Grant Thornton

# Pricol do Brasil Componentes Automotivos Ltda.

Independent auditors' report financial statements

**As of March 31st, 2019**

# Contents

# Independent auditor's report

**Grant Thornton Auditores Independentes**

Av. José de Souza Campos, 507 - 12º andar Cambuí, Campinas (SP)

T +55 19 2042-1036

To the Management and Shareholders of
**Pricol do Brasil Componentes Automotivos Ltda.**
Jarinu - SP

## Opinion

We have audited the financial statements of Pricol do Brasil Componentes Automotivos Ltda. ("Company"), which comprise the balance sheet as at March 31, 2019, and the statement of comprehensive income, 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 Pricol do Brasil Componentes Automotivos Ltda. as at March 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with accounting practices adopted in Brazil.

## Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the relevant ethical requirements set forth in the Code of Ethics for Professional Accountants and the professional standards issued by the Federal Accounting Council and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Material Uncertainty related to Going Concern

The Company has suffered recurring losses from operations, the accumulated losses amount to R$ 190,222 thousand and the Company's liabilities has exceeded its assets in amount of R$ 31,417 thousand as of March 31st, 2019. These conditions indicate the existence of a material uncertainty which may be significant doubt about the Company's ability to continue as a going concern. The continuity of the Company's as a going concern will depend on the financial support of its parent company and on the success of its growth plans presented in Note 1.The financial statements referred to above were prepared on the assumption of going concern of the Company and does not include any adjustments relating to the realization and classification of asset and liabilities values, that would be required in the inability of the Company to continue its operations. Our opinion is not qualified in respect of this matter.

 

## Emphasis

**Special Tax Regularization Program (PERT)**

The Company Joined to the Special Tax Regularization Program (PERT), established by executive act No 783/17 later converted into Law No 13.496/17 issued on October 24th,2017, covering debts of a tax and non-tax nature, past-due until April 30th, 2017. As established in PERT the Company recorded the anticipated benefits, considering the compensation of Income Tax and Social Contribution on Tax Losses and negative Social Contribution Tax Calculation ("Deferred tax credits"), with the balance of the tax debt within the legal limits established in the law.

However, due to defaults incurred, the Company lost its participation in the program, and consequently recorded again its liabilities the total amount of the tax debt plus interest. The effect of this recognition on March 31, 2019 is R$ 2,925 related to fine and interest, presented on Note 15 of the financial statements. Our opinion contains no modification related to this matter.

## Other matters

**Audit of the previous year's amounts**

The financial statements for the period ended in March 31, 2018 were audited by other auditors that issued a qualified opinion on May 15th, 2018 on the realization of deferred tax assets amounting R$ 4,872 and an emphasis of matter paragraph about the company's ability to continue as a going concern.

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

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

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

Those charged with governance are those individuals 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 taken as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, 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 Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. In addition:

- 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 override of internal control, collusion, forgery, intentional omissions or misrepresentations;

- Obtain an understanding of the internal controls 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.

The financial statements have been prepared for purpose of providing information to the Group to enable it to prepare the consolidated financial statements. The financial information may therefore be not suitable for any other purpose. This report should not be used by or distributed to other parties.

Campinas, June 14, 2019

Élica Daniela Silva Martins
Assurance Partner

Grant Thornton Auditores Independentes

 

# Pricol do Brasil Componentes Automotivos Ltda.

## Balance sheets for the years ended
## March 31, 2019 and 2018

(Amounts expressed in thousands of reais)

### ASSETS

| | Notes | 03/31/2019 | 03/31/2018 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 4 | 1,288 | 1,960 |
| Accounts receivable | 5 | 9,749 | 7,621 |
| Inventories | 6 | 6,285 | 7,486 |
| Taxes recoverable | | 1,991 | 1,378 |
| Other receivables | 7 | 9,165 | 7,079 |
| **Total current assets** | | 28,478 | 25,524 |
| | | | |
| **Non current assets** | | | |
| Deffered taxes | 8 | - | 4,872 |
| Taxes recoverable | | - | 136 |
| Property, plant and equipment, net | 9 | 51,097 | 37,123 |
| Intangible assets, net | | 462 | 313 |
| **Total noncurrent assets** | | 51,559 | 42,444 |
| | | | |
| **Total assets** | | 80,037 | 67,968 |
| | | - | - |

**The explanatory letters are an integral part of these financial statements.**

# Pricol do Brasil Componentes Automotivos Ltda.

## Balance sheets for the years ended
## March 31, 2019 and 2018

(Amounts expressed in thousands of reais)

