Hönigsberg & Düvel Datentechnik 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

Table of Contents

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

1. Audit engagement

The management of

Hönigsberg & Düvel Datentechnik GmbH, Wolfsburg,
(hereinafter also referred to as "company" or "HuD")

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 large corporation within the meaning of sec. 267 (3) 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

In the 2018 financial year HuD continued its international operations as an IT and engineering service provider. The company's place of management is Gifhorn. Furthermore, the company acts as general contractor for IT projects, manages outsourcing projects for the customers and develops software and applications for the customers. The company is also active in the fields of Industry 4.0/IT-Shopfloor and IT consulting. The company procures contracts for projects on the market and then based on business management agreements [special type of contract for services under the German civil code] the projects out to those subsidiaries and sub-subsidiaries best qualified in this field.

The former shareholders sold all their shares to HCL Technologies Germany GmbH, Eschborn, as at 30 September 2018. On 2 October 2018 the entire H&D International Group was taken over by HCL Technologies Germany GmbH (HCL).

2.2 Position of the company

2.2.1 Opinion on the legal representatives' assessment of the position

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

- The company always acts as contracting party with regard to project contracts acquired on the market by the HuD group. Based on business management agreements the company contracts out the projects to those subsidiaries best qualified in the field. In this respect the company acts as a holding company that generates its profits or losses from income from profit transfer agreements and from participating interests from subsidiaries with whom the company did not enter into profit and loss transfer agreements.

- An investment process initiated by management 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).

- Revenues remained at the previous year's level at €62.9m (PY €62.9m) and were by €3.1m lower than the revenues projected in the previous year of €66.0m. A single principal customer accounts for 80% of the revenues while the remaining 20% were generated by other customers, in particular banks, insurance companies and high-end SME related to the manufacturing industry.

- Cost of materials relate mainly to services purchased from subsidiaries to which projects were contracted out. These increased by €0.8m to €62.3m (PY €61.5m) as a result of an increase in work-in-progress, with revenues being almost unchanged.

- Based on domination and profit and loss transfer agreements (DPLTA) concluded with the subsidiaries, income from profit transfer agreements increased by €0.5m to €1.1m. As compared to the previous year income from participating interests decreased by €0.8m to €0.1m. The profit on ordinary activities amounts to €0.7m.

- Unlike the loss projected in the previous year of €2.2m, the 2018 loss for the year amounted to €3.7m.

- For financing purposes the company may use its equity but it may also use funds that are made available by the shareholder HCL Technologies Germany GmbH.

- As compared to the previous year, the equity ratio increased by 40.3 percentage points to 45.4% (PY 5.1%). The 2018 loss for the year was fully absorbed by equity.

- The increase in equity results from the fact that for the purpose of the takeover of the company's shares by HCL Technologies Germany GmbH the former shareholders acquired shares from minority shareholders, which were then used to increase the company's equity, and also from the former shareholders' settling the company's short-term financial liabilities, which was another measure to increase the company's equity.

- Management considers the company's equity base of €11.0m (PY €1.5m) after contributions and accumulated losses to be sound. For the purpose of the takeover by the new shareholder all credits provided by the funding banks were redeemed. The financial covenants that had been agreed became redundant because the short-term financial liabilities were redeemed in full.

- Management considers the company's overall position in the 2018 financial year after the takeover by HCL Technologies Germany GmbH in October 2018 as sound, however, 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 as well as the declining sales in China and the discussions about US duties on car exports have influenced the development of the company's results.

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

- The significant contribution to revenues by only a single customer is a concentration risk for the company. A potential default of this customer may result in considerable default risks for the company. However, at present the HuD management does not expect to lose this principal customer.

- Taking into account the comments on the financial situation, management does not at present identify any liquidity or default risks. The company's liquidity is ensured by the parent company and monitored by HuD. It also ensures hedging against potential risks involved in interest rate changes. HCL Technologies GmbH would make available sufficient cash funds when required. In the opinion of the management any late payment gaps caused by customers can therefore always be bridged.

- Management considers the company's overall position to be manageable. 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 that the company will be able to successfully operate on the market also in future.

- Management sees the company's opportunities in particular in its complete integration into the HCL group structures so that the company can make use of its processes and tools to the advantage of HuD and its customers.

- For 2019 management anticipates that revenues will slightly decrease to €61.0m (PY €62.9m). For the 2019 financial year management again expects a loss of €2.0m taking into account 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 HuD's principal customer, however, the loss will be absorbed by the high equity base.

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.

2.3 Irregularities

2.3.1 Irregularities in the Accounting

In conducting our audit we have found the following irregularities or violations of accounting principles relating to the preparation of a management report within the meaning of sec. 317 (1) sentence 2 HGB, which have not as yet been amended and which we are required to report under sec. 231 (1) sentence 3 HGB:

Violations of the provisions for preparing a management report:

The legal representatives have as yet failed to meet their duty to grant their employees certain rights of co-determination under sec. 1 (1) no. 3 of the *Drittelbeteiligungsgesetz* [one-third participation act] by establishing a supervisory board. Consequently, the shareholders' meeting has also failed to meet its duty under sec. 52 (2) GmbHG [German limited liability company law] to define target figures for the percentage of women in the supervisory board and the management board. The management report (**annex 4**) contains a negative statement and is therefore complete.

