H&D ITAS Client Services GmbH

Wolfsburg

Report on the Audit of the
Annual Financial Statements
as at 31 December 2018
and the Management Report
for the 2018 Financial Year

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Annexes

For technical reasons rounding differences of one unit (€'000, % etc.) may occur in the calculations.

1. Audit engagement

The management of

H&D ITAS Client Services GmbH, Wolfsburg,
(hereinafter also referred to as "company")

engaged us on 26 February 2019 as auditors appointed in the shareholders' meeting held on 26 February 2019 in accordance with sec. 318 (1) sentence 1 German Commercial Code [Handelsgesetzbuch – HGB] to audit the company's annual financial statements as at 31 December 2018 (financial year from 1 January to 31 December 2018) including the underlying accounting records and the management report for the 2018 financial year in accordance with sec. 316 et seq. HGB.

As at 31 December 2018 the company meets the criteria of a medium-sized corporation within the meaning of sec. 267 (2) HGB and is therefore required to be audited under sec. 316 (1) sentence 1 HGB. This report is addressed to the audited company.

We confirm in compliance with sec. 321 (4a) HGB that in performing our audit we have observed the applicable rules regarding independence.

The General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften [German Public Auditors and Public Audit Firms] as of January 1, 2017 issued by the Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW) and our Special Terms of Engagement PKF Fasselt Schlage Partnerschaft mbB Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft Rechtsanwälte dated 1 January 2018, which are attached to this report, are valid for this engagement and with regard to our responsibility, also towards third parties.

Our audit was conducted in compliance with the generally accepted standards for financial statement audits within the meaning of the relevant auditing standards issued by the Institut der Wirtschaftsprüfer in Deutschland e.V., [Institute of Public Auditors in Germany], Düsseldorf. This long-form audit report was prepared in accordance with the Generally Accepted Standards for the Issuance of Long-form Audit Reports (IDW AuS 450 revised).

2. Fundamental findings

2.1. Economic bases

As an IT service provider the company operates mainly on the sectors client management, workplace management and service desk primarily at the locations Wolfsburg, Berlin, Brunswick, Kassel and Hanover. The company's core business is the development of cloud-based managed services with a focus on the automotive sector.

2.2. Opinion on the legal representatives' assessment of the position

Management's assessment of the company's position can be summarised as follows:

- In the 2018 financial year the revenue amounting to €17.9m (PY €13.5m) was generated by an average number of employees of 219 (PY 178), exceeding the projected revenue of €17.0m by €0.9m. New projects contributed to the increase in revenue.

- The average number of employees increased from 178 in 2017 to 219 in 2018. The personnel expenses ratio decreased to 49.2% (PY 52.2%) as a result of an improved employees' capacity ratio.

- Profit on ordinary activities increased from €1.2m to €2.0m, which is even more than the projected profit of €1.5m and results mainly from an improved employee capacity because the increase in revenues was significantly higher than the increase in personnel expenses and purchased services.

- Management considers the company's overall position to be satisfactory. The repercussions of the VW emissions scandal, declining sales in China, discussions about US duties on car exports etc. have affected the company's profits.

Management's assessment of the company's future development with its major risks and opportunities is based on the following assumptions:

- The significant contribution to revenues made by a single customer constitutes a concentration risk. A potential default of this customer may result in considerable default risks for the company. At present management does not expect to lose this customer.

- There is no indication of any liquidity or default risks because the parent company ensures and centrally monitors the company's liquidity. Under the cash pooling system cash is available through Hönigsberg & Düvel Datentechnik GmbH, which in turn receives the funds from HCL. Any late payment gaps can therefore always be bridged.

- Management anticipates that the company's major opportunities over the next years will continue to arise from the present principal customer but also from other customers.

- For the 2019 financial year management anticipates a decline in revenue to €12.9m because a larger project will not be continued or extended after the takeover by the new shareholder HCL. This revenue is to be generated with a lower number of employees.

- In view of the risks involved in car sales (such as Brexit, a declining economy in China, US duties) management expects for the 2019 financial year a profit of €2.0m, which will be transferred in full to H&D IT Automotive Services GmbH under the existing profit and loss transfer agreement.

Management does not anticipate the company's continuation as a going concern and its future development to be jeopardised. We refer to the comments made in the management report (**annex 4**).

Based on the above-mentioned assumptions, on the documents we audited and on the analyses we performed in the course of our audit we do not raise any objections to the opinion of the management with regard to the company’s position, its continuation as a going concern and its future development.

3. Subject matter, nature and scope of the audit

3.1. General

Section 317 HGB requires the audit to encompass the accounting records of the company for the financial year from 1 January 2018 to 31 December 2018, the annual financial statements as at 31 December 2018 and the management report for the 2018 financial year (accounting). The annual financial statements have been prepared in compliance with German laws and the supplementary provisions set out in the company agreement.

As a medium-sized corporation within the meaning of section 267 (2) HGB the company made use of the simplifications available under section 288 (2) HGB to companies of its size.

The company’s legal representatives are responsible for the company’s accounting records, the related internal controls and the information provided to us as the company’s auditors. It is our responsibility as auditors to assess the accounting assertions and the documents presented to us taking into account the accounting records and the information provided to us during the proper conduct of our audit.

The audit was performed in accordance with the relevant laws, in particular Article 316 et seq. HGB and in accordance with the German generally accepted standards for financial statement audits promulgated by the IDW. Any audit procedures not shown in our long-form audit report are recorded in our working papers with details regarding the nature, extent and result of the audit.

In performing our audit we examined the annual financial statements for their compliance with legal requirements and any additional provisions set out in the company agreement.