### LIABILITIES AND NET EQUITY

| | Notes | 03/31/2019 | 03/31/2018 |
|---|---|---|---|
| **Current liabilities** | | | |
| Trade accounts payable | 11 | 10,433 | 12,047 |
| Loans and financing | 12 | 5,980 | 5,130 |
| Leasing | 13 | 1,400 | - |
| Intercompany loans | 14 | 1,012 | 11,899 |
| Salaries and social charges payable | 15 | 10,148 | 5,475 |
| Tax payable | 16 | 9,480 | 3,534 |
| Other accounts payable | 17 | 5,797 | 7,640 |
| **Total current liabilities** | | 44,250 | 45,725 |
| | | | |
| **Non Current liabilities** | | | |
| Provision for contingencies | 18 | 3,882 | 3,663 |
| Tax payable | 16 | 3,203 | 3,630 |
| Loans and financing | 12 | 29,882 | 30,961 |
| Leasing | 13 | 11,670 | - |
| Intercompany loans | 17 | 12,180 | 10,160 |
| Other accounts payable | 16 | 3,255 | 3,856 |
| Deferred income tax | 25 | 3,132 | 3,132 |
| **Total non current liabilities** | | 67,204 | 55,402 |
| | | | |
| **Net equity (negative)** | | | |
| Capital | 19 | 159,505 | 118,653 |
| Accumulated losses | - | (190,922) | (151,812) |
| | | (31,417) | (33,159) |
| | | | |
| **Total liabilities and net equity (negative)** | | 80,037 | 67,968 |
| | | - | - |

**The explanatory letters are an integral part of these financial statements.**

# Pricol do Brasil Componentes Automotivos Ltda.

## Income statements for the years ended
## March 31, 2019 and 2018

(Amounts expressed in thousands of reais)

| | Notes | 03/31/2019 | 03/31/2018 |
|---|---|---|---|
| **Net operating revenue** | 20 | 53,544 | 63,150 |
| Cost of goods sold | 21 | (60,587) | (76,457) |
| **Gross income** | | (7,043) | (13,307) |
| **Operating expenses** | | | |
| Administrative expenses | 22 | (9,370) | (6,594) |
| Depreciation and amortization | 22 | (764) | (468) |
| Other Operating expenses | 24 | (10,650) | (14,477) |
| | | (20,784) | (21,539) |
| **Income before financial expenses** | | (27,827) | (34,846) |
| **Financial income (expenses)** | 23 | | |
| Financial income | | 8,742 | 2,658 |
| Financial expenses | | (20,025) | (12,832) |
| | | (11,283) | (10,174) |
| **Losses before income tax and social tax on net income** | | (39,110) | (45,020) |
| **Income tax and social contribution** | 25 | | |
| Deferred | | - | (143) |
| | | - | (143) |
| **Loss of the year** | | (39,110) | (45,163) |

**The explanatory letters are an integral part of these financial statements.**

# Pricol do Brasil Componentes Automotivos Ltda.

## Statements of changes in equity
## for the years ended March 31, 2019 and 2018

(Amounts expressed in thousands of reais)

| | Notes | Capital stock | Acumulated losses | Total |
|---|---|---|---|---|
| **Balances as of March 31, 2017** | - | 99,591 | (106,649) | (7,058) |
| Capital increase | - | 19,062 | - | 19,062 |
| Loss for the year | - | - | (45,163) | (45,163) |
| **Balances as of March 31, 2018** | | 118,653 | (151,812) | (33,159) |
| Capital increase | 19.1 | 40,852 | - | 40,852 |
| Loss for the year | - | - | (39,110) | (39,110) |
| **Balances as of March 31, 2019** | | 159,505 | (190,922) | (31,417) |

**The explanatory letters are an integral part of these financial statements.**

# Pricol do Brasil Componentes Automotivos Ltda.

## Statements of cash flow for the years ended March 31, 2019 and 2018

(Amounts expressed in thousands of reais)

| | 03/31/2019 | 03/31/2018 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Loss of the year | (39,110) | (45,163) |
| **Adjustments to reconcile loss to net cash provided by operating activities** | | |
| Depreciation and amortization | 2,772 | 2,829 |
| Write-off of permanent assets - residual value | 1,231 | 159 |
| Provision for obsolete fixed assets | - | 1,000 |
| Provision for obsolete inventories | 1,690 | 171 |
| Reversal (provision) for Impairment of assets | - | (5,722) |
| Provision for estimated credit losses | - | 889 |
| Deferred income tax | 4,872 | 1,432 |
| Provision for contingencies | 219 | 1,481 |
| | (28,326) | (42,924) |
| **Changes in operating assets and liabilities** | | |
| Accounts receivable | (2,128) | (644) |
| Inventories | (489) | (660) |
| Taxes recoverable | (477) | (713) |
| Prepaid expenses | - | 380 |
| Other receivables | (2,086) | (4,851) |
| Trade accounts payable | (1,614) | 2,862 |
| Salaries and social charges payable | 4,673 | 110 |
| Tax payable | 5,519 | (1,870) |
| Leasing | 13,070 | - |
| Other accounts payable | (2,444) | 4,282 |
| **Net cash provided by (used in) operating activities** | (14,302) | (44,028) |
| **Cash flow from investing activities** | | |
| Additions to property, plant and equipments | (18,126) | (14,300) |
| **Net cash used in investing activities** | (18,126) | (14,300) |
| **Cash flow from financing activities** | | |
| Capital increase | 40,852 | 19,062 |
| Loans and financing | 6,000 | 19,392 |
| Payment of loans and financing | (6,229) | - |
| Intercompany loans | (8,867) | 21,460 |
| **Cash generated by (used in) financing activities** | 31,756 | 59,914 |
| **Net increase (decrease) in cash and cash equivalents** | (672) | 1,586 |
| Cash and cash equivalents at the beginning of the year | 1,960 | 374 |
| Cash and cash equivalents at the end of the year | 1,288 | 1,960 |
| **Net increase (decrease) in cash and cash equivalents** | (672) | 1,586 |

