HLB DR. SCHUMACHER & PARTNER GMBH

# R e p o r t

on the

Audit of the Financial Statements

for the year ended December 31, 2014

and the

Management Report 2014

of

ALBONAIR GmbH,

Dortmund

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# MAIN SECTION

## A. Audit Engagement

By resolution of the shareholders' meeting on April 15, 2014 of

ALBONAIR GmbH, Dortmund
(hereinafter "ALBONAIR" or "Company"),

we were appointed as auditors for the fiscal year 2014. Based on this resolution, the management engaged us to perform an audit of the financial statements for the fiscal year ended December 31, 2014 including the bookkeeping and the management report in accordance with sec. 316 et seq HGB [*German Commercial Code*].

Our reporting complies with the Generally Accepted Standards for Audits of Financial Statements (IDW PS 450) issued by the Institut der Wirtschaftsprüfer in Deutschland e. V., Düsseldorf [*Institute of Public Auditors in Germany, Düsseldorf*].

We confirm pursuant to sec. 321 para. 4a HGB that, in the course of our audit, we have complied with applicable rules of independence.

The General Engagement Terms for "Wirtschaftsprüfer and Wirtschaftsprüfungs-gesellschaften" [*German Public Auditors and Public Audit Firms*] dated January 1, 2002, which are attached to this Report in Appendix 6, are applicable to this engagement and our responsibilities and they also govern our relations to third parties in the context of this engagement.

## B. Principal findings

### Position of the company

### 1. Economic basis and significant legal changes

The technology company based in Dortmund develops, produces and distributes exhaust aftertreatment systems for diesel engines in commercial vehicles. ALBONAIR focuses its activities on the development of SCR exhaust aftertreatment systems that provide vehicle manufacturers with solutions enabling them to comply with the increasingly strict emission standards imposed worldwide. The market for these products is growing strongly. Main reasons for this growth are, on the one hand, the introduction of emission standards in emerging markets such as India, China and Russia – regions where the demand for motor vehicles is growing at above average rates – and, on the other hand, the introduction of stricter standards in industrialized countries.

The company is part of the Hinduja Group, an Indian conglomerate with its registered office in Mumbai. The shares of the company are held by Ashok Leyland Ltd., Chennai (India) as well as one other company that is part of the group.

For further explanations of the legal circumstances, please refer to Appendix 5 of this Report.

## 2. Opinion on the management's assessment of the company's position

The management of the company has submitted the management report, which has been attached in Appendix 4. The following statements contain our opinion on the management's presentation of the business performance and the position of the company. We have put particular emphasis on the facts and developments that are, in our opinion, important for assessing the position of the company and will focus in particular on the assessment of the company's continued existence and future development.

### Economic position and business performance

The management report contains the following key statements with respect to the business performance including the results of operations and the economic position of the company:

- The company develops and produces exhaust aftertreatment systems for commercial vehicles - initially for the Indian market, but in the last years also for European manufacturers. In the year under review, the series production for one of the largest European manufacturers of commercial vehicles (VOLVO), which was set up in the previous year, could be increased. For another customer (Liebherr) first serial parts were supplied.

  In total the sales revenues with VOLVO increased from € 4,376k by € 15,723k to € 20,099k and made up 84 % of the total sales revenue in the year under review. The sales revenues with Liebherr amounted to € 1,165k / 4.9 % of the total sales revenues.

  The Indian subsidiary Albonair India Ltd. is not supplied with complete systems, but with components for SCR catalysts (control units, dosing systems and substrates). It assembles them into complete systems which were then sold within the Indian group. The related sales revenues in the year under review amounted to € 3,315k, but fell short of expectations due to delays in the implementation of emission standards in India.

- Material costs increased disproportionally to the operating revenue so that the gross profit could not keep up with the development of the operating revenue and could only improve by € 3,962k or 92.1 % compared to previous year. This was still not sufficient to cover the personnel costs and other operational expenses leading to a negative EBIT of € 5,134k, which though meant an improvement by € 2,044k prepared to previous year. The annual results were also negative with € -5,273k.