We have audited the management report for consistency with the annual financial statements and the findings we made during our audit and for compliance with the legal provisions and for suitably reflecting the company's state of affairs as a whole. We have also examined whether the management report properly reflects the risks and opportunities involved in the company’s future development.

Our audit was also designed to identify any facts that might jeopardise the company's continuity and future development and any errors and violations of legal provisions and provisions of the company agreement. The audit was not directed at uncovering and clarifying criminal acts such as embezzlement and misappropriation.

As required by sec. 317 (4a) HGB our audit was not designed to give assurance that the audited company will continue as a going concern or that its management is effective and efficient.

Our audit did not encompass examining whether the insurance cover was adequate.

Our audit work was carried out mainly in November 2018 (interim financial statements) and from February to March 2019 (annual financial statements) on the premises of Hönigsberg & Düvel Datentechnik GmbH in Gifhorn and on our own premises in Brunswick.

3.2. Scope of the audit

3.2.1. Audit strategy and audit emphasis

For our audit we adopted the following risk-oriented audit approach taking into account materiality and efficiency principles.

In conducting the current and preceding audits of financial statements we have obtained information about the company and its environment in order to identify and understand such events, transactions and customary procedures which may have a substantial effect on the annual financial statements and the management report to be audited. In addition, we have taken into account information obtained from the legal representatives about the major strategies and business risks.

We exercise professional judgement and maintain professional scepticism throughout the audit. For further details we refer to our auditor’s report stated in paragraph 5.

In the reporting period we placed the audit emphasis on the following audit areas:

- Accounts receivable from / payable to affiliated companies;
- Provisions;
- Notes to the annual financial statements and management report.

3.2.2. Audit evidence

We obtained on a sample basis suppliers' balance confirmations as at the balance sheet date applying the 'positive' confirmation method. The criteria for selecting the samples were the amount of the balances, the business volume and any extraordinary balances.

We maintained control over the external confirmation requests.

The status of the company’s tax returns and potential tax risks were evidenced by a confirmation from the tax consultant.

3.2.3. Previous year's financial statements

We also audited the previous year's financial statements as at 31 December 2017 and the management report for the 2017 financial year and issued an unqualified auditor’s report on 23 February 2018. The figures as at 31 December 2017 were correctly brought forward to the 2018 financial year.

3.2.4. Statements provided by the legal representatives

The management and the staff designated to assist us have readily provided all explanations and evidence (sec. 320 HGB) necessary for our audit. In accordance with professional practice we have obtained from the management a signed letter of representation. In signing this letter, the management confirmed that the books and documents presented to us contain all transactions required to be accounted for and that the annual financial statements as at 31 December 2018 take account of all assets, liabilities (obligations, risks, etc.), prepaid income and expenses and extraordinary items required to be shown on the statements, that they contain all income and expenses, provide all required information and that no significant post balance sheet events occurred.

4. Findings and comments on the accounting

4.1. Compliance of the accounting

4.1.1. Accounting records and other documents audited

The accounting records and the other documents we audited comply with the statutory provisions and the supplementary provisions of the company agreement.

Throughout the 2018 financial year the accounts were kept in accordance with the German principles of proper accounting. The information we obtained from further audited documents are properly reflected in the accounting records, the annual financial statements and the management report.

The financial accounts and the sub-ledgers (asset accounting, payroll) are kept by means of the ERP software “SAP ECC 6.0”.

During our audit we did not make any findings which gave us reason to suppose that the organisational and technical measures taken by the company are not appropriate to ensure the security of the data relevant to the accounting and of the IT systems used for this purpose.

4.1.2. Annual financial statements

In preparing the annual financial statements as at 31 December 2018 the company complied in all material respects with the legal provisions relating to accounting including the generally accepted accounting principles and all regulations relating to the size of the company, its legal form or industry and the provisions of its company agreement.

The balance sheet and the profit and loss account have been properly derived from the accounts and other audited documents. The provisions relating to the recognition and valuation of the items have been adhered to in all material respects.

The notes to the annual financial statements are clear and clearly-structured and contain all required information. The recognition and valuation principles applied to the items of the balance sheet and profit and loss account and the other obligatory disclosures, in particular information required under sec. 284 et seq. HGB, are completely and correctly reflected in the notes to the annual financial statements.

As permitted under sec. 286 (4) HGB the company did not disclose the management's total remuneration that is required to be disclosed under sec. 285 no. 9 a and b HGB because this information would reveal the remuneration received by one of the members of the management.

The company opted for providing certain information on the balance sheet and profit and loss account in the notes to the annual financial statements.

In preparing the financial statements the company made use of simplifications and did not disclose certain information in the notes to the annual financial statements.

4.1.3. Management Report

The management report complies, in all material respects, with the legal requirements.

4.2. Overall presentation of the annual financial statements

4.2.1. Findings on the overall presentation of the annual financial statements

Under generally accepted accounting principles the annual financial statements as at 31 December 2018 of H&D ITAS Client Services GmbH, Wolfsburg, as a whole give a true and fair view of the company's net assets, financial position and results of operation.

4.2.2. Valuation bases applied in preparing the annual financial statements as at 31 December 2018

The annual financial statements of H&D ITAS Client Services GmbH, Wolfsburg, as at 31 December 2018 were prepared on the basis of the following valuation bases:

For the amortisation and depreciation methods applied in measuring tangible and intangible non-current assets we refer to the notes to the annual financial statements (**annex 3**).

Accounts receivable and other assets are recognised at their nominal values. There were no uncollectible accounts receivable that would have needed to be written off.

Provisions are recognised at the most likely settlement amounts taking into account the expected risks.