**The explanatory letters are an integral part of these financial statements.**

# Explanatory notes to the financial statements

(In thousands of Brazilian reals)

## 1. Operations

Pricol do Brasil Componentes Automotivos Ltda. (the “Company”) is a limited liability Company established on November 28th, 2005. It is located in the city of Jarinu, in the State of São Paulo.

The Company is engaged in the production, sales and export of automotive parts, and also in rendering services related to automotive parts.

Acting through its subsidiary Pricol España, Indian vehicle components and engineering products maker Pricol Ltd acquired all shares of Melling do Brasil Componentes Automotivos Ltda. on January 23rd, 2015 and the Company changed the name to Pricol do Brasil Componentes Automotivos Ltda.

The economy of Brazil has been declining over the past 36 to 48 months. Pricol do Brasil to support the drastic decline in the automotive sector has worked to reduce and contain expenses, production & labor costs, and the Company also made an organizational restructuring. The stabilization of Brazilian economy and the solution of Political matters will also help Pricol do Brasil reversing the current financial results. Besides, the Company had a reduction of sales volume and gross margin due to the project of Harley Davidson water pump that ended the production.

During the year 2018-19, Pricol do Brasil relocated its manufacturing facility from Diadema to Jarinu to reduce employee and operational costs. In November 2018, Pricol do Brasil started its production and supplies to the customers as from Jarinu. During the restructuring, the Company dismissed 181 employees from August 2017 to March 2018 and had to contract 125 employees in the plant of Jarinu.

In the period from April 2018 to March 2019, the company had several problems in stablish the production due to the employees turn over.

**Debt**

Pricol do Brasil got a new loan from Citibank, USA of Euro 8 million, which is guaranteed by CitiBank India with assets given as collateral guarantee of Pricol Limited, India. This loan was got to settle the loan with Bank of Safra and to invest in new machines.  The cost of loan was reduced on the average from 6.6% to 4.5% per year.

Pricol do Brasil has also got a credit of Banco do Brasil of BRL 6 million for finance the new line production to GM cliente. The cost of loan is CDI plus 6,6 % per year, the payment will start in July 2019.

**Market**

The O&M Market went down in 2018-2019 and now the market is recovering. However, a full market recovery can be expected only by 2020-21.

Also, Pricol do Brasil was awarded with a contract to supply water pumps to GM´s new engine – The CSS Prime Project- which will be put in place at the end of 2019 and will represent a growing of BRL 45 million per year at Pricol do Brasil revenues.

**Share capital**

During 2018/19, Pricol España increased the capital of Pricol do Brasil in R$ 40,852, equivalent to USD 10,213.

## 2. Financial statements presentation

## 2.1. Preparation basis of the financial statements

The financial statements have been prepared according to Brazilian accounting practices, which includes the corporate law nº 6.404/76, which incorporated the changes introduced by laws Nos 11.638/07 and 11.941/09 and Pronouncements, Guidelines and Interpretations issued by the Brazilian Committee of Accounting

Pronouncements (CPC), duly approved by the Brazilian Federal Accounting Council (CFC).

The financial statements were approved by the Company's management and authorized for issue on June 14, 2019.

The financial statements are a free translation from Portuguese into English of the financial statements prepared in Brazilian currency in accordance with the accounting practices adopted in Brazil.

## 2.2. New Standards adopted as at 1 January 2019

**IFRS 16 – Leases**

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

Management has opted for the cumulative approach as an option to adopt this standard for purposes of presenting the Company's financial statements, where the right of use corresponds to the netting liability with no effect on shareholder's equity on the date of adoption.

Management has identified only the rental of building for the recognition of IFRS 16, which is presented in Note 9 – Property, plant and equipment.

## 3. Main accounting practices

**(a) Translation of foreign currency**

The functional currency of the Company is the Brazilian Real, the same currency used in the preparation and presentation of the financial statements all approximate values to thousands of reals, unless otherwise stated.

The assets and liabilities in foreign currencies were translated into reals at the exchange rate at the balance sheet date and differences arising from translation were recognized in the income.