  The company attributes this to the further high pre-operating costs for the development of new systems as well as to missing capacity load in connection with the unsatisfactory India business.

- The financing of the company is almost exclusively provided by its shareholders in the form of equity. From the contributions of € 10,970k paid end of 2013 for the purpose of increase in capital, € 9,342k were actually used to increase capital. The remaining € 1,628k plus further € 1,500k paid in the year under review, shall be used for increase in capital in the current year. The funds received were mainly used to finance the current losses of the company. In addition, in the year under review a short-term credit line of € 5,000k was available. It was secured by the parent company and has been renewed for the current year.

**Future Development**

The management report contains the following key statements on future development including related opportunities and risks:

- For the current year the company expects a further increase of order volumes by around 30 %. According to the budget planning available the sales revenues out of serial production will only rise by around 11 %, mainly caused by decreasing prices for serial parts. As settlements of development projects are omitted at the same time, the sales revenues will stay nearly unchanged compared to previous year. With further high development and pre-operating costs this will lead to a negative result on the level of the year under review. This is described in the management report.

  Against this background a balanced annual result can only be expected, if - as aimed by the company - further customers for the systems developed by the company buying considerable volumes can be acquired. Thus, for the moment the company will remain dependent on the financial support by the parent company - in the form of direct financing or securement of external bank financings.

- In the medium and long term perspective, the company expects still considerable opportunities on the market for exhaust aftertreatment systems. However, these opportunities depend on the speed and intensity in which the legal emission standards are tightened in Europe and the emerging markets India and China, which are important markets for the company. This will have direct effect on the success of the development projects already started or to be approached in future.

**Summary of Opinion**

In summary, we find that the business performance and position of the company in the annual financial statements and management report are presented and assessed in a true and fair manner. The presentation of the expected development of the company in the management report is based on assumptions, where evaluation margins are given. In our opinion, this presentation is altogether true and fair.

## 3. Facts that impair the company's development or threaten its existence

Pursuant to sec. 321 para. 1 clause 3 HGB we would like to point out the following facts that could pose a threat to the existence of the company or potentially impair its development:

In the year under review the company suffered an annual loss of € 5,273k and plans an annual loss at nearly the same level also for the current year. The equity as of December 31, 2014 dropped to € 868k. Thus, further contributions to capital are necessary to keep the business of the company operating.

In the past accumulated losses have been regularly balanced by capital measures of the shareholders in order to secure financing. In the current year the company managed for the first time to win an external bank for a short-term financing with a credit line facility of € 5.0 million. However, we still consider a further financial support by the shareholders is necessary to secure the further development and continuance of the company.

The company assumes that this financial support will be further available.

## C. Object, nature and scope of audit

### I. Object of the audit

The bookkeeping and the preparation of financial statements and the management report are the responsibility of the company's management. The management is also responsible for the information provided to the auditor. It is our task to give an opinion on the annual financial statements and the management report based on the audit conducted by us.

Accordingly, we have audited the bookkeeping, the annual financial statements and the management report for compliance with the applicable statutory provisions including the generally accepted accounting principles. Verifying compliance with other statutory provisions is only part of the audit to the extent that such other provisions usually affect the annual financial statements or the management report.

Therefore, the audit does not include the determination whether the company has complied with all provisions of e.g. tax law, social security and labour law, standards of consumer protection or environmental protection. The audit is essentially not aimed to detect and investigate criminal offenses and administrative offenses committed outside of accounting.

We have not verified whether insurance coverage is complete and adequate.

We have examined the management report as to whether it is consistent with the annual financial statements and the findings of our audit and as a whole provides a suitable understanding of the position of the company, including significant opportunities and risks of future development.

## II. Nature and scope of the audit

In conducting our audit of the annual financial statements we have complied with the provisions of sec. 316 seq HGB and the German generally accepted auditing principles promulgated by the Institut der Wirtschaftsprüfer e. V. [*Institute of Public Auditors in Germany*].