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 and the management report have been prepared in compliance with German laws and the supplementary provisions set out in the company agreement.

Our audit with respect to the statement on the corporate governance required under section 289f (2) and (5) HGB, which must be included in the management report under section 289f HGB, was limited to establishing whether or not this statement was included in the management report (as required under section 317 (2) sentence 6 HGB).

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 the company 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:

- Trade accounts receivable / revenues;
- Provisions;
- Management report.

3.2.2 Audit evidence

We obtained on a sample basis customers' and 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.

Furthermore, we obtained balance statements as of the balance sheet date, signature authorizations and terms and conditions from all credit institutions with which the company maintained business relationships during the 2018 financial year.

We have obtained confirmations from lawyers in order to assess the litigation risks.

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

We maintained control over the external confirmation requests.

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 audit report on 28 November 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.

The company opted for providing certain information on the balance sheet and profit and loss account 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 Hönigsberg & Düvel Datentechnik GmbH 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 Hönigsberg & Düvel Datentechnik GmbH as at 31 December 2018 were prepared on the basis of the following valuation bases:

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

Long-term investments were recognised at cost.

Inventories (work-in-progress) are recognised at production cost taking into account direct and indirect expenses as required under sec. 255 (2) HGB.

Accounts receivable and other assets are recognised at their nominal values.

Other provisions are recognised at the most likely settlement amounts.

Accounts payable are recognised at their settlement amounts.

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			+/-
	€'000	%	short-term €'000	€'000	%	short-term €'000	€'000
Asset structure							
Intangible assets	510	2.1		612	2.1		-102
Tangible assets	211	0.9		8,428	29.4		-8,217
Long-term investments	5,379	22.3		3,717	12.9		1,662
Non-current assets	6,100	25.3		12,757	44.4		-6,657
Inventories	1,432	5.9	1,432	519	1.8	519	913
Accounts receivable	11,611	48.2	11,030	15,334	53.4	14,661	-3,723
Cash and cash equivalents	4,899	20.3	4,899	1	0.1	1	4,898
Current assets	17,942	74.4	17,361	15,854	55.3	15,181	2,088
Prepaid expenses	84	0.3		95	0.3		-11
	24,126	100.0	17,361	28,706	100.0	15,181	-4,580
Capial structure							
Equity	10,951	45.4		1,461	5.1		9,490
Long-term financial liabilities	0	0.0	0	6,524	22.7	692	-6,524
Short-term provisions	606	2.5	606	332	1.2	332	274
Short-term financial liabilities	0	0.0	0	13,836	48.2	13,836	-13,836
Short-term liabilities	12,569	52.1	12,569	6,553	22.8	6,553	6,016
Short-term liabilities	13,175	54.6	13,175	20,721	72.2	20,721	-7,546
	24,126	100.0	13,175	28,706	100.0	21,413	-4,580
Working Capital			**4,186**			**-6,232**	

Total assets have decreased by €4,580K as compared to the previous reporting date.

The decrease in non-current assets results mainly from the sale of the land and office building at August-Horch-Str. 2 in Gifhorn (carrying amount: €7.9m, sales proceeds: €6.5m, loss from disposal: €1.4m).

Investments made in the reporting period (€1,739K) exceeded depreciation and amortisation expenses of €423K. Additions refer mainly to long-term investments because shares from affiliated companies were increased to 100% before the change in ownership.

In current assets, cash and cash equivalents increased by €4,898K to €4,899K, which resulted mainly from cash inflows as a result of the increase in equity made by the former shareholders (other payments made by the former shareholders to the share premium account).

The equity ratio increased from 5.1% to 45.4%. The increase results from the fact that for the purpose of the takeover of the company's shares by HCL Technologies Germany GmbH the former shareholders acquired shares from minority shareholders, which were then used to increase the company's equity. Furthermore, the former shareholders settled short-term financial liabilities. The additional payments made by the former shareholders were credited to the share premium account.

The former shareholders settled all long-term financial liabilities.

Short-term liabilities decreased by €7,546K because most of the short-term financial liabilities were settled by the former shareholders (- €13,836K).Short-term trade liabilities raised by €6,016K.

Non-current assets are fully funded by equity.

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
Loss for the year	-3,741	-1,671
Amortisation/Depreciation of non-current assets	423	346
Cash earninges under DVFA/SG	-3,318	-1,325
Increase in short-term provisions	274	115
Decrease/increase of inventories, accounts receivables and other assets which are not attributable either to investing or financing activities	2,822	-8,493
Increase/decrease in trade accounts payable and other liabilities which are not attributable either to investing or financing activities	6,016	-949
Losses/gains from the disposal of non-current assets (net)	1,449	0
Interest payments	245	312
Other income from participating interests	-90	-910
Cash flow from operating activities	7,398	-11,250
Cash receipts from the disposal of non-current tangible assets	6,524	0
Cash payments to acquire non-current intangible assets	-44	-613
Cash payments to acquire non-current tangible assets	-33	-122
Cash payments to acquire long-term investments	-1,663	0
Dividends received	90	910
Cash flow from investing activities	4,874	175
Cash payments to redeem (financial) credits	-6,524	-693
Interest payments	-245	-312
Cash receipts from capital contributions by former shareholders	13,231	0
Cash flow from financing activities	6,462	-1,005
Change in cash and cash equivalents	18,734	-12,080
Cash and cash equivalents at the beginning of the period	-13,835	-1,755
Cash and cash equivalents at the end of the period	**4,899**	**-13,835**