4.2.3. Changes to valuation bases as compared to the previous year's financial statements, measures affecting the presentation of the annual financial statements as a whole

As compared to the preceding annual financial statements as at 31 December 2017 there were no changes in valuation bases and no measures were taken that significantly affected the annual financial statements as a whole, i.e. the view of the company's net assets, financial position and results of operation.

4.3. Breakdown of and comments on the net assets, financial position and results of operation

In order to better explain the net assets, financial position and results of operation we have reclassified the items of the balance sheet and of the profit and loss account from an economical point of view:

4.3.1. Net assets

Based on the balance sheets as at 31 December 2018 and 31 December 2017 net assets and capital structure are as follows (short-term items falling due within one year are shown separately).

	31/12/2018			31/12/2017			+/-
			short-term			short-term	
	€'000	%	€'000	€'000	%	€'000	€'000
Asset structure							
Current assets/acc. receivable	1,141	99.8	1,141	475	99.6	475	666
Prepaid expenses	2	0.2		2	0.4		0
	1,143	100.0	1,141	477	100.0	475	666
Capital structure							
Equity	25	2.2		25	5.2		0
Short-term provisions	237	20.7	237	206	43.2	206	31
Short-term liabilities	881	77.1	881	246	51.6	246	635
Short-term liabilities	1,118	97.8	1,118	452	94.8	452	666
	1,143	100.0	1,118	477	100.0	452	666
Working Capital			**23**			**23**	

4.3.2. Financial position

The following cash flow statement shows the source and application of funds and the cash flows based on cash and cash equivalents using the indirect method, which is in compliance with the requirements of the German Accounting Standard No. 21 (GAS 21).

	2018 €'000	2017 €'000
Profit before transfer of profit/cash earnings under DVFA/SG	2,045	784
Increase/Decrease in short-term provisions	31	-81
Decrease in inventories, accounts receivable and other assets which are not attributable either to investing or financing activities	199	1,013
Increase/decrease in trade accounts payable and other liabilities which are not attributable either to investing or financing activities	635	-2,066
Income tax expense	0	1
Income tax payments	0	-1
Cash flow from operating activities	2,910	-354
Payments under profit and loss transfer agreement	-784	-179
Changes in accounts receivable/payable under cash pooling system	-2,126	533
Cash flow from financing activities	-2,910	354
Change in cash and cash equivalents	0	0
Cash and cash equivalents at the beginning of the period	0	0
Cash and cash equivalents at the end of the period	**0**	**0**

4.3.3. Results of operation

Below we have summarised the profit and loss accounts for the financial years 2018 and 2017.

	2018		2017		+/-
	€'000	%	€'000	%	€'000
Revenues	17,877	100.0	13,521	100.0	4,356
Cost of materials	1,553	8.7	461	3.4	1,092
Gross profit	16,324	91.3	13,060	96.6	3,264
Personnel expenses	8,860	49.6	7,064	52.2	1,796
Other ordinary expenses	5,556	31.1	5,350	39.6	206
Other ordinary income	128	0.7	114	0.8	14
EBITDA/EBIT	2,036	11.4	760	5.6	1,276
Net interest	10	0.1	24	0.2	-14
Profit on ordinary activities	2,046	11.4	784	5.8	1,262
Non-operating loss (-) / profit	-1		1		-2
Profit before income taxes	2,045		785		1,260
Income taxes	0		1		-1
Profit for the year (before profit transfer)	**2,045**		**784**		**1,261**

In taking up a new larger project the company was able to increase revenues by €4.4m. Revenues were mainly generated from within the H&D group.

In absolute terms, personnel expenses increased by €1.8m, which resulted mainly from the higher average number of employees of 219. The personnel expenses ratio improved from 52.2% to 49.6%.

5. Reproduction of the Auditor's Report

On completion of our audit of the annual financial statements as at 31 December 2018, 31 (**annexes 1 to 3**) and the management report for the 2018 financial year (**annex 4**) we issued the following unqualified auditor’s report to H&D ITAS Client Services GmbH, Wolfsburg. This report was originally prepared in German. In case of ambiguities, the German version takes precedence.

“INDEPENDENT AUDITOR’S REPORT

To H&D ITAS Client Services GmbH

Audit opinions

We have audited the annual financial statements of H&D ITAS Client Services GmbH, which comprise the balance sheet as at 31 December 2018, the profit and loss account for the financial year from 1 January to 31 December 2018 and the notes to the annual financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of H&D ITAS Client Services GmbH for the financial year from 1 January to 31 December 2018.

Based on the findings we made during our audit we are of the opinion that

- the accompanying annual financial statements comply in all material respects with the requirements of the German commercial laws applicable to corporations and give a true and fair view of the net assets and financial position of the company as at 31 December 2018 and of its results of operation for the financial year from 1 January to 31 December 2018 in compliance with German generally accepted 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 section 322 (3) sentence 1 HGB we declare that our audit has not led to any reservations with regard to compliance of the annual financial statements and of the management report with German legal requirements.

Basis for the audit opinions

We conducted our audit of the annual financial statements and of the management report in accordance with section 317 HGB and in compliance with the 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 laws 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 audit opinions on the annual financial statements and on the management report.

Legal representatives’ responsibility for the annual financial statements and the management report

The legal representatives are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of the German commercial laws applicable to corporations, and that the annual financial statements give a true and fair view of the company’s net assets, financial position and results of operation in compliance with German generally accepted accounting principles. In addition, the legal representatives 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 legal representatives are responsible for assessing the company’s ability to continue as a going concern. They are also responsible for disclosing, if relevant, matters related to the company’s ability to continue as a going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there are actual or legal circumstances that prevent them from doing so.