According to these principles, we have organized and conducted our audit risk-based - however without a special focus on detecting embezzlement - so as to be able to assess with sufficient certainty any misstatements and infringements of the statutory regulations that may have material effects on the presentation of a true and fair view of the net assets, financial position and results of operations of the company.

We at first developed a strategy for the audit based on this approach. This strategy is based on an assessment of the corporate environment and information provided by management in respect of the main objectives, strategies and business risks. Furthermore, we performed audit procedures to identify and assess error risks and undertook a preliminary assessment of the position of the company as well as an assessment of the company's accounting-related Internal Control System. We also took into account our findings from the audit of the previous annual financial statements.

We proceeded by aligning our further audit procedures with the error risks identified and assessed by us. We examined the proper functioning of relevant parts of the Internal Control System and performed analytical and case-by-case testing. In our selection of the test procedures in terms of their nature and scope, we took into account the significance of the audit areas and the organization of the accounting system.

As part of our audit plan, we have defined the following key audit areas:

- Accurate definition and recognition of additions to fixed assets;
- Complete recognition of sales revenues on an accrual basis according to the existing agreements;
- Complete and accurate disclosure of balance sheet accruals.

Based on our assessment of the accounting-related Internal Control System, we have observed the principles of materiality and costs in determining further audit procedures. Accordingly, in particular the following audit procedures where performed in the year under review:

- The inventories were determined in the period from December 12, 2014 to December 13, 2014 by performing an annual physical inventory. We took part in the physical inventory which was performed on December 13, 2014 in Dortmund. We convinced ourselves of the accuracy of the establishment of the inventory and the compliance with inventory standards.
- By gathering confirmation of balances as of October 31, 2014 as well as conducting appropriate additional audit tasks, we convinced ourselves of the accuracy of the accounting of the trade payables. The confirmations of balances were selected based on mathematical-statistical selection criteria on a test basis.
- Receivables from, and payables to, shareholders and affiliated companies were audited based on confirmations and additional audit procedures as well as contract documents.
- We analysed the completeness of the accrued liabilities on the basis of the acquired information during the audit. In addition, we questioned the management of the company and its executives. We tracked the determination of accrued liabilities on the basis of submitted data and the calculation methods applied.

- We examined the other assets and liabilities on the basis of the non-personal and personal accounts together with the accounting records and inventories as well as various financial statement documents prepared by the company (including explanatory compilations relating to individual items in the annual financial statements).

- Sales revenues have been evaluated as of the date of their realization.

- From financial institutes, with which the company maintains business relationships, we gathered, as of the balance sheet date, confirmation of balances in respect of all accounts and other facts that have to be included in the balance sheet or disclosed.

We carried out analytical audit procedures (IDW PS 312) in our comparison of individual items of the balance sheet and income statement with the prior year as well as in our analysis of the assets, liabilities and financial position.

In the context of our evaluation of the management report, our audit procedures covered the review of the completeness and plausibility of the information as well as the true and fair presentation of the opportunities and risks of future development. We have assessed the information taking into account our findings during the audit.

We performed our audit during the period extending from January 8 to January 16, 2015, at the business premises of the company in Dortmund. Final work was carried out in our office.

In the scope of the audit we did a pre-audit in November 2014. Subject of this pre-audit were updates of systems reviews of IT and accounting, the legal circumstances as well as the review of commercial transactions until end of October, 2014.

All information and proof requested by us was provided by the management and its designated employees. A customary professional letter of representation of completeness signed by the management was submitted to us.

This states that all assets and liabilities have been included in the balance sheet and that no other contingencies requiring disclosure or other financial obligations than those reflected in the balance sheet and in the notes to the financial statements existed as of the balance sheet date. This statement also includes a confirmation that the management report covers all material aspects and all information pursuant to sec. 289 HGB as needed to be able to assess the position of the company.

Following this statement, there were no significant events after the close of the fiscal year.