	€'000	€'000
Cash-in-hand, bank balances	4,899	1
Short-term amounts owed to credit institutions	0	-13,836
Composition of cash and cash equivalents at the end of the period	4,899	-13,835

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	62,888	98.6	62,896	100.2	-8
Change in work-in-progress	914	1.4	-156	-0.2	1,070
Total performance	63,802	100.0	62,740	100.0	1,062
Cost of materials	62,267	97.6	61,533	98.1	734
Gross profit	1,535	2.4	1,207	1.9	328
Personnel expenses	1,379	2.2	1,089	1.7	290
Other ordinary expenses	12,966	20.3	13,490	21.5	-524
Other ordinary income	13,848	21.7	14,245	22.7	-397
EBITDA	1,038	1.6	873	1.4	165
Depreciation/amortisation	423	0.7	346	0.6	77
EBIT	615	1.0	527	0.8	88
Net interest	-856	-1.3	-877	-1.4	21
Write-downs on long-term investments	183	0.3	0	0.0	183
Income from profit transfer agreements	1,054	1.7	643	1.0	411
Income from participating interests	90	0.1	910	1.5	-820
Financial profit	105	0.2	676	1.1	-571
Profit on ordinary activities	720	1.1	1,203	1.9	-483
Non-operating result	-1,683		-62		-1,621
Loss before income taxes and takeover of losses	-963		1,141		-2,104
Expense from takeover of losses	2,778		2,812		-34
Loss for the year	**-3,741**		**-1,671**		**-2,070**

Personnel expenses increased by €0.3m to €1.4m (PY €1.1m) primarily because the salaries paid to the former managing shareholders increased and additions were made to provisions for personnel expenses.

It is the smaller amount of leasing costs for the SAP software that accounts mainly for the reduction in other operating expenses. The company had terminated the lease as at 28 February 2018 because the company had purchased the software and capitalised it as a non-current asset. Correspondingly, income from the overhead contributions decreased, which resulted in a decrease in other ordinary income.

The write-off made with regard to long-term investments relates to a premium paid for an interest cap transaction in 2013, which was sold in 2018.

Income from participating interests relates to H&D Czech Republic for 2017. H&D Czech Republic has not as yet proposed or resolved on a dividend for 2018.

5. Reproduction of the Auditor's Report

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

"INDEPENDENT AUDITOR'S REPORT

To Hönigsberg & Düvel Datentechnik GmbH

Audit opinions

We have audited the annual financial statements of Hönigsberg & Düvel Datentechnik 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 Hönigsberg & Düvel Datentechnik GmbH for the financial year from 1 January to 31 December 2018. In compliance with the German legal requirements we did not audit the contents of the information mentioned in the "Other information" section of our auditor's report.

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. Our audit opinion on the management report does not cover the content of the statement on corporate governance as mentioned in the "Other information" section.

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.

Other information

The legal representatives are responsible for the other information. The other information comprises the statement on corporate governance under sec. 289f (4) HGB (information with regard to women's quota).

Our audit opinions on the annual financial statements and the management report do not cover the other information. Therefore, we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit or

- otherwise appears to be materially misstated.

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 opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to be able to continue as a going concern.

- evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements 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: €24,125,689.67; loss for the year: €3,741,005.71) and the management report for the 2018 financial year of Hönigsberg & Düvel Datentechnik 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, 11 March 2019

PKF Fasselt Schlage
Partnerschaft mbB
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft
Rechtsanwälte

(Villwock)
Wirtschaftsprüfer

(Süß)
Wirtschaftsprüferin

Hönigsberg & Düvel Datentechnik GmbH
Wolfsburg

Balance Sheet as at 31 December 2018

Assets

	€	€	At 31/12/2017 €'000
A. Non-current assets			
I. Intangible assets			
(purchased concessions, industrial property rights and similar rights and assets, licences in such rights and assets)		510,279.97	612
II. Tangible assets			
1. Land and buildings	0.00		8,175
2. Fixture, fittings and equipment	210,306.96		253
		210,306.96	8,428
III. Long-term investments			
1. Shares in affiliated companies	5,374,748.85		3,713
2. Participating interests	4,500.00		4
		5,379,248.85	3,717
		6,099,835.78	12,757
B. Current assets			
I. Inventories			
1. Work-in-progress	1,430,330.29		517
2. Merchandise	1,203.00		2
		1,431,533.29	519
II. Accounts receivable and other assets			
1. Trade accounts receivable	10,164,249.32		10,846
2. Amounts owed by affiliated companies	651,074.91		1,631
3. Other assets	795,566.81		2,857
		11,610,891.04	15,334
III. Cash-in-hand, bank balances		4,899,497.28	1
		17,941,921.61	15,854
C. Prepaid expenses		83,932.28	95
		24,125,689.67	28,706