**(b) Financial assets and liabilities**

The Company has non-derivative financial instruments, such as accounts receivable and other receivables, cash and cash equivalents, as well as accounts payable and other payables.

The company made an assessment of its financial instruments:

*§ Cash and cash equivalents: are classified as held to maturity. They are valued at cost plus income earned to the balance sheet date, if applicable;*

*§ Accounts receivable: directly resulting from the company's operations are classified as held to maturity and recorded at the original values, subject to provision for losses and present value adjustment, if applicable;*

*§ Financing and taxes payable: they are initially recognized when the funds are received, net of transaction costs. Subsequently, they are carried at amortized cost, that is, added of financial charges and interest proportional to the period elapsed ("pro rata temporis"), net of payments made. The amount recorded and the loan raising rates are close to market value.*

The Company as of March 31, 2019 and March 31, 2018 did not have balances of financial assets held for trading or designated at fair value through profit and loss.

Financial assets are measured by indicators of impairment at the balance sheet date. They are considered impaired when there is evidence that as a result of one or more events occurring after their initial recognition, the estimated future cash flows of investment have been impacted.

**(c) Accounting estimates**

The preparation of the financial statements requires the management to use estimates for certain assets, liabilities and transactions. Significant items subject to these estimates and assumptions include the selection of the useful life of the fixed assets and their recoverability in operations, the evaluation of financial assets both at fair value and adjustment to present value, analysis of the credit risk to determine the allowance for doubtful accounts, as well as the analysis of other risks to determine other provisions, including the provision for contingencies, tax provisions and other similar ones. The settlement of the transactions involving those estimates can result in amounts different from the estimated ones, due to inherent imprecision of the determination process.

**(d) Inventories**

Inventories are stated at the average acquisition or production cost, which is lower than net realizable value.

**(e) Property, plant and equipment**

**Recognition and measurement**

Property, plant and equipment items are stated at historical acquisition or construction cost, net of accumulated depreciation.

The cost includes expenditures that are directly attributable to the acquisition of assets. The cost of assets built by the company includes materials and direct labor, as well as any other costs attributable to bring the assets to the location and condition requires for them to operate in the manner intended by management, costs for dismantling and restoration of the site where they are located.

Gains and losses on disposal of a property, plant and equipment item are determined by comparing the proceeds from disposal with the carrying amount of Property, plant and equipment and are recognized net within "Other income" in the income statement.

Long-lived assets are tested for impairment when events or changes in circumstances indicate the carrying value of such assets may not be recoverable. The Company records an impairment loss equal to the excess of the asset’s carrying amount over its fair value. The fair value is determined based on valuation techniques such as a discounted cash flow analysis or a comparison to fair values of similar assets.

**Depreciation**

Depreciation is calculated under the straight-line method, taking into account the useful lives of assets at rates mentioned in note 9 and the provision for impairment.

**(f) Intangible assets**

Intangible assets are amounts associated with the implementation of software and are amortized according to the useful life at rates mentioned in Note no 9.

**(g) Income tax and social contribution**

Income tax and social contribution are calculated on taxable profits in accordance with Brazilian income tax legislation at the rate of 25% (income tax) and 9% (social contribution), plus an additional rate of 10% over the profit exceeding to R$ 240 per year.

**(h) Deferred income tax and social contribution**

Deferred income taxes are provided based on the estimated future tax effects of temporary differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

**(i) Provision for contingencies**

It is estimated based on the opinion of legal advisors in order to record probable losses on judicial proceedings. Management considers the amount sufficient to cover losses from any type of lawsuit.

**(j) Revenue recognition**

Revenues comprise the present value of services rendered. Revenue from sales rendered is recognized when significant risks and rewards of ownership of the goods are transferred to the buyer and collection of the related receivables is reasonably assured.

**(k) Determination of net income**

Net income is determined on the accrual basis.

## 4. Cash and cash equivalents

| | 03/31/2019 | 03/31/2018 |
|---|---|---|
| Cash | 10 | 10 |
| Bank current accounts | 1,278 | 1,950 |
| | **1,288** | **1,960** |

## 5. Accounts receivable

| | 03/31/2019 | 03/31/2018 |
|---|---|---|
| Trade accounts receivable - domestic | 4,413 | 4,427 |
| Bad debt provision - domestic | (868) | (868) |
| Trade accounts receivable - foreign | 6,225 | 4,083 |
| Bad debt Provision - foreign | (21) | (21) |
| | **9,749** | **7,621** |

## 5.1. Accounts receivable aging

| | 03/31/2019 | 03/31/2018 |
|---|---|---|
| Falling due | 2,058 | 2,945 |
| Overdue 01-30 days | 1,376 | 73 |
| Overdue 31-60 days | 544 | - |
| Overdue 61-90 days | 8 | 281 |
| Overdue for more than 90 days | 427 | 1,128 |
| | **4,413** | **4,427** |

| | 03/31/2019 | 03/31/2018 |
|---|---|---|
| Falling due | 4,338 | 1,947 |
| Overdue 01-30 days | 619 | 1,045 |
| Overdue 31-60 days | 137 | 799 |
| Overdue 61-90 days | - | 49 |
| Overdue for more than 90 days | 1,131 | 243 |
| | **6,225** | **4,083** |