# D. Findings and explanations of the accounting system

## I. Compliance of the accounting system

### 1. Bookkeeping and other audited documents

The company performs its accounting using its own IT system. The Company employs standard software (SAP, version 6.0) covering the following areas:

- Financial accounting including debtor and creditor bookkeeping,
- Fixed assets accounting,
- Material management and order processing,
- Cost accounting.

Payroll accounting is conducted by an external firm - audalis Kohler Punge & Partner, certified public accountants, tax consultants, attorneys-at-law, Dortmund.

The compliance of the software employed in accounting has been confirmed as part of the audit report as of December 22, 2005, issued by Deloitte & Touche GmbH Auditing Company, Frankfurt. In the course of the current audit, we have convinced ourselves that the system as certified is still applied.

We have reached the conclusion that the company has set up and maintains an appropriate Internal Control System in its accounting system and account-relevant pre-systems, which serves to ensure that all transactions are completely, accurately and promptly recorded and processed without significant errors and financial losses are prevented.

The bookkeeping complies with statutory law and the generally accepted accounting principles. The information contained in the other audited documents is properly reflected in the bookkeeping, the annual financial statements and the management report.

## 2. Annual Financial Statements for the prior year

The audited annual financial statements for the prior year ended December 31, 2013, for which we issued an unqualified opinion on February 21, 2014, were approved by the shareholders' meeting on April 15, 2014.

## 3. Annual Financial Statements

The company meets the size criteria of a medium-sized corporation. The annual financial statements for the year ended December 31, 2014 were prepared in accordance with the provisions of sec. 242 to 256 a HGB and sec. 264 to 288 HGB as well as the provisions of the GmbHG (German Law Pertaining to Companies with Limited Liability). The company's articles of association do not give rise to any supplementary requirements.

We have made use of the eased disclosure requirements depending on the size of the company according to sec. 276 and 288 HGB to the extent that they permit non-disclosure of the breakdown of sales revenues, auditors' fees and accruals for deferred taxes. Furthermore, only the gross profit is shown in the income statement.

On the basis of the annual financial statements for the prior year, the annual financial statements are based on the bookkeeping and the other audited documents. The accounting, valuation and reporting rules comply with the provisions of commercial law. The principle of consistency as set forth in sec. 246 para. 3, sec. 252 para. 1 no. 6 HBG has been observed.

The disclosures and explanations in the notes to the financial statements are complete and accurate.

The company has correctly refrained from disclosing management remuneration in the notes to the financial statements based on sec. 286 para. 4 HGB.

## 4. Management Report

The management report according to Appendix 4 complies with statutory law. It also addresses the expected development of the company including its opportunities and risks.

The management report as a whole is consistent with the annual financial statements and our findings during the audit. The information in the management report gives a true and fair view of the position and the opportunities and risks of the future development of the company.

To our knowledge, there were no significant events after the close of the fiscal year, so there was no need to report in this respect.

## II. Overall presentation of the annual financial statements

The company's bookkeeping as well as the other audited documents, the annual financial statements and the management report comply with statutory law.

In its assessment of the assets and liabilities, the company has complied with the provisions of the HGB (*German Commercial Code*) and generally accepted accounting principles (German GAAP).

The valuation of the assets and liabilities has been determined in a proper manner. The lower of cost or market principle has been observed. The risks existing as at the balance sheet date, which were identifiable upon preparation of the annual financial statements, have been taken into account by forming accruals and value adjustments.

Since previous year the company exercises its right to capitalize internally generated intangible assets (sec. 248 para. 2 HGB). This concerns development projects for exhaust aftertreatment systems. For one project there are mere expectations of future marketability; the intrinsic value in this position follows solely from the projected contribution margins of the future sales revenues generated with this development. All other projects have been completely written off, as they were either cancelled in the year under review or a revenue surplus can not be expected (any more) with regard to the balance sheet date.