Equity and Liabilities

	€	€	At 31/12/2017 €'000
A. Equity			
I. Subscribed capital (nominal capital)	411,000.00		411
II. Capital reserve	13,231,208.29		0
III. Profit brought forward	1,049,668.38		2,721
IV. Loss for the year	-3,741,005.71		-1,671
		10,950,870.96	1,461
B. Provisions (other)		606,203.26	333
C. Liabilities			
1. Amounts owed to credit institutions	0.00		20,360
2. Trade accounts payable	408,609.80		380
3. Amounts owed to affiliated companies	4,999,947.03		4,271
4. Amounts owed to shareholders	6,081,318.31		0
5. Other liabilities	1,078,740.31		1,901
(of which taxes: €1,078,265.51; PY €1,772K)			
		12,568,615.45	26,912
		24,125,689.67	28,706

Hönigsberg & Düvel Datentechnik GmbH
Wolfsburg

Profit and Loss Account
for the year ending 31 December 2018

	€	€	Previous Year €'000
1. Revenues		62,887,566.77	62,896
2. Changes in inventories		913,641.12	-156
		63,801,207.89	62,740
3. Other operating income		13,922,227.34	14,376
		77,723,435.23	77,116
4. Cost of materials (cost of purchased services)		62,266,798.34	61,533
		15,456,636.89	15,583
5. Personnel expenses			
a) Wages and salaries	1,312,491.99		1,035
b) Social security and retirement benefits	66,282.60		54
	1,378,774.59		1,089
6. Amortisation/Depreciation of intangible and tangible non-current assets	423,018.85		346
7. Other operating expenses	14,681,033.95		13,634
		16,482,827.39	15,069
		-1,026,190.50	514
8. Income from participating interests	90,000.00		910
9. Income under profit transfer agreements	1,054,513.21		643
10. Other interest and similar income	105,121.85		117
11. Write-downs of financial assets	183,070.00		0
12. Expenses from takeover of losses	2,777,966.24		2,811
13. Interest and similar expenses	961,388.57		994
		-2,672,789.75	-2,135
14. Loss after taxes		-3,698,980.25	-1,621
15. Other taxes		42,025.46	50
16. Loss for the year		-3,741,005.71	-1,671

Hönigsberg & Düvel Datentechnik 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 100376.

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.

Foreign currency accounts receivable were translated at the spot exchange rate ruling at the balance sheet date.

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 or a reducing-balance basis over the expected useful life. Moveable non-current assets costing between €250.00 and €1,000.00 are combined and pooled and depreciated at a rate of 20% p.a. in line with the tax law provisions (sec. 6 (2a) German income tax law).

Long-term investments are recognised at cost. Long-term investments comprise the following shareholdings in affiliated companies:

	Registered office	Shareholding	Equity	Profit or Loss for the Year
		31/12/2018	31/12/2018	31/12/2018
In Germany		%	EUR'000	EUR'000
H&D Business Services GmbH	Wolfsburg	100.0	25	0
H & D IT Automotive Services GmbH	Wolfsburg	100.0	25	0
H&D ITAS Client Services GmbH	Wolfsburg	100.0	25	0
H&D ITAS Application Services GmbH	Wolfsburg	100.0	25	0
H&D ITAS Infrastructure Services GmbH	Wolfsburg	100.0	25	0
H&D ITAS Süd GmbH	Ingolstadt	100.0	25	0
H&D IT Solutions GmbH	Wolfsburg	100.0	25	0
H&D Services for Engineering GmbH	Wolfsburg	100.0	25	0
Catis GmbH	Wolfsburg	100.0	25	0
CA Management Services GmbH	Wolfsburg	100.0	25	0
H & D Training und Consulting GmbH	Wolfsburg	100.0	8	0
qmo-it GmbH	Gifhorn	100.0	831	52
H & D IT Professional Services GmbH	Wolfsburg	100.0	25	0
H&D International GmbH	Wolfsburg	100.0	232	96
Outside Germany				
Hönigsberg & Düvel Corporation	Chattanooga/USA	100.0	-9	-130
Hönigsberg & Düvel Datentechnik GmbH Czech s.r.o	Mladá Boleslav/ Czech Republic	100.0	2,253	1,364

The annual results of 0€ result from profit and loss transfer agreements with the parent company.