Furthermore, the legal representatives are responsible for the preparation of the management report that as a whole provides a suitable 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 legal representatives are responsible for such arrangements and measures (systems) as they considered necessary to ensure that the management report is prepared in accordance with the applicable German legal requirements and that sufficient appropriate evidence for substantiating the assertions made in the management report is provided.

Auditor's responsibility 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 misstatements, whether due to fraud or error, and whether the management report as a whole provides a fair 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 audit opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with section 317 HGB and in compliance with the German generally accepted standards for financial statement audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect material misstatements. 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 judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatements, whether due to fraud or error, in the annual financial statements and the management report, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misleading statements or overriding internal controls.

- obtain an understanding of the internal control system relevant to the audit of the annual financial statements and of the 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 audit opinion on the effectiveness of the systems implemented by the company.

- evaluate the appropriateness of the accounting policies used by the legal representatives and the reasonableness of estimates made by the legal representatives and the related disclosures.

- conclude on the appropriateness of the legal representatives' 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 audit 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 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 represent the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the company's net assets, financial position and results of operation in compliance with German generally accepted accounting principles.

- evaluate the consistency of the management report with the annual financial statements, its conformity with German legal requirements and the view of the company`s position provided.

- perform audit procedures on the prospective information presented by the legal representatives in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions on which the legal representatives have based their prospective information, and assess whether the prospective information was properly derived from these assumptions. We do not express a separate audit opinion on the prospective information and the underlying assumptions. 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 weaknesses in the internal control system that we identify during our audit."

The above long-form audit report on the annual financial statements as at 31 December 2018 (balance sheet total: €1,142,502.90; profit for the year: €0.00) and the management report for the 2018 financial year of H&D ITAS Client Services GmbH was prepared in compliance with the legal provisions and the Generally Accepted Standards for the Issuance of Long-form Audit Reports (IDW AuS 450 revised).

Brunswick, 8 March 2019

PKF Fasselt Schlage
Partnerschaft mbB
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft
Rechtsanwälte

(Villwock) (Süß)
Wirtschaftsprüfer Wirtschaftsprüferin

H&D ITAS Client Services GmbH

Wolfsburg

Balance Sheet as at 31 December 2018

Assets

	€	€	At 31/12/2017 €'000
A. Current assets			
Accounts receivable and other assets			
1. Trade accounts receivable	6,073.20		29
2. Amounts owed by affiliated companies	1,121,453.12		427
3. Other assets	13,262.76		19
		1,140,789.08	475
B. Prepaid expenses		1,713.82	2
		1,142,502.90	477

Equity and Liabilities

	€	€	At 31/12/2017 €'000
A. Equity			
I. Subscribed capital (nominal capital)		25,000.00	25
II. Profit brought forward		0.69	0
		25,000.69	25
B. Provisions (other)		236,633.25	206
C. Liabilities			
1. Trade accounts payable	245,363.58		93
2. Amounts owed to affiliated companies	551,701.39		71
3. Other liabilities	83,803.99		82
(of which taxes: 83,738.44 €; PY €75K)			
		880,868.96	246
		1,142,502.90	477

H&D ITAS Client Services GmbH

Wolfsburg

Profit and Loss Account
for the year ending 31 December 2018

			Previous Year
	€	€	€'000
1. Revenues		17,877,435.60	13,521
2. Other operating income		127,809.05	117
		18,005,244.65	13,638
3. Cost of materials			
a) Cost of raw materials, consumables and supplies, and of purchased merchandise	9,882.07		3
b) Cost of purchased services	1,543,275.19		458
		1,553,157.26	461
		16,452,087.39	13,177
4. Personnel expenses			
a) Wages and salaries	7,401,235.48		5,912
b) Social security and retirement benefits	1,459,233.85		1,152
	8,860,469.33		7,064
5. Other operating expenses	5,557,088.92		5,352
		14,417,558.25	12,416
		2,034,529.14	761
6. Other interest and similar income (of which from affiliated companies: €10,260.46; PY €24K)		10,260.46	24
		2,044,789.60	785
7. Taxes on income		0.00	1
8. Profit after taxes		2,044,789.60	784
9. Profit transferred under a profit and loss transfer agreement		2,044,789.60	784
10. Profit for the year		0.00	0

H&D ITAS Client Services GmbH

Wolfsburg

Notes to the annual financial statements for the 2018 Financial Year

I. General

The company having its registered office in Wolfsburg is registered with the commercial register kept by the local court in Brunswick under number HRB 201593.

The annual financial statements for the 2018 financial year were prepared in compliance with the accounting provisions of the German Commercial Code [Handelsgesetzbuch – HGB] taking into account the provisions applicable to corporations and the supplementary provisions of the Limited Liability Company Law [Gesetz betreffend die Gesellschaften mit beschränkter Haftung – GmbHG].

The company followed the consistency principle.

In order to enhance clarity almost all information legally required to be provided with regard to the items of the balance sheet and profit and loss account is provided in the notes to the financial statements.

The profit and loss account was prepared using the nature of expense method.

The company complies with the general valuation provisions set out in sections 252 to 256a HGB and the special recognition and valuation provisions applicable to corporations under sections 270 to 274a and 277 HGB taking into account the going-concern principle.

II. Comments on the balance sheet

Tangible and intangible non-current assets are recognised at cost and – if subject to wear and tear – are depreciated and amortised on a straight-line basis.