The exercise of the valuation option results in an improved presentation of the net assets of the company. The essential value of the company is presently based on the know-how that has been gathered in the company, although, to a large extent, this cannot be included in the balance sheet.

The valuation principles have been accurately presented in the notes to the financial statements (Appendix 3 of this Report). The company has appropriately exercised available accounting and valuation elections. In all other respects, reference is made to our clarifications of individual items of the annual financial statements in the following section and the explanations in the notes to the financial statements.

We are of the opinion that the annual financial statements as a whole give a true and fair view of the net assets, financial position and results of operations of the company in accordance with German generally accepted accounting principles.

## III. Analysis of the net assets, financial position and results of operations

### 1. Results of operations

The company's results of operations broken down in terms of business-relevant aspects are as follows:

| | 2014 | | 2013 | | Change | |
|---|---|---|---|---|---|---|
| | k€ | % | k€ | % | k€ | % |
| Sales revenues | 23,885 | 103.1 | 5,466 | 70.9 | 18,419 | >100.0 |
| Changes in inventories | -1,583 | -6.8 | 1,316 | 17.0 | -2,899 | <-100.0 |
| Other internal expenditure capitalized | 872 | 3.7 | 932 | 12.1 | -60 | -6.4 |
| **Operating performance** | 23,174 | 100.0 | 7,714 | 100.0 | 15.460 | >100.0 |
| Material costs | -14,911 | -64.3 | -3,413 | -44.2 | -11.498 | <-100.0 |
| **Gross profit** | 8,263 | 35.7 | 4,301 | 55.8 | 3.962 | 92.1 |
| Personnel expenses | -7,048 | -30.4 | -6,478 | -84.0 | -570 | -8.8 |
| Other operating expenses | | | | | | |
| Administrative expenses | -1,709 | -7.4 | -1,940 | -25.1 | 231 | 11.9 |
| Operating expenses | -1,369 | -5.9 | -1,148 | -14.9 | -221 | -19.3 |
| Distribution expenses | -251 | -1.1 | -304 | -3.9 | 53 | 17.4 |
| Other expenses | -1,129 | -4.9 | -328 | -4.3 | -801 | <-100.0 |
| Other taxes | -2 | 0.0 | -3 | 0.0 | 1 | 33.3 |
| **Operating expenses** | -11,508 | -49.7 | -10,201 | -132.2 | -1,307 | -12.8 |
| **Subtotal** | -3,245 | -14.0 | -5,900 | -76.4 | 2,655 | 45.0 |
| Other operating income | 175 | 0.8 | 141 | 1.8 | 34 | 24.1 |
| **Operating earnings before depreciation and amortization (EBITDA)** | -3,070 | -13.2 | -5,759 | -74.6 | 2,689 | 46.7 |
| Depreciation and amortization | -1,945 | -8.4 | -1,212 | -15.7 | -733 | -60.5 |
| **Operating results** | -5,015 | -21.6 | -6,971 | -90.3 | 1,956 | 28.1 |
| Investment results | -119 | -0.5 | -207 | -2.7 | 88 | 42.5 |
| **Operating and investment earnings before interest and taxes (EBIT)** | -5,134 | -22.1 | -7,178 | -93.0 | 2,044 | 28.5 |
| Financial results | -137 | -0.6 | -236 | -3.1 | 99 | 41.9 |
| **Results before income taxes** | -5,271 | -22.7 | -7,414 | -96.1 | 2,143 | 28.9 |
| Income taxes | -2 | 0.0 | -117 | -1.5 | 115 | 98.3 |
| **Results for the year** | -5,273 | -22.7 | -7,531 | -97.6 | 2,258 | 30.0 |

In respect of individual positions of the operating results, we are providing the following supplemental explanations:

**Gross profit**

The significant increase in sales revenues is mainly based on the supply of VOLVO with serial parts, which happened for the first time over the whole year. The share of VOLVO / Renault in the total sales revenues was 84.4 %. Also the sales revenues with Liebherr increased as well as the intercompany sales revenues, which are though only of minor relevance (4.9 % and 9.7 % of the total sales revenues, respectively).