## 5.2. Changes in allowance for doubtful accounts

| | Domestic | Foreign |
|---|---|---|
| **Balance at beginning of the period** | **(868)** | **(21)** |
| (+) Provision | **-** | **-** |
| **Balance at the end of the period** | **(868)** | **(21)** |

The allowance for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

# 6. Inventories

| | 03/31/2019 | 03/31/2018 |
|---|---|---|
| Raw material | 6,551 | 4,489 |
| Working in process | 1,828 | 1,427 |
| Finished products | 1,275 | 1,390 |
| Consumption material | (304) | 1,555 |
| (-) Provision for obsolete inventories | (3,065) | (1,375) |
| | **6,285** | **7,486** |

## 6.1. Changes in the provision for obsolete inventories

| | |
|---|---|
| **Balance as of March 31, 2018** | **(1,375)** |
| Additions | (1,690) |
| Vrite-offs | - |
| **Balance as of March 31, 2019** | **(3,065)** |

# 7. Other receivables

| | 03/31/2019 | 03/31/2018 |
|---|---|---|
| Goods for future sale | 3,211 | 3,134 |
| Advances to suppliers | 5,584 | 3,716 |
| Other receivables | 370 | 150 |
| Advances to employees | - | 79 |
| | **9,165** | **7,079** |

The goods for future sale are related to orders of project developments to be sold to clients. These projects are going to be completed and sold to clients. In 2018, the main value is of the Mc Lauren project. Advances to suppliers are amounts advanced mainly to the project CSS prime.

## 8. Deferred taxes

The Company has accumulated loss carry forward of Income Tax and Social Contribution amounting to R$ 154,834 and R$ 128,575, respectively.

In accordance with Brazilian tax legislation, tax losses carry forward can be offset indefinitely against taxable income, limited to 30% of annual taxable. The company has recognized the tax benefits of tax losses carry forward and temporary differences in the amount of R$ 4,872 in the period ended in March 31, 2018. However, due to the non-expectation of profitability, the impairment for Deferred tax assets was recognized in March 31, 2019 on the total amount registered until then.

## 9. Property, plant, equipment

| | | 2019 | | | 2018 |
|---|---|---|---|---|---|
| | **Depreciation Time** | **Cost** | **Accumulated Depreciation** | **Net** | **Net** |
| Land | - | 560 | - | **560** | **560** |
| Buildings | - | 13,070 | - | **13,070** | **-** |
| Plant and equipment | 10 | 53,834 | (38,547) | **15,287** | **19,489** |
| Furniture and Fixtures | 10 | 538 | (514) | **24** | **39** |
| Vehicles | 5 | 51 | (50) | **1** | **12** |
| Office Equipment | 10 | 6,181 | (2,586) | **3,595** | **3,300** |
| Others (Improv Third Property Parties) | 10 | 315 | (314) | **1** | **3** |
| Capital Work in Process | - | 18,559 | - | **18,559** | **13,720** |
| | | **93,108** | **(42,011)** | **51,097** | **37,123** |

Changes of the property, plant and equipment:

| | |
|---|---|
| **Balance as of March 31, 2018** | **37,123** |
| Additions | 17,877 |
| Write-offs | (1,231) |
| Depreciation | (2,672) |
| **Balance as of March 31, 2019** | **51,097** |

Depreciation in the amount of R$ 2,672 (R$ 2,829 in 2018) was substantially allocated to costs of goods sold.

The Capital Work in progress had an increase during 2018 due to the plant change to Jarinu. The main amount refers to facilities and plant adaptations.

## 10. Impairment test – fixed assets

The Company assessed its assets for purposes of compliance with the NBCTG 01 – Impairment of assets, and were noted and recorded the following effects of this assessment:

| | **03/31/2019** | **03/31/2018** |
|---|---|---|
| | - | 209 |
| | **-** | **209** |

**i. Provision for loss on realization of assets**

Pricol do Brasil made a new impairment assessment and verified that the amount booked previously was extremely high due to write-off of items from fixed assets and also due to the valuation of fixed assets at market values.