The movement of non-current assets is shown on the following Non-current Assets Movement Schedule:

Non-current Assets Movement Schedule

	At cost				Amortisation/Depreciation				Carrying amounts	
	At 01/01/2018	Additions in the reporting period	Disposal	At 31/12/2018	At 01/01/2018	for the reporting period	Disposal	At 31/12/2018	At 01/01/2018	At 31/12/2018
	€	€	€	€	€	€	€	€	€	€
Intangible assets (purchased software)	1,984.08	0.00	0.00	1,984.08	1,984.08	0.00	0.00	1,984.08	0.00	0.00
Tangible assets (fixtures, fittings and equipment)	22,823.93	0.00	0.00	22,823.93	22,823.93	0.00	0.00	22,823.93	0.00	0.00
Total	**24,808.01**	**0.00**	**0.00**	**24,808.01**	**24,808.01**	**0.00**	**0.00**	**24,808.01**	**0.00**	**0.00**

Accounts receivable and other assets are stated at their nominal values and are due within one year.

Amounts owed by affiliated companies include €0K (PY €178K) that are owed by the shareholder.

Prepaid expenses are payments made for expenses relating to the following year.

The **subscribed capital** is recognised at its nominal value and is fully paid.

As the company entered into a profit and loss transfer agreement with its parent company, the profit of €2,044,789.60 was transferred to the parent company so that the **profit for the year** is €0.

Provisions take into account the recognisable risks and uncertain obligations and are stated at their settlement amounts. They refer in particular to personnel expenses €209K (PY €183K).

Accounts payable are recognised at their settlement amounts and are all due within one year as in the previous reporting period. Except for the usual retentions of title, they are not secured.

Amounts owed to affiliated companies include €514K (PY €0K) that are owed to the shareholder.

III. Comments on the profit and loss account

Other operating income include €0K (PY €3K) from the reversal of provisions.

Personnel expenses include €23K (PY €20K) old age pension costs.

IV. Other information

In 2018 the average number of employees (white-collar) was 219 (PY 178).

Until 30 September 2018 the company had been jointly and severally liable for liabilities incurred by affiliated companies (31 December 2017: €6,524K).

There were no post-balance sheet events that would have been particularly relevant to the net assets, financial position and/or results of operation of H&D ITAS Client Services GmbH. We refer to section 3 of the management report.

The company's **managing directors** are:

Dipl.-Ing. Bernhard Hönigsberg, spokesman of the management,
Anita Hönigsberg, managing director of the H&D Group (Administration),
Dipl. Oec. Andreas Lehmann, managing director of the H&D Group (Finance),
Dipl.-Verw. Wiss. Claudia Raabe, COO of the H&D Group,
Oliver Dietz, managing director (Operations).

The remuneration for four of the managing directors is paid by means of an administrative cost contribution. For one of the managing directors the company makes use of the protective clause as defined in sec. 286 (4) HGB.

These annual financial statements are included in the consolidated financial statements of HCL Technologies Germany GmbH, Eschborn, which prepares the consolidated financial statements for the smallest number of enterprises. The consolidated financial statements are disclosed in the *elektronischer Bundesanzeiger* [electronic federal gazette]. The consolidated financial statements prepared by HCL Technologies Germany GmbH are included in the consolidated financial statements prepared by HCL Technologies India Ltd, Noida, India, which prepares the consolidated financial statements for the largest number of enterprises. The annual financial statements are available at the company's registered office.

Wolfsburg, 1 March 2019

H&D ITAS Client Services GmbH

signed Dipl.-Ing. Bernhard Hönigsberg
signed Anita Hönigsberg
sigened Dipl. Oec. Andreas Lehmann
signed Dipl.-Verw. Wiss. Claudia Raabe
signed Oliver Dietz

Management

H&D ITAS Client Services GmbH

Wolfsburg

Management Report for the 2018 Financial Year

1. General

As an IT service provider H&D ITAS Client Services GmbH (in the following referred to as ITAS CS) generates its revenues mainly on the sectors client management, workplace management and service desk primarily at the locations Wolfsburg, Berlin, Brunswick, Kassel and Hanover. The company's core business is the development of cloud-based managed services. The company's focus is on the automotive sector.

Chairman of the management is Mr Hönigsberg, as in the previous years. The company's operations are managed by the managing director Mr Dietz as the managing director responsible for operations and by Ms Raabe as COO. Further managing directors responsible for administration are Mr Lehmann - who is mainly responsible for the finance sector - and Ms Hönigsberg.

The company is fully embedded in the structure of the H&D International Group. The group is structured in such a way that ITAS CS receives its contracts directly from Hönigsberg & Düvel Datentechnik GmbH based on a business management agreement [special type of contract for services under the German civil code].

Financial control, recruitment and human resources and other important administrative services are outsourced to H&D Business Services GmbH (HDBS), a subsidiary of Hönigsberg & Düvel Datentechnik GmbH. HDBS also acts as risk manager.

The revenue projected in the previous year of €17.0m was exceeded in the 2018 financial year by €0.9m. Therefore, an average number of employees of 219 (PY 178) generated a revenue of €17.9m (PY €13.5m).

The company was able to exceed the profit projected for 2018 of approx. €1.5m by €0.5m. The profit for the reporting period amounted to €2.0m. The reasons for the higher profit were additional new contracts and as a consequence employees were working to fuller capacity.