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 01/01/2018	At 01/01/2018	At 31/12/2018
	€	€	€	€	€	€	€	€	€	€
I. Intangible assets (purchased concessions, industrial property rights and similar rights and assets, licences in such rights and assets)	796,092.45	44,014.42	1,548.33	838,558.54	184,113.14	144,165.43	0.00	328,278.57	611,979.31	510,279.97
II. Tangible assets										
1. Land and buildings	9,093,911.04		9,093,911.04	0.00	919,368.50	202,963.96	1,122,332.46	0.00	8,174,542.54	0.00
2. Fixture, fittings and equipment	908,071.54	33,008.37	111.55	940,968.36	654,883.49	75,889.46	111.55	730,661.40	253,188.05	210,306.96
	10,001,982.58	33,008.37	9,094,022.59	940,968.36	1,574,251.99	278,853.42	1,122,444.01	730,661.40	8,427,730.59	210,306.96
III. Long-term investments										
1. Shares in affiliated companies	3,712,731.85	1,662,017.00		5,374,748.85	0.00			0.00	3,712,731.85	5,374,748.85
2. Participating interests	4,500.00			4,500.00	0.00			0.00	4,500.00	4,500.00
	3,717,231.85	1,662,017.00	0.00	5,379,248.85	0.00	0.00	0.00	0.00	3,717,231.85	5,379,248.85
Total I. to III.	**14,515,306.88**	**1,739,039.79**	**9,095,570.92**	**7,158,775.75**	**1,758,365.13**	**423,018.85**	**1,122,444.01**	**1,058,939.97**	**12,756,941.75**	**6,099,835.78**

Work-in-progress recognised under **inventories** is stated at cost taking into account direct costs and overheads in accordance with sec. 255 (2) HGB. Merchandise is recognised at cost. Adequate impairment losses are taken into account.

Accounts receivable and other assets are recognised at their nominal values. Other assets to the amount of €581K (PY €673K) are due after more than one year. All other accounts receivable and other assets to the amount of €11,045K (PY €14,661K) are due within one year.

Accounts receivable include short-term loans granted to shareholders to the amount of €0K (PY €2,008K).

Deferred tax assets were not recognised as permitted under sec. 274 (1) sentence 2 HGB (option for set-off). The deferred tax assets result from setting off a deferred tax liability resulting from the valuation of a short-term foreign currency loan against a larger deferred tax asset resulting from losses carried forward for tax purposes.

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

Management proposes to carry forward the loss for the year to the new accounts.

Provisions take into account all recognisable risks and uncertain obligations and are stated at their settlement amounts. They relate in particular to personnel expenses €225K (PY €48K).

Accounts payable are stated at the settlement amount and fall due as shown below:

		of which due		
		within 1 year	after more than 1 year	after more than 5 years
	€	€	€	€
Amounts owed to credit institutions	0.00	0.00	0.00	0.00
	(20,360,192.77)	*(14,528,193.77)*	*(5,831,999.00)*	*(3,062,767.00)*
Trade accounts payable	408,609.80	408,609.80		
	(380,063.51)	*(380,063.51)*		
Amounts owed to affiliated companies	4,999,947.03	4,999,947.03		
	(4,271,403.55)	*(4,271,403.55)*		
Amounts owed to shareholders	6,081,318.31	6,081,318.31		
	(0.00)	*(0.00)*		
Other liabilities	1,078,740.31	1,078,740.31		
	(1,900,970.60)	*(1,900,970.60)*		
	12,568,615.45	12,568,615.45	0.00	0.00
	(26,912,630.43)	*(21,080,631.43)*	*(5,831,999.00)*	*(3,062,767.00)*

Amounts in brackets refer to the previous year.

Amounts owed to credit institutions include a loan that was secured by a land charge until 30 September 2018 (€6,524K at 31 December 2017). Furthermore, all German subsidiaries and sub-subsidiaries were liable jointly and severally for this loan.

All other liabilities are unsecured as in the previous year apart from the usual retentions of title.

Comments on the profit and loss account

Revenues were generated in Germany (€62,888K; PY €62,895K) and abroad (€0K; PY €1K).

Other operating income includes €22K (PY €16K) from the reversal of provisions, €20K (PY €2K) from currency translations and extraordinary income (€32K; PY €116K).

Personnel expenses include €5K (PY €4K) old age pension costs.

Other operating expenses include subsequent payments for preceding years of €18K (PY €84K) and currency translation losses of €0K (PY €85K) and losses from the disposal of non-current assets of €1,449K (PY €0K). They also include bad debts of €264K (PY €0K) and donations of €26K (PY €25K).

Income from participating interests relates, as in the previous year, to an affiliated company.

Interest income includes €65K (PY €77K) interest received from affiliated companies.

Interest expenses are €94K (PY €120K) of interest paid to affiliated companies.

III. Other information

Managing directors:

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, managing director

The expenses for the managing directors amounted to €0.95m in 2018.

Advisory board:

Dieter Bornemann, head of IT department,
Andreas Kiefer, head of IT department,
Uwe Schulte, head of IT department.

The members of the advisory board do not receive any compensation and in the 2018 financial year they were not active.

In 2018 the average number of **employees** (white-collar) was two (PY two).

The **financial obligations** as defined in sec. 285 (3) HGB were as follows:

- Property lease agreement: Term up to one year: €985K
  Term up to five years: €3,952K

  Term of more than five years (fixed payments until the end of the first lease period 31/12/2029) €6.1m

  When the first lease period has expired, the company may purchase the property or continue the lease agreement, for which case, however, the leasing rates have not as yet been fixed.

- Car leases: The obligation totals €886K.

The leases were concluded for economic reasons (ensuring liquidity) and accounting reasons (lower amount of total assets).

The car leases are secured by way of transfer of ownership of the leased item (*Sicherungsübereignung*).

Other major financial obligations as defined in sec. 285 (3)a HGB are rental payments (annual expense €1,582K).