# 11. Trade accounts payable

| | 03/31/2019 | 03/31/2018 |
|---|---|---|
| Trade accounts payable - domestic | 9,588 | 10,248 |
| Trade accounts payable - foreign | 845 | 1,799 |
| | **10,433** | **12,047** |

## 11.1. Trade accounts payable aging

| **Domestic** | 03/31/2019 | 03/31/2018 |
|---|---|---|
| Falling due | 3,402 | 4,063 |
| Overdue 01-30 days | 3,332 | 4,06 |
| Overdue 31-60 days | 271 | 359 |
| Overdue 61-90 days | 161 | 813 |
| Overdue for more than 90 days | 2,422 | 953 |
| | **9,588** | **10,248** |

| **Foreign** | 03/31/2019 | 03/31/2018 |
|---|---|---|
| Falling due | 35 | 10 |
| Overdue 01-30 days | 28 | 231 |
| Overdue 31-60 days | 31 | 314 |
| Overdue 61-90 days | 14 | 83 |
| Overdue for more than 90 days | 737 | 1,161 |
| | **845** | **1,799** |

# 12. Loans and financing

| Bank | Type | Interest rate | 03/31/2019 | 03/31/2018 |
|---|---|---|---|---|
| Citibank **(a)** | | 4,50% p. y | 29,862 | 32,767 |
| NCE Itaú | | 8,00% p. y | - | 3,324 |
| Banco do Brasil | | CDI+6,60% p. y | 6,000 | - |
| | | | **35,862** | **36,091** |
| **Current** | | | **5,980** | **5,130** |
| **Non-current** | | | **29,882** | **30,691** |
| | | | **35,862** | **36.091** |

**a)** Citibank - Operation 4131 – maturing date in August 2023 – guaranteed by Letter of Credit from Citibank of India.

**Payments**

| Year | R$ |
|---|---|
| 2019 | 3,365 |
| 2020 | 10,460 |
| 2021 | 8,960 |
| 2022 | 7,460 |
| 2023 | 5,616 |
| | **35,862** |

## 13. Intercompany loans

| | 03/31/2019 | 03/31/2018 |
|---|---|---|
| PMP Auto Mexico | 12,180 | 10,160 |
| Pricol España | 1,012 | 11,899 |
| | **13,192** | **22,059** |
| | | |
| Current | 1,012 | 11,899 |
| Non-current | 12,180 | 10,160 |
| | **13,192** | **22,059** |

The loans of Pricol España was converted in share capital, the outstanding amount remaining is related to interest not paid. The loan with Pricol Mexico was obtained in 2017 with due date in October 2020, both are updated based on exchange variation plus interest of 4,5% per year.

## 14. Leasing

Lease liabilities are presented in the statement of financial position as follows:

| | 03/31/2019 | 03/31/2018 |
|---|---|---|
| Lease liabilities (current) | 1,400 | - |
| Lease liabilities (non-current) | 11,670 | - |
| | **13,070** | **-** |

The company has lease for an office and production building. The lease payments start in April 2019.

## 15. Salary and social charges payable

| | 03/31/2019 | 03/31/2018 |
|---|---|---|
| Vacations and 13º salary | 1,961 | 2,059 |
| INSS | 5,787 | 1,712 |
| FGTS | 436 | 826 |
| IRRF | 1,876 | - |
| Other | 88 | 878 |
| | **10,148** | **5,475** |

## 16. Tax payable

| | 03/31/2019 | 03/31/2018 |
|---|---|---|
| ICMS - VAT tax | 6,039 | 774 |
| ICMS Installments | 1,012 | 1,905 |
| Withholding taxes | 467 | 1,176 |
| Withholding tax installments | 1 | 2 |
| COFINS | 367 | - |
| COFINS Installments | 81 | 118 |
| PIS | 81 | - |
| PIS Installments | 11 | 18 |
| Municipal Tax | 486 | 128 |
| Special Installment Program **(a)** | 3,369 | 3,043 |
| IPI | 75 | - |
| Other | 694 | - |
| | **12,683** | **7,164** |
| | | |
| Current | 9,480 | 3,534 |
| Noncurrent | 3,203 | 3,630 |
| | **12,683** | **7,164** |

**(a)** On March 27th, 2013, the company received the tax assessments n° 4.017.895-0, 4.017.894-8, 4.017.893-6 issued by the Finance Department of the State of São Paulo regarding the undue credits of ICMS (VAT) amounting to R$ 8 million, related to the inaccuracy classification for the NCM (Mercosur Common Name) used in the purchase of raw materials, which led to a new rate of ICMS of 0%, This new rate, consequently, altered the basis for calculation of ICMS. The tax assessment was calculated on the operation occurred in the period from January 2011 to November 2012, respecting the legal term of 5 years to collection. In the end of May 2013, the company joined the Special Installment Program (PEP) of the State Government of São Paulo, breaking down the debit in 120 months. On March 31st, 2019, there were 79 installments to be paid, which are updated with interest. Updating Tax is necessary apply 20% in Tax overdue plus SELIC rate, Avarege 6,50%aa.

