management system in compliance with IATF 16949:2016 No. 146420-2013-AQ-FIN-IATF for the development and manufacturing of cable harnesses and cable manufacturing, electric and electronic assemblies for vehicles and injection components.

Greater environmental awareness is reflected in the environmental management system introduced corresponding to DIN EN ISO 14001. The performance of the environmental management system is measured, analyzed and evaluated in accordance with the environmental management manual using environment indicators (including power consumption; water consumption; use of service water; waste volume; copper scrap, etc.). The effectiveness was confirmed by the environment management system certificate DIN EN ISO 14001:2015 No. 144574-2013-AE-FIN-FINAS.

## 5. Research and development

The Company closely collaborated also in 2019 in the field of application-based technology development, both with German institutes, development partners and the vocational academy in Eisenach as well as with the corporate group and its international customers. R&D had 14 employees.

## 6. Existing branches

The Company does not have any branch offices.

## 7. Overall conclusion regarding business development

Considering prior years, the management board assesses business performance in the reporting year as satisfactory. Revenue in fiscal year 2019 amounts to EUR 33,169k and has thus increased by EUR 7,724k compared to the prior year. The forecast made in the prior-year was reached due to the realignment of the Company. The Company generated a profit for the year of EUR 489k, an improvement of EUR 1.8m compared to the prior year. Moreover, the cost structure of the Company was improved accordingly, above all due to the strategic realignment (investments in electronics and component manufacturing, expansion of R&D and EDS).

# C. Opportunities and risks of future development

## 1. Going-concern risk

From today’s perspective, there are discernible going-concern risks or risks that can significantly affect the assets, liabilities, financial position and financial performance, as the Company is in a tight liquidity situation due to the negative earnings and negative cash flows from operating activities in past fiscal years. Liquidity is made available to the Company via a cash pool agreement with PKC Group PLC as well as via a credit line of the parent company PKC Wiring Systems Oy. In addition, effective 20 March 2020 the parent company issued a general liquidity commitment and a general equity guarantee (letter of comfort) up to a maximum amount of EUR 14,000,000.00 in favor of PKC SEGU Systemelektrik GmbH for a period ending on 31 December 2022. The maintenance of solvency and thus the ability of the Company to continue as a going concern until it can generate sustainable positive cash flows depends on the maintenance of the cash pool agreement with PKC Group PLC as well as the financial support of the parent company, which has granted the above-mentioned credit line and issued the letter of comfort.

## 2. Coronavirus pandemic

The final weeks preceding our work to prepare the report were marked by uncertainty regarding the further course of the coronavirus pandemic on the future development of the global economy and particularly the development of the automotive industry.

Currently it can be seen that some major automotive manufacturers are again ramping up production at a number of plants to a reduced volume after temporary closures, while other manufacturers are still hesitant. When production at individual manufacturers will normalize again cannot be reliably assessed at present. However, it is certain that the production and sales figures of the previous years will not be achieved in 2020.

As a long-standing partner in the automotive supply industry, we will not be able to escape this negative production and sales trend. But there can be a positive effect from the fact that our products in the fields of ABS wires, customized wire harnesses and internally developed electronic modules are supplied in the automotive electronics product segment. As the share of electronic components per vehicle will increase further, we expect that we will be less affected by the decrease in the number of new vehicle registrations.

The risk that our upstream supply chain may be restricted or interrupted due to difficulties at our suppliers is countered by a multi-supplier principle, international sourcing as well as stockpiling.

Interruptions in the logistics chain, both in procurement and in sales, e.g., as a result of absence of drivers due to illness or obstacles in processing at national borders, are minimized by engaging reliable forwarding agents.

We endeavor to reduce or avoid downtime in production due to illness by observing all the hygiene measures, particularly the maintenance of social distancing between the employees in production without restricting the process.

Another risk is posed by the disruption of cash flows due to liquidity bottlenecks at our customers, which may lead to higher liquidity utilization at our Company or to an increase in bad debts. As our customers are large automotive suppliers or manufacturers, they are subject to group-wide permanent credit monitoring, thus we can exclude default risks to a large extent by preventive credit ratings.

Further measures to reduce individual risks are described in the following chapters of the Opportunities and risk report.

## 3. Commodities market

In addition to the above-mentioned risks due to the coronavirus pandemic, there are still indications of a trend towards increasing scarcity of resources and the associated increase in prices in the commodities markets. This trend can be seen throughout the entire automotive industry. To safeguard the needs and market-based pricing policies, the Company operates as part of the large Samvardhana Motherson Group and therefore tries to minimize the risks at the key suppliers.

## 4. Lack of skilled labor

Concerning the lack of skilled labor, the Company will continue to focus on the PKC-wide performance and talent management program and the associated advance training and education in the coming year. The process indicators such as the rate of illness, employee turnover and quality performance are used as indicators of employee satisfaction on a monthly basis.

To recruit new employees the Company relies on a stronger regional presence at local job fairs as well as in local media.

We expect that the coronavirus pandemic and its accompanying economic uncertainties will minimize employee turnover and, in addition, offer opportunities to recruit new employees when other companies reduce their workforce due to the crisis.

## 5. Customer volume

Disregarding the coronavirus-related reduction in volume mentioned above, fluctuation in customer demand of +/-20% in the short term are a fact of life in the automotive industry. The required flexibility is secured by using trained leased employees.

Both internal as well as external sales activities are integrated to reduce dependence on individual customers.

### 6. Price pressure & competition

Management expects fiercer competition in the coming year as well as in the subsequent years. Furthermore, constant price pressure is expected from the automotive industry. As a result, further measures to reduce costs are planned both in production as well as in indirect processes. In this context, since 2018 the focus has been on significantly extending the manufacturing of plastic components, optimizing electronic manufacturing and increasing internal vertical integration. Tangible positive effects were shown by these measures already in fiscal year 2018.

Due to the ongoing alignment of the operating situation to the risks on the market, our Company will be able to maintain its market position in the coming years as well.

## D. Forecast

### Expansion of electronics and plastic parts manufacturing in the area of onboard networks

It was decided in fiscal year 2018 to expand the manufacturing of plastic parts at the location; production was started in 2019. In 2020, the total annual volume will amount to around EUR 10m.

Furthermore, in the area of electronics and plastic parts there are other projects in the acquisition and planning phase, which are expected to generate revenue of at least EUR 25m to EUR 30m for PKC SEGU Systemelektrik GmbH.

### Business performance

The increase in revenue reflects an extended customer base and volume increase on the one hand and/or shifts in the current product mix.

Revenue is expected to decrease significantly compared to the prior year, because the lock down due to COVID-19 will lead to substantial decreases in revenue in the second quarter of fiscal year 2020. We expect that revenue and production will settle at around 85% of the level of the prior months from July 2020 onwards. As a result, the focus is on further optimizing our processes. The main goal is to adjust the Company’s cost structure to this new level of revenue, mainly through the short-time work furlough scheme.

Based on the current order situation the Company expects revenue of just EUR 22m for 2020 as well as a profit for the year slightly above EUR 200k. From today's perspective, the product portfolio will not change in the coming year. Based on the current order situation, the level of revenue is expected to rise significantly again in the following year compared to 2020.

The integration of PKC Group PLC into the Samvardhana Motherson Group creates synergies in the areas of HR, purchasing, sales, research and development and finance, which also benefit our Company.

Barchfeld, 30 June 2020

PKC SEGU Systemelektrik GmbH

The Management Board

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Christian Storandt

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Andreas Heuser