The gross profit though only increased by 92.1 %. The reason for this is a considerably higher material cost ratio in regard to the operational performance in the year under review.

The current projects (€ 1,244k) shown under work in progress in the previous year have been settled with the customers completely in the year under review.

**Personnel expenses**

The fiscal year was still characterized by personnel recruitment. The average number of employees rose by 13 (12.6 %) to 116 persons, which caused personnel expenses to increase by 8.8 %. The disproportionally low increase in personnel is, inter alia, due to recruitments mainly in production. On the other hand, positions in the management and further management positions which became vacant were not refilled or were filled with present employees, respectively.

**Other operating expenses**

This item breaks down as follows:

| | 2014<br>€ | 2013<br>€ | Change<br>€ |
|---|---|---|---|
| Administrative expenses | 1,709,028.54 | 1,940,149.41 | -231,120.87 |
| Operating expenses | 1,368,970.99 | 1,148,054.64 | 220,916.35 |
| Distribution expenses | 251,283.26 | 303,994.68 | -52,711.42 |
| Other expenses | 1,128,753.95 | 327,576.10 | 801,177.85 |
| | 4,458,036.74 | 3,719,774.83 | 738,261.91 |

Administrative expenses break down as follows:

| | 2014<br>€ | 2013<br>€ | Change<br>€ |
|---|---|---|---|
| Legal and consulting expenses | 528,250.56 | 684,758.23 | -156,507.67 |
| Rent real property | 453,154.78 | 438,881.90 | 14,272.88 |
| Maintenance/service | 157,488.80 | 228,066.64 | -70,577.84 |
| Motor vehicle costs | 121,551.19 | 98,054.53 | 23,496.66 |
| Additional charges for rented property and maintenance costs of real property | 116,618.32 | 104,600.78 | 12,017.54 |
| Insurance contributions | 100,950.46 | 95,258.17 | 5,692.29 |
| Rental and leasing expenses for office equipment and licenses | 97,455.96 | 108,077.41 | -10,621.45 |
| Ancillary personnel costs | 60,313.72 | 67,796.65 | -7,482.93 |
| Telecommunication costs | 31,696.38 | 33,028.77 | -1,332.39 |
| Office supplies, specialist literature | 16,610.21 | 23,451.00 | -6,840.79 |
| Ancillary costs of money transactions | 7,724.99 | 6,872.22 | 852.77 |
| Fees, contributions and duties | 3,905.45 | 4,212.89 | -307.44 |
| Compensatory levy for severely disabled persons | 2,415.00 | 23,780.00 | -21,365.00 |
| Postage | 1,109.34 | 1,463.14 | -353.80 |
| Other administrative expenses | 9,783.38 | 21,847.08 | -12,063.70 |
| | 1,709,028.54 | 1,940,149.41 | -231,120.87 |

The decrease in the area of legal and consulting expenses (€ -157k), inter alia, results from dispensing with consulting services in daily operations; which in the year under review were provided by newly hired present personnel. This mainly relates to the IT department. The remaining legal and consulting expenses relate primarily to legal consultancy (€ 139k), personnel consultancy (€ 105k) and IT consultancy (€ 204k).

Rental and property charges relate to production and administration areas. The slight increase is mainly due to the rental of new storage areas in an adjacent building.

Maintenance and service costs mainly relate to IT and software (€ 91k; prior year: € 137k).

Operating expenses result almost entirely from development materials and costs of external providers of development services (€ 1,360k; prior year: € 1,116k).

Distribution expenses are presented below:

| | 2014<br>€ | 2013<br>€ | Change<br>€ |
|---|---|---|---|
| Travel costs | 165,618.30 | 230,070.34 | -64,452.04 |
| Freight and packaging costs | 39,908.90 | 32,211.00 | 11,008.36 |
| Advertising costs | 32,422.87 | 28,900.54 | 211.87 |
| Entertainment expenses | 13,333.19 | 12,812.80 | 520.39 |
| | 251,283.26 | 303,994.68 | -52,711.42 |

Other expenses mainly include transfers to accruals for warranties (€ 876k) as well as for losses on receivables, which result primarily from a development project, (240 T€).