The PEP consolidated balance is showed by due date aging, as shown in the schedule below:

| | 31/03/2019 | 31/03/2018 |
|---|---|---|
| 2018 | - | 371 |
| 2019 | 727 | 500 |
| From 2020 | 2.642 | 2.172 |
| | 3.369 | 3.043 |

## Special Tax Regularization Program - PERT

In August 2017, the Company adhered to the Special Tax Regularization Program (PERT), established by Provisional Measure No. 783/2017, aiming to equalize and regularize tax liabilities through a special payment system and installment of its tax obligations. The Company chose the modality of 20% (twenty percent) payment of the consolidated debt in 5 monthly and successive installments, and the remaining balance was offset by the use of the negative calculation basis of CSLL.

The total amount taxes (including penalty and interest) computed in the PERT Program is R$ 1,612 and the reduction offset with the negative basis of CSLL was R$ 1,289. The remain value of R$ 322 was paid in 5 instalments from August to December 2017.

In the second part of the program, the Federal authorities did not recognize the procedures performed. Due to this fact, the total amount of tax debt plus interest was recognized on tax payable accounts.

## 17. Other accounts payable

| | 03/31/2019 | 03/31/2018 |
|---|---|---|
| Provision for energy | 80 | 483 |
| Provision for guarantee | 148 | 475 |
| Severance pay | 3,873 | 4,406 |
| Advances from customers | 2,575 | 4,332 |
| Provision for IT services | 158 | 100 |
| Temporary labor | 21 | 405 |
| Meals | 44 | 138 |
| Freight | 154 | 653 |
| Tax Consultant | 128 | 187 |
| Warranty | 225 | 223 |
| Prototype – WP EVO Mexico | 860 | - |
| Healthcare | 164 | - |
| Other | 2 | 94 |
| | **9,052** | **11,496** |
| | | |
| Current | 5,797 | 7,640 |
| Non-current | 3,255 | 3,856 |
| | **9,052** | **11,496** |

Severance pay refers to indemnities to be paid to some employees which had labor stability and were dismissed by the Company. The amounts were defined by Labor Court of Appeals and will be paid to claimants in installments (ranging from 36 to 204 monthly payments). Advance from Clients are related to Mack Trucks.

## 18. Provision for contingencies

The Company along the normal course of activities is party to lawsuits of tax, labor and civil nature. The management, supported by the opinion of legal counselors and by specific reports of experts, where applicable, rates the expectation of outcome of ongoing proceedings and determines the need or not of recognizing provisions for contingencies.

The Company recognized a tax contingency provision of PIS and COFINS resulting on the debt forgiveness occurred in January 2015 amounting to R$ 708.

Also, the Company accrued a provision for contingencies on labor claims, which the risk of loss was deemed probable by management. As of March 31, 2019, and 2018, the amounts recorded, which the management considers sufficient to face future losses were the following:

| | 03/31/2019 | 03/31/2018 |
|---|---|---|
| PIS and COFINS - debt forgiveness | 708 | 708 |
| Labor-related proceedings | 3,174 | 2,955 |
| | **3,882** | **3,663** |

The Company has a lawsuit related to undue credits of ICMS (VAT) amounting to R$ 10,051 which the legal counsel of the Company assessed the likelihood of loss as possible.

# 19. Shareholders' equity

## 19.1.Capital

| | Number of Shares | % |
|---|---|---|
| Pricol Espanã | 159,504,183 | 99,9 |
| Jorge Carlos Bahia | 1 | 0,01 |
| | **159,504,184** | **100%** |

During the year ended March 2019, Pricol España, Sociedad Limitada increased its paid-in capital in the amount of R$ 640,852 (R$ 19,062 in 2018), increasing the capital of Pricol do Brasil to R$ 159,504.

# 20. Net operating revenues

| | 03/31/2019 | 03/31/2018 |
|---|---|---|
| Domestic Sales | 69,625 | 71,602 |
| Export sales | 8,094 | 10,104 |
| Sales deductions: | | |
| Sales tax | (14,257) | (17.972) |
| Returns | (9,918) | (584) |
| | **53,544** | **63,150** |

# 21. Cost of products sold

| | 03/31/2019 | 03/31/2018 |
|---|---|---|
| Material | (18,679) | (33,673) |
| Salary and Fringe Benefits | (16,493) | (24,377) |
| Depreciation and amortization | (1,957) | (2,358) |
| Power Energy | (2,789) | (2,068) |
| Maintenance | (1,472) | (2,550) |
| Rent | (370) | (1,584) |
| Tools and Device | (859) | (1,775) |
| Scrap | (1,862) | (1,879) |
| Clean | (776) | (972) |
| Severance | (248) | - |
| Gas | (891) | (654) |
| Freight | (316) | (1,132) |
| Outsourcing services | (2.298) | (934) |
| Rent equipment | (453) | (377) |
| Oil/ lubricant's | (387) | (261) |
| Security | - | (186) |
| Municipal Taxes | - | (207) |
| Import expenses | (175) | (135) |
| Insurance | (131) | (177) |
| Warranty | (938) | - |
| Telephone | - | (136) |
| Water | - | (75) |
| Travel | (212) | (203) |
| Delivery Services | - | (22) |
| Taxes | - | (728) |
| Other | (262) | (5) |
| Cost recuperation | - | 11 |
| | **(60.587)** | **(76,457)** |