2. Business report

2.1. General economic and industry-related framework

The federal government but also leading economic research institutes projected an overall economic growth of 1.8%. The real growth of the gross domestic product (GDP) of the Federal Republic of Germany for 2018 was 1.5% as calculated by the Statistisches Bundesamt [German Federal Statistical Office] (source: https://www.destatis.de/DE/ZahlenFakten/GesamtwirtschaftUmwelt/VGR/Inlandsprodukt/Tabellen/Gesamtwirtschaft.html). In particular, the WLTP tests (Worldwide Harmonized Light Vehicles Tests) introduced as a consequence of the VW emission scandal resulted in lower car sales as from the 4th quarter 2018 (source: https://www.welt.de/ wirtschaft/bilanz/article185518398/Ausblick-2019-geht-es-in-der-Autobranche-wieder-bergauf.html). Global risks such as Brexit, potential US duties on cars imported into the USA and a declining economy in China - one of the main sales markets of our principal customer - are detrimental factors for the automotive industry.

According to the industry association Bitkom [German Association for IT, Telecommunications and New Media] more and more jobs in the IT sector are generated by the continuing digitalisation of businesses (source: https://www.destatis.de/DE/ZahlenFakten/GesamtwirtschaftUmwelt/VGR/Inlandsprodukt/Tabellen/Gesamtwirtschaft.html). At the same time the “war of talents” increased due to the shortage of skilled personnel, which is a considerable impediment to growth in particular for small and medium-sized enterprises.

2.2. Business development

2.2.1. Results of operation

The 2018 profit for the year of €2.0m (PY €0.8m) can be broken down as follows:

	2018	Previous Year	+/-
	EUR million	EUR million	EUR million
Revenues	17.9	13.5	+4.4
Gross profit	+16.3	+13.1	+3.3
Net interest	+0.01	+0.02	-0.01
Operating profit / Profit on ordinary activities	+2.0	+0.8	+1.2
Non-operating profit	0.0	0.0	+0.0
Profit before taxes on income	+2.0	+0.8	+1.2
Taxes on income	0.0	0.0	0.0
Profit for the year (before transfer of profit)	**+2.0**	**+0.8**	**+1.2**

Revenues increased by 32.6% to €17.9m (PY €13.5m) exceeding the revenues projected in the previous year for 2018.

Despite the VW emission scandal, revenues and the number of employees exceeded notably the previous year's level.

Other operating income increased slightly to €0.13m (PY €0.12m). The increase resulted from the increase in other ordinary income. There were small increases and decreases of individual items.

Cost of materials related mainly to cost of purchased services, which increased by €1.0m to €1.5m (PY €0.5m).

The company's largest expense item was, as before, **personnel expenses**, which increased by €1.8m to €8.9m (PY €7.1m).

The average number of employees increased from 178 in 2017 to 219 in 2018. The personnel expenses ratio decreased to 49.6% (PY 52.2%) as a result of an improved employees' capacity ratio.

Other operating expenses increased slightly by €0.2m to €5.6m (PY €5.4m). In particular, the increase in cost contributions to H&D International Group (in particular cost of office space) by €0.15m and the increase in the remaining other operating expenses by €0.05m contributed to this increase.

The **operating profit** / **profit on ordinary activities** increased by €1.2m to €2.0m (PY €0.8m), which is more than the amount of €1.5m projected in 2017 for 2018 as well. The improved profit results from employees having worked to fuller capacity because revenues increased more than personnel expenses and purchased services.

Based on a domination and profit and loss transfer agreement concluded with H & D IT Automotive Services GmbH in 2014 the profit for the year is fully transferred to that company. ITAS CS's profit for the year is therefore €0.0m (PY €0.0m).

2.2.2. Financial position

For **financing** purposes the company may use its equity but it may also use funds made available by Hönigsberg & Düvel Datentechnik GmbH for short-term financing whenever needed.

The increase in total assets by €0.6m to €1.1m (PY €0.5m), which resulted mainly from the increase in amounts owed by affiliated companies by €0.7m to €1.1m (PY €0.4m) that were not settled through intercompany clearing accounts of the H&D International Group, reduced the **equity ratio** to 2.2% (PY 5.2%) with equity remaining unchanged at €0.03m. We accept this ratio in view of the fact that the company is totally embedded in the H&D International Group. Under the PLTA concluded with H & D IT Automotive Services GmbH in 2014 the profit for the year of €2.0m (PY €0.8m) is fully transferred to that company.

All **liabilities** are of a short-term nature. They increased by €0.7m to €0.9m (PY €0.2m) as compared to the previous year. This increase results mainly (approx. €0.5m) from amounts owed to affiliated companies that were not settled through the intercompany clearing accounts of the H&D International Group and from the increase in trade accounts payable by €0.1m.

The following condensed **cash flow statement** was prepared in compliance with the German Accounting Standard No. 21 (GAS 21) and shows the development of cash funds:

	2018 EUR million	Previous Year EUR million
Cash earnings calculated in compliance with the recommendations issued by Deutsche Vereinigung für Finanzanalyse und Asset Management GmbH (DVFA) and Schmalenbach-Gesellschaft für Betriebswirtschaft e.V. (SG)	+2.0	+0.78
Cash flow from operating activities	+2.91	0.35
Cash flow from financing activities	-2.91	+0.35
Changes in cash and cash equivalents	**0**	**0**
Cash and cash equivalents at the beginning of the period	**0**	**0**
Cash and cash equivalents at the end of the period	**0**	**0**

Cash earnings increased due to the increased profit for the year to €2.0m (PY €0.78m) as compared to the previous year.
The cash flow from operating activities of €2.90m (PY negative €0.30m) results from an increase by €0.03m (PY decrease €0.08m) in short-term provisions and from the decrease in accounts receivable and other assets as well as other assets that are not attributable to either investing or financing activities by €0.2m (PY decrease €1.0m) and from the simultaneous increase in trade accounts payable and other liabilities that are not attributable to either investing or financing activities by €0.63m (PY decrease €2.07m). On the other hand, in the cash flow from financing activities was negative and amounted to €2.9m (PY positive €0.35m).
Cash and cash equivalents at the end of the period remain unchanged at €0.00m as compared to the previous year.