At the balance sheet date the company had sold accounts receivable to the amount of €0K (PY €4,000K) (non-recourse factoring) because the factoring contract was cancelled in 2018.

The total fee paid to the auditor for the financial year amounts to €111K for the audit of the financial statements and €2K for other services.

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 Hönigsberg & Düvel Datentechnik GmbH. We refer to section 3 of the management report.

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, 5 March 2019

Hönigsberg & Düvel Datentechnik GmbH

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

Management

Hönigsberg & Düvel Datentechnik GmbH
Wolfsburg

Management Report
for the 2018 Financial Year

1. General

Hönigsberg & Düvel Datentechnik GmbH (hereinafter also referred to as H&D) operates, in principle, on an international basis on the IT and engineering sector. However, most projects are carried out in Germany, in particular in Wolfsburg, Brunswick, Salzgitter, Gifhorn, Hanover, Berlin, Osnabrück, Ingolstadt, Sindelfingen and Dresden. Some projects are carried out in other countries within Europe and outside of Europe.

Chairman of the management and Chief Executive Officer (CEO) is, as before, Mr Hönigsberg. Further managing directors are Mrs Hönigsberg, Mr Lehmann and Ms Raabe as Chief Operating Officer (COO).

Hönigsberg & Düvel Datentechnik GmbH acts as contracting party with regard to project contracts acquired on the market. Based on a business management agreement [special type of contract for services under the German civil code] the company contracts out the projects to those subsidiaries best qualified in the field. In this respect the company acts as a holding company that generates its profits or losses from income from profit transfer agreements and from participating interests from subsidiaries with whom the company did not enter into profit and loss transfer agreements. For the development of the individual subsidiaries we refer to the companies' own annual financial statements.

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

H&D's main fields of business are, as before, IT and engineering services. As general contractor the company realises projects at fixed prices, manages outsourcing projects for the customers and develops software and applications for the customers. Further major fields of business are Industry 4.0/IT-Shopfloor and IT consulting.

In the 2018 financial year the company's average number of employees was two and the average number of managing directors was four.

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/ Gesamt-wirtschaftUmwelt/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-Autobran-che-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/Zahlen Fakten/Gesamt-wirtschaftUmwelt/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

Results of operations
The 2018 loss for the year of €3.7m (PY loss €1.7m) can be broken down as follows:

	2018 EUR million	Previous Year EUR million	+/- EUR million
Revenues	62.9	62.9	0.0
Gross profit	1.5	1.2	+0.3
Net interest	-0.9	-0.9	0.0
Operating profit / Profit on ordinary activities	0.7	1.2	-0.4
Non-operating loss	-1.7	-0.1	-1.6
Loss (-) before income taxes and takeover of losses	-0.9	1.1	-2.0
Loss for the Year	**-3.7**	**-1.7**	**-2.0**

The revenues projected in the previous year of €66.0m was exceeded in the 2018 financial year by €3.1m. **Revenues** remained at the previous year's level at €62.9m (PY €62.9m), of which almost 80% was generated through the principal customer on the automotive sector. Approximately 20% of revenues were generated by other customers. Industries of other customers are mainly banks, insurance companies and high-end SME. The variance from budget resulted from fewer numbers of contracts.

Other operating income decreased by €0.5m to €13.9m (PY €14.4m). The decrease in other operating income by €0.4m to €13.8m (PY €14.2m) results almost entirely from the decrease in costs charged to the respective subsidiaries.

Cost of materials relate mainly to services purchased from subsidiaries to which projects were contracted out. They increased by €0.8m to €62.3m (PY €61.5m) mainly because there was an increase in work-in-progress with revenue being almost the same as in the previous year.

Personnel expenses increased by €0.29m to €1.38m (PY €1.09m). This is due to an increase in managing directors' salaries paid to the former managing shareholders as from October 2018 and expenses incurred in connection with provisions made for personnel expenses.

Other operating expenses increased by €1.1m to €14.7m (PY €13.6m). The increase is mainly due to an increase in lease payments by €0.5m, despite cuts in leasing costs of €0.95m, losses from the disposal of non-current assets of €1.4m, writedowns on bad and doubtful accounts of €0.3m and a decrease in other expenses incurred by ordinary activities of €0.15m and lower cost contributions made by enterprises of the H&D International Group of €0.15m.

Income from profit transfer agreements received on the basis of domination and profit and loss transfer agreements (DPLTA) concluded with subsidiaries increased by €0.5m to €1.1m (PY €0.6m). **Income from participating interests**, on the other hand, decreased as compared to the previous year by €0.8m to €0.1m (PY €0.9m). The resulting **profit on ordinary activities** amounts to €0.7m. (PY €1.2m).
In particular loss transfers from subsidiaries based on profit and loss transfer agreements to the amount of €2.8m (PY €2.8m) contributed to the **loss for the year** of €3.7m (PY loss €1.7m), which had been projected at €2.2m in the previous year.

2.2.2 Financial position

For financing purposes the company may use its equity but it may also use funds that are made available by the new shareholder HCL Technologies Germany GmbH.