**Other operating income**

This item is presented below:

| | 2014<br>€ | 2013<br>€ | Change<br>€ |
|---|---|---|---|
| Provision of motor vehicles to employees | 43,479.42 | 40,814.33 | 2,665.09 |
| (Partial) reversal of special item liabilities | 40,606.93 | 52,439.57 | -11,832.64 |
| (Partial) reversal of other accruals | 36,368.56 | 11,492.74 | 24,875.82 |
| Income from foreign currency translations | 4,074.47 | 11,614.20 | -7,539.73 |
| Book profits on disposals of fixed assets | 3,025.21 | 0.00 | 3,025.21 |
| Decrease in valuation allowances for receivable | 0.00 | 9,847.71 | -9,847.71 |
| Others | 47,540.08 | 14,667.32 | 32,872.76 |
| | 175,094.67 | 140,875.87 | 34,218.80 |

The item "Others" mainly consists of cost transfers.

**Depreciations**

The depreciations relate with € 1,399k to intangible and with € 545k to tangible assets. € 1,024k of these are regular depreciations. Unscheduled depreciations of the capitalized development projects of € 920k have been made, because the projects have either been cancelled so that no future benefits could be expected (€ 238,) or the expected benefits were below the capitalized costs (€ 682).

**Investment results**

This item relates to the unscheduled depreciation (€ 119k) of the investment in Albonair (Taicang) Automotive Technology Co. Ltd. in Taicang City/China following the delayed setup of the Chinese business, which has adverse effects on the future earnings prospects of the commitment and the value of the investment, therefore.

**Financial results**

| | 2014<br>€ | 2013<br>€ | Change<br>€ |
|---|---|---|---|
| Interest and similar income | 35,859.82 | 5,880.60 | 29,979.22 |
| Income from loans of financial assets | 8,367.81 | 6,664.48 | 1,703.33 |
| Interest and similar expenses | -181,587.46 | -248,815.06 | 67,227.60 |
| | -137,359.83 | -236,269.98 | 98,910.15 |

Interests and similar income relate with € 30k mainly to the discounting of the warranty provision. The income from loans of financial assets primarily results from loans granted to the Chinese subsidiary.

Interests and similar expenses result mainly from the use of a credit line (€ 101k) and factoring interests (€ 73k).

## 2. Net assets

For purposes of presenting the net assets structure, entries on the assets side of the balance sheet are attributed to non-current assets (due in more than one year) or current assets.

For purposes of presenting the capital structure, entries on the liabilities side of the balance sheet were attributed to equity or debt capital, with items due in up to one year attributed to short-term, items due in between one and five years to medium-term and items due in over five years attributed to long-term debt capital.

The comparability of the net assets position to the prior year is only very limited, since the company was still in the process of being set-up.

### Assets Structure

| | 12-31-2014 | | 12-31-2013 | | Change | |
|---|---|---|---|---|---|---|
| | k€ | % | k€ | % | k€ | % |
| **Non-current assets** | | | | | | |
| Intangible assets | 796 | 8.6 | 1,452 | 19.6 | -656 | -45.2 |
| Tangible assets | 2,473 | 26.5 | 2,572 | 34.6 | -99 | -3.8 |
| Financial assets | 194 | 2.1 | 224 | 3.0 | -30 | -13.4 |
| | 3,463 | 37.2 | 4,248 | 57.2 | -785 | -18.5 |
| **Current assets** | | | | | | |
| Inventories | 1,397 | 15.0 | 1,698 | 22.9 | -301 | -17.7 |
| Trade receivables | 1,105 | 11.9 | 958 | 12.9 | 147 | 15.3 |
| Receivables from affiliated companies | 971 | 10.4 | 219 | 2.9 | 752 | >100.0 |
| Receivables from shareholders | 159 | 1.7 | 0 | 0.0 | 159 | 100.0 |
| Other assets | 545 | 5.8 | 231 | 3.1 | 314 | >100.0 |
| Prepaid expenses and deferred charges | 110 | 1.2 | 69 | 0.9 | 41 | 59.4 |
| | 4,287 | 46.0 | 3,175 | 42.7 | 1,112 | 35.0 |
| **Liquid assets** | 1,565 | 16.8 | 6 | 0.1 | 1,559 | >100.0 |
| **Total assets** | 9,315 | 100.0 | 7,429 | 100.0 | 1,886 | 25.4 |