Working capital (short-term assets less short-term liabilities) remained unchanged as compared to the previous year at €0.02m (PY €0.02m).

The company's **liquidity** is ensured under the group's cash pooling system by Hönigsberg & Düvel Datentechnik GmbH, which in turn is provided with cash by HCL Technologies Germany GmbH, which became the new shareholder in October 2018.

2.3. Net assets

As in the previous year there were no **non-current assets** or they were fully written off. No investments were made in non-current assets.

The company's largest asset item is, as before, "**current assets"**, which increased in the reporting period to €1.1m (PY €0.5m). Amounts owed by affiliated companies increased by €0.7m and contributed most to this increase.

The company does not have any bank balances due to the cash pooling system and if there are any bank balances, they are included in amounts owed by affiliated companies.

2.4. Overall statement on the company's position

We consider ITAS CS's overall economic situation as satisfactory. The same assessment is made of the 2018 overall operations. The WLTP tests (Worldwide Harmonized Light Vehicles Tests) that were introduced as from the 4th quarter 2018 as a consequence of the VW emissions scandal, the declining sales in China and the discussions about US duties on car exports have influenced the development of profits. In taking up a new larger project, the company was able to increase revenues by €4.4m to €17.9m (PY €13.5m). Although, in absolute figures, personnel expenses increased by €1.8m to €8.9m (PY €7.1m), the personnel expenses ratio decreased from 52.2% in 2017 to 49.6% in the reporting period because employees were able to work to fuller capacity. Other operating expenses increased as compared to the previous year slightly by €0.2m so that due to the increase in revenues and despite the increase in personnel expenses as compared to the previous year a clearly positive result before taxes was achieved to the amount of €2.0m (PY €0.8m). As the profits are transferred to the parent company H&D IT Automotive Services GmbH under a PLTA, the equity ratio decreased to 2.2% (PY 5.2%). We accept this ratio only in view of the fact that the company is embedded in the H&D International Group. Against this background we consider ITAS CS's position as satisfactory.

On balance, the company is, as in the previous year, free of debt. Liabilities amount to €0.9m (PY €0.25m) while collectible accounts receivable and other assets total €1.1m (PY €0.5m).

3. Forecast, Risks and Opportunities

3.1. Risks

The CEO (Chief Executive Officer) together with the risk manager deals with the risk management. Furthermore, each quarter the extended management meets and reports on all projects. Any disruptions that may occur in connection with the projects or any emerging risks are therefore detected early and suitable counteracting measures are implemented.

At fortnightly intervals the Chief Operation Officer (COO) together with the CEO holds a jour fixe with each of the managing directors responsible for operations. In these meetings the managers report i.a. on any special incidents that occurred with regard to the projects, any emerging disruptions and the risks involved in such incidents and disruptions and any controlling measures that have already been taken.

As a consequence of the VW emissions scandal, which was uncovered in late 2015, several companies of the H&D International Group made losses for the 2016 financial year, which had to be assumed directly or indirectly by the parent company so that Hönigsberg & Düvel Datentechnik GmbH (HuD GmbH) made a loss to the amount of €3.6m in 2016, which was compensated through profits brought forward and sufficient cash funds. In view of this loss, the management of HuD GmbH engaged Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Munich, to carry out an Independent Business Review including a plausibility check of the budget for the financial years 2017 and 2018 for the German companies of the H&D group. In their budget management forecast positive annual results and that cash would be available within the group. Only if the group significantly failed to achieve the forecast turnover and if adjustment measures were taken at the same time, the existing credit lines would be overdrawn temporarily so that further cash would need to be injected. As it became apparent that the group would make a loss also in 2017, Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Munich, was again engaged to make a plausibility check of the forecasts until the 2020 financial year. In their statement issued on 16 May 2018 Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Munich, made a positive assessment of the complete financing of the German companies of the H&D International Group until 31 December 2020 subject to the condition that the necessary financing arrangements were maintained by the funding banks until 31 December 2020. Due to the capital of €2.0m provided by the shareholders in March 2018 and the fact that the Federal State of Lower Saxony had granted a guarantee to the amount of €3.5m on 27 March 2018, the financial arrangements required for obtaining the confirmation for the complete financing were in place.

An investment process initiated by management at the same time was successfully concluded (signing) in late June 2018. On 2 October 2018 the entire H&D International Group was taken over by HCL Technologies Germany GmbH (HCL). In the context of this takeover all credits provided by the funding banks were redeemed. The guarantee granted by the Federal State of Lower Saxony is no longer needed and was returned unused.

The cash funds necessary for the business operations are now provided indirectly by HCL. At the time of the preparation of the management report, management, therefore, assumes that the company is able to continue as a going concern.

The significant contribution to revenues by only a single customer is still a concentration risk for ITAS CS. A potential default of this customer may also result in considerable default risks for ITAS CS. At present the ITAS CS management does not expect to lose this principal customer. The members of the management responsible for operations aim at reducing the dependence on a single customer and anticipate that the company's integration into the HCL Group, which has now become possible, will in future render considerably better results.

Taking into account to the above-mentioned explanations there are at present no apparent **liquidity and default risks**. Hönigsberg & Düvel Datentechnik GmbH ensures and centrally monitors the company's liquidity. It also ensures hedging against potential risks involved in interest rate changes. Under the cash pooling system cash is available through Hönigsberg & Düvel Datentechnik GmbH, which in turn receives the funds from HCL. Any late payment gaps can therefore always be bridged.