For the purpose of the takeover of the company's shares by HCL Technologies Germany GmbH the former shareholders acquired shares from minority shareholders, which were then used to increase the company's equity. Furthermore, short-term financial liabilities had to be settled before the acquisition, which was made in connection with an increase in equity. This resulted in a significant increase in the **equity ratio**. The accumulated losses were fully absorbed by equity. As compared to the previous year the equity ratio increased by 40.3 percentage points to 45.4% (PY 5.1%).

Equity increased as a result of the contributions and due to the accumulated loss by €9.5m to €11.0m (PY €1.5m). Therefore, we consider the equity base as sound. The equity-related **Financial Covenants** that had at the time been agreed with the financing banks became redundant because short-term financial liabilities were redeemed in full.

Liabilities decreased by €14.3m to €12.6m (PY €26.9m) as compared to the previous year. These include amounts owed to credit institutions of €0.0m (PY €6.5m), which were used for the long-term financing of the new office building. They further include short-term current account liabilities of €0.0m (PY €13.8m).

The remaining liabilities of €12.6m are also of a short-term nature and are used to finance current assets. The largest item is “amounts owed to affiliated companies” of €5.0m (PY €4.3m), which results from the intercompany services with subsidiaries. Furthermore, there are short-term amounts owed to the new shareholders of €6.1m (PY €0.0m). Other liabilities of €1.1m (PY €1.9m) relate mainly to taxes. Trade accounts payable amount to €0.41m (PY €0.38m).

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)	-3.3	-1.3
Cash flow from operating activities	7.4	-11.2
Cash flow from investing activities	4.9	0.2
Cash flow from financing activities	6.5	-1.0
Changes in cash and cash equivalents	**18.7**	**-12.1**
Cash and cash equivalents at the beginning of the period	**-13.8**	**-1.7**
Cash and cash equivalents at the end of the period	**4.9**	**-13.8**

Cash earnings decreased to a negative amount of €3.3m due to the significant loss.

In particular the increase in short-term provisions by €0.28m, the decrease in inventories, accounts receivable and other assets as well as other assets that are not attributable to investing and financing activities by €2.8m and the simultaneous increase in trade accounts payable and other liabilities that are not attributable to investing and financing activities by €6.0m and the losses from the disposal of non-current assets of €1.4m significantly contributed to the positive **cash flow from operating activities** of €7.4m.
Dividends received of €0.1m and payments made for non-current asset investments of €0.1m as well as payments made for long-term investments of €1.7m and the simultaneous cash receipt from the disposal of non-current tangible assets (€6.5m) resulted in **cash flow from investing activities** of €4.9m.
Payments to redeem (financial) loans of €6.5m and interest paid of €0.2m and cash receipts from contributions to equity made by the former shareholders of €13.2m resulted in positive **cash flow from financing activities** of €6.5m.
As a result, changes in cash and cash equivalents amount to €18.7m so that cash and cash equivalents at the end of the period amount to €4.9m.

As compared to the previous year there was despite the loss for the year a positive development of **working capital** (short-term assets less short-term liabilities) (€4.2m; PY negative €6.23m) due to the increase in current assets and the simultaneous decrease in short-term liabilities.

Liquidity is controlled by means of a centralised cash management system (cash-pooling system). The parent company of the sub-group grants short-term loans if cash is required on a short-term basis.

2.3 Net assets

Non-current assets include mainly long-term investments.

Intangible assets include the intangible asset “Konzeptentwicklungen im Service Desk und Shop Floor” [concept developments in service desk and shop floor] to the amount of €0.5m (PY €0.6m), which was purchased from German subsidiaries. The item is amortised on a straight-line basis over an expected useful life of 5 years.

Tangible assets decreased as a result of depreciation charges (€0.3m) and the disposal of land and buildings (€7.9m) by €8.2m to €0.2m (PY €8.4m).

Long-term investments comprising shares in affiliated companies increased to €5.4m (PY €3.7m) because further shares were purchased from minority shareholders.
With revenues remaining at the previous year’s level and the factoring contracts having been cancelled, **current assets** increased by €2.1m to €18.0m (PY €15.9m). In particular the decrease in accounts receivable by €3.7m to €11.6m (PY €15.3m) and the increase in bank balances by €4.9m to €4.9m (PY €0.0m) and the increase in inventories by €0.9m to €1.4m (PY €0.5m) contributed to this development.

2.4 Overall statement on the company’s position

In all, we consider the company’s overall position after the takeover by HCL Technologies Germany GmbH in October 2018 as sound. 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 results.

With revenues being almost the same as in the previous year (€62.9m), the company generated a loss of €3.7m (PY loss of €1.7m) taking into account income under profit transfer agreements of €1.1m (PY €0.6m) and income from participating interests of €0.09m (PY €0.9m) on the one hand and loss transfers under profit and loss transfer agreements of €2.8m (PY €2.8m) on the other hand.

The loss for the year is absorbed by the equity contributed by the new shareholder. With an increase in the equity ratio from 5.1% in the previous year to 45.4% we consider the company's overall position as being sound.

On balance, the company is, as compared to the previous year, free of debt. Total short-term liabilities amount to €13.2m (PY €20.7m) while collectible current assets total €18.0m (PY €15.9m).