## 22. Administrative expenses

| | 03/31/2019 | 03/31/2018 |
|---|---|---|
| Salary and expenses | (2,748) | (2,197) |
| Benefits | (546) | (582) |
| Maintenance and occupation | (613) | (499) |
| Rendered services | (1,790) | (1,681) |
| Warranty expenses | (466) | (319) |
| Depreciation and amortization | (764) | (468) |
| Projects development expenses | - | (10) |
| Bad debit amount | - | (15) |
| Bad debit provision | - | (890) |
| Freight | (279) | - |
| Travel | (309) | - |
| Other | (2,619) | (401) |
| | **(10,134)** | **(7,062)** |

## 23. Financial income (expense), net

| | 03/31/2019 | 03/31/2018 |
|---|---|---|
| Exchange loss | (14,994) | (6,246) |
| Exchange gain | 8,720 | 2,493 |
| Adjustment at present value | - | (80) |
| Financial income | 22 | 165 |
| Financial expenses | (5,031) | (6,506) |
| | **(11,283)** | **(10,174)** |

## 24. Other operating expenses

| | 03/31/2019 | 03/31/2018 |
|---|---|---|
| Severance claim | (2,236) | (478) |
| Impairment Adjustment | - | 5,722 |
| Salary and expenses **(a)** | - | (18,556) |
| Freight **(a)** | - | (1,516) |
| Provision for obsolete Asset | - | (1,000) |
| Provision for obsolete Inventories | - | - |
| Sell of fixed asset residual | (40) | 230 |
| Tax credit | 137 | 484 |
| Deferred Income Tax reversion | (4,872) | - |
| Tax debit provision **(b)** | (2,926) | - |
| Others | (713) | 637 |
| | **(10,650)** | **(14,477)** |

**(a)** These expenses were due to the change to Jarinu, mentioned in Note No 1;

**(b)** Tax debit updated to real amount in March 2019 related to the non-participation on PERT program.

## 25. Income tax and social contribution

Income tax and social contribution were calculated at rates ruling at the balance sheets. Deferred taxes regarding temporary differences are recorded in balance sheet accounts. The calculation base and tax balances are as follows:

| **Statement of calculations - expenses** | **03/31/2019** | **03/31/2018** |
|---|---|---|
| Pretax income (loss) for the period | (39,110) | (45,020) |
| Total add-backs | 29,488 | 8,232 |
| Total deductions | (16,209) | (6,151) |
| | | |
| Calculation base | (25,831) | (44,082) |
| **Calculation base** | **(25,831)** | **(44,082)** |
| | | |
| **Temporary difference, tax accounting depreciation adjust (=)** | | |
| Basis for deferred income tax and deferred social contribution | 9,212 | 9,212 |
| Deferred income tax and social contribution - 34% | - | (143) |
| **Deferred tax liability** | **3,132** | **3,132** |

## 26. Risk management policy

The Company's activities are exposed to some financial risks, mainly markets ones, including exchange rate. Such risks arise chiefly from the sale and acquisitions of products.

As of March 31, 2019, and 2018, the Company had the following assets and liabilities in foreign currency:

| | March 31, 2019 | | | | March 31, 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | R$ | US$ | GBP$ | EUR$ | R$ | US$ | GBP$ | EUR$ |
| ASSETS | | | | | | | | |
| Accounts receivable | 6.225 | 1.605 | - | 1 | 4.083 | 1.253 | 1 | - |
| Advance to suppliers | 2.031 | 491 | 8 | 32 | 934 | 283 | - | 86 |
| Subtotal assets | 8.257 | 2.096 | 8 | 33 | 5.017 | 1.536 | 1 | 86 |
| | | | | | | | | |
| LIABILITIES | | | | | | | | |
| Suppliers | 845 | 273 | - | 27 | 1.799 | 525 | 1 | 178 |
| Loans | 29.862 | - | - | 6.738 | 36.091 | 1.000 | - | 8.000 |
| Intercompany loan | 13.192 | 3.315 | - | 62 | 22.059 | 3.000 | - | 2.750 |
| Subtotal liabilities | 43.899 | 3.587 | - | 6.826 | 59.949 | 4.525 | 1 | 10.928 |
| | | | | | | | | |
| Net exposure | (35.642) | (1.491) | 8 | (6.794) | (54.932) | (2.989) | - | (10.842) |

## 27. Insurance (unaudited)

The Company has insurance policies taken from the main insurance companies in Brazil, which were determined in accordance with the orientation of experts and take into consideration the nature and level of the risk involved. The assumptions adopted, given their nature, are not part of the scope of an audit of financial statements and, accordingly, they were not examined by our independent auditors.

## 28. Subsequent event

In 1st June 2019 occurred a new capitalization from Pricol Espanã in the total amount of EUR 1,745.

* * *