The open-item list, which is updated on a daily basis, is used to centrally monitor all accounts receivable. At weekly intervals all managing directors are provided with a list of open items that shows the date at which the items fall due. Items that are almost overdue are highlighted. The managers and managing directors responsible for the relevant customer are obliged to contact the customer directly to inquire after the reason for overdue amounts and to request payment.

Taking into account the above-mentioned points, management considers the overall risk situation of H&D ITAS Client Services GmbH to be manageable.

However, in view of the company's focussing on a single customer it is very difficult to reliably assess the risks involved for the company. At present it is assumed that the risks are sufficiently known and manageable in view of the long-standing cooperation and that the company's continuation as a going concern is not substantially jeopardised also in view of the company's integration into the HCL Group. Management assumes the H&D ITAS Client Services GmbH will be able to successfully operate on the market also in future.

3.2 Opportunities

The company's major opportunities continue to arise, as before, from the present principal customer but also from other customers. Furthermore, "Mobility" is still an issue and the related trend of "Bring-Your-Own-Device" (BYOD), which will in the medium term increase the ticket volume in the Service Desk area for a while. Another growth area is the combination of "managed services" and "cloud". End users will have to manage the transition to cloud-based applications and services and will have to deal with the "internet of things" and the increasing number and variety of devices connected with it. In order to deal with this increasing complexity and to ensure reliable and safe use of hardware and software, particular importance is placed on managed services and a long-term, strategic cooperation with MSPs. Customers expect reliable and customised services from MSPs and in addition pro-active advice on how to maximise their investments in technologies. We will continue to concentrate on all sectors of the automotive industry with a particular focus on Industry 4.0/Shopfloor and on other manufacturers, in particular SME.

3.3 Forecast

In order to achieve the budgeted revenues and profits, it is important for ITAS CS in the 2019 financial year to be able to retain qualified personnel and to recruit new personnel on the job market despite the strong competition for qualified personnel. HDBS, which is the company responsible for the central human resources management, will have to ensure by means of special programmes that the personnel required for ITAS CS is recruited. It is anticipated that recruiting will be more successful than in the previous years because with the new shareholder HCL, the company has become part of an international group that is able to offer a wide range of opportunities for further development both nationally and internationally.

For the 2019 financial year management anticipates a decline in revenues to €12.9m (PY €17.9m) because of the above-mentioned influencing factors and because a larger project will not be continued or extended after the takeover by the new shareholder HCL. This revenue is to be generated with a lower number of employees. In view of the risks that may influence car sales such as Brexit, a declining economy in China and US duties, which are expected to further increase the cost pressure also for ITAS CS's principal customer, management yet expects a profit of €2.0m for the 2019 financial year.

Such profit will be transferred in full to H & D IT Automotive Services GmbH under the existing profit and loss transfer agreement.

After the takeover by HCL Technologies Germany GmbH in October 2018 and the consequent process of integration into the HCL Technologies Group - the integration process has only just started and is not expected to be completed until late 2020 - it is not possible to make sufficiently realistic plans for the 2020 financial year. However, the ITAS CS management anticipates that in view of the company's integration into the HCL Technologies Group and the synergies that will result from this integration, revenue will remain stable and that there will be a break-even result.

Wolfsburg, 1 March 2019

H&D ITAS Client Services GmbH

signed Dipl.-Ing. Bernhard Hönigsberg
signed Anita Hönigsberg
sigened Dipl. Oec. Andreas Lehmann
signed Dipl.-Verw. Wiss. Claudia Raabe
signed Oliver Dietz

Management

H&D ITAS Client Services GmbH
Wolfsburg

Legal and Tax Bases

1. Legal Bases

1.1 General

Name of the company:	H&D ITAS Client Services GmbH
Registered office:	Wolfsburg
Legal form:	GmbH [Gesellschaft mit beschränkter Haftung [German limited liability company]
Commercial register:	The company is registered with the commercial register kept by the local court in Brunswick under number HRB 201593.
Company agreement:	The company was established on 17 November 2008. The company agreement has since then not been amended.
Object of the company:	Section 2 of the company agreement provides that the object of the company is the provision of client services, the realisation of IT projects as a general contractor, structuring of and rendering support with IT processes and IT project management. In addition, the company may carry out all business transactions that serve the company's object directly or indirectly. The company has the right to transfer its responsibilities to third parties. The company may make investments in other enterprises, also as a personally liable partner. The company may set up branch offices in Germany and abroad. In addition, the company may carry out all business transactions that

	serve the company's above-mentioned object. The company may form tax groups with other companies.
Nominal capital and shareholders:	The company's nominal capital amounts to €25,000.00 and is fully paid. The company's shareholder is unchanged: H & D IT Automotive Services GmbH, Wolfsburg.
Financial year:	calendar year

1.2 Bodies of the company

1.2.1 Shareholders' meeting

On 26 February 2019 a shareholders' meeting was held in which the 2017 annual financial statements were approved, a resolution on how to appropriate the 2017 result was taken, the actions of the management for the 2017 financial year were formally approved and the auditor for the 2018 financial year was appointed.

1.2.2 Management

For members of the management we refer to the notes to the annual financial statements (**annex 3**).

2. Tax Bases

Tax number:	19/206/05425
Tax office:	Gifhorn
Tax group [Organschaft]:	The company has formed a tax group for corporation tax, trade tax and VAT purposes with Hönigsberg & Düvel Datentechnik GmbH (taxable company).
Tax audit:	The latest tax audit and the latest wage tax audit of all group companies covered the periods from 2013 to 2015.