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 H&D 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 H&D management 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 forecasted, positive annual results and that cash would be available within the group. Only if the group significantly failed to achieve the forecast revenues 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 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 revenue by only a single customer is still a concentration risk for H&D. A potential default of this customer may also result in considerable default risks for H&D. At present the H&D 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**. The company's liquidity is ensured by the parent company and monitored by H&D. It also ensures hedging against potential risks involved in interest rate changes. HCL Technologies GmbH would make available sufficient cash funds when required. Any late payment gaps caused by customers 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 Hönigsberg & Düvel Datentechnik 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 Hönigsberg & Düvel Datentechnik GmbH will be able to successfully operate on the market also in the future.

3.2 Opportunities

Management sees the company's **opportunities** over the next years in particular in its complete integration into the HCL group structures so that the company can make use of its processes and tools to the advantage of its customers. Particular attention will be placed on the HCL strategy called "Mode 1-2-3 Strategie".
"Mode 1" focusses on providing core services to the customer with regard to applications, infrastructure, BPO and engineering and R&D.
"Mode 2" focusses on providing so-called Next Generation Services, i.e. experience-centric and outcome-centric intergrated offerings, e.g. Digital & Analytics, Cloud Native Services or Cyber-security Services.

“Mode 3” includes products and platforms. It is about looking beyond tomorrow and aligning with the trends shaping the future. The formation of ecosystems is evident across the value chain and across industries for making the client’s business “future-proof”.
However, we will need some time to be able to implement all modes in the interest of the customer. This cannot be achieved until the company is fully integrated in the world of HCL, a process which we do not expect to be completed before the end of 2020. Until such time we will continue with the business model H&D has developed over the last 20 years.

3.3 Forecast

In order to achieve the budgeted revenues and profits, it is important for H&D 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 H&D 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.

Taking into account the above-mentioned influencing factors management anticipates for the 2019 financial year a slight decline in revenues to €61.0m (PY €62.9m). 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 H&D’s principal customer, management expects again a loss of €2.0m for the 2019 financial year, which will be absorbed by the high equity base.

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 H&D management anticipates that in view of the company's integration into the HCL Technologies Group and the synergies that will result from this integration, revenues will at least remain stable or slightly increase so there will be a break-even result when the cost savings that are expected to arise from the integration will bear fruits.

4 Statement on Corporate Governance

We did not determine any targets and time for achieving targets with regard to the women's quota.

Wolfsburg, 5 March 2019

Hönigsberg & Düvel Datentechnik GmbH

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

Management

Hönigsberg & Düvel Datentechnik GmbH
Wolfsburg

Legal and Tax Bases

1. Legal Bases

1.1 General

Name of the company:	Hönigsberg & Düvel Datentechnik 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 100376.
Company agreement:	The company agreement dated 7 August 1998 was last amended (section 4) by a resolution taken by the shareholders' meeting held on 26 July 2018.
Object of the company:	In section 2 of the company agreement the object of the company is stated as general IT services, development and distribution of hardware and software and carrying out IT projects as a general contractor. 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 set up branch offices in Germany and abroad. The company may form tax groups with other companies.

Nominal capital and shareholders: The company's nominal capital amounts to €411,000.00 and is fully paid. As at 31 December 2018 the shares were held by HCL Technologies Germany GmbH, Eschborn.

With effect from 2 October 2018 the shareholders sold their shares in the company to HCL Technologies Germany GmbH, Eschborn.

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

We refer to annex 3.

1.2.3 Advisory board

By shareholders' resolution adopted on the shareholders' meeting held on 4 February 2002 a advisory board [Beirat] was introduced. The advisory board is meant to advise the management. The members of the advisory board are elected by the shareholders' meeting for the period ending at the end of the shareholders' meeting that resolves on the approval of their activities for the second financial year after their term of office. The financial year in which the members start their term of office is not counted for this purpose. Meetings of the advisory board are held when required, with the spokesman of the management or his deputy being present.

The advisory has a quorum if at least half of its members are present. Resolutions are taken by the majority of votes cast by the members present at the meeting. In the 2018 financial year the advisory board was not active.

For the members of the advisory board we refer to annex 3.

2. Tax Bases

Tax number:	19/206/03511
Tax office:	Gifhorn
“Organschaft” [tax group]:	The company forms a group for corporation tax, trade tax and VAT purposes with the following companies: H & D IT Automotive Services GmbH, Wolfsburg H & D IT Professional Services GmbH, Wolfsburg H & D Training und Consulting GmbH, Wolfsburg H&D IT Solutions GmbH , Wolfsburg H&D Business Services GmbH, Wolfsburg Catis GmbH, Wolfsburg H&D International GmbH, Wolfsburg H&D ITAS Infrastructure Services GmbH, Wolfsburg H&D ITAS Client Services GmbH, Wolfsburg H&D ITAS Application Services GmbH, Wolfsburg H&D ITAS Süd GmbH, Ingolstadt CA Management Services GmbH, Wolfsburg H&D Services for Engineering GmbH, Wolfsburg The company forms a group for VAT purposes with qmo-it GmbH (qmo), Gifhorn.
Tax audit:	The latest tax audit and the latest wage tax audit covered the periods from 2013 to 2015.