## Capital Structure

| | 12-31-2014 | | 12-31-2013 | | Change | |
|---|---|---|---|---|---|---|
| | k€ | % | k€ | % | k€ | % |
| **Equity capital in terms of balance sheet analysis** | | | | | | |
| Subscribed capital | 39,367 | 422.6 | 30,025 | 404.2 | 9,342 | 31.1 |
| Contributions made to carry out a capital increase | 3,128 | 33.6 | 10,970 | 147.7 | -7,842 | -71.5 |
| Accumulated loss | -41,627 | -446.9 | -36,354 | -489.4 | -5,273 | 14.5 |
| Special item for benefits | 189 | 2.0 | 241 | 3.2 | -52 | -21.6 |
| | 1,057 | 11.3 | 4,882 | 65.7 | -3,825 | -78.3 |
| **Short-term debt capital** | | | | | | |
| Other accruals | 2,366 | 25.4 | 826 | 11.1 | 1,540 | >100.0 |
| Payables to banks | 4,775 | 51.3 | 0 | 0.0 | 4,775 | 100.0 |
| Advances received | 0 | 0.0 | 467 | 6.3 | -467 | -100.0 |
| Trade payables | 1,020 | 11.0 | 1,161 | 15.6 | -141 | -12.1 |
| Other payables and deferred income | 97 | 1.0 | 93 | 1.3 | 4 | 4.3 |
| | 8,258 | 88.7 | 2,547 | 34.3 | 5,711 | >100.0 |
| **Total capital** | 9,315 | 100.0 | 7,429 | 100.0 | 1,886 | -25.4 |

**Explanations of the net assets position**

With respect to selected items of the net assets position, we are providing the following additional explanations:

**Fixed assets**

As regards the details of the development of the fixed assets, reference is made to Appendix 3a of this report.

In addition to software and licenses (€ 60k), intangible assets include tooling costs invoiced by the company Conti Temic in the amount of € 220k. Conti Temic developed SCR- control units and accompanying software for ALBONAIR. The tooling costs are amortized over the term of the contract.

Furthermore, the company capitalized its own development cost in case these projects promise a certain economic future benefit. The intrinsic value or the future economic benefit associated with the capitalized development costs is calculated on the basis of project-related plans. In addition to the planned quantities and planned prices these plans include planned costs. Of the four projects activated in the previous year, three projects were fully depreciated due to current planning available; two projects have been cancelled in the year under review and from one project no future economical benefit can be expected with sufficient certainty (any more). The remaining project "alternative dosing pump" was capitalized with € 516k. The expected income surplus results from cost reductions, if the pump is used instead of the previously used models in the systems of the company. The balance sheet item is subject to an annual impairment test.

Changes in tangible fixed assets were as follows:

| | 2014<br>€ | 2013<br>€ |
|---|---|---|
| As of Jan. 1 | 2,571,738.19 | 2,473,249.31 |
| Additions | 467,485.30 | 633,255.86 |
| Disposals | -20,603.74 | -38,194.56 |
| Depreciation | -545,700.56 | -496,572.42 |
| As of Dec. 31 | 2,472,919.19 | 2,571,738.19 |

The additions mainly relate to the purchase of new test facilities (€ 214k), tools (€ 87k) and a new conditioning cabinet (€ 30k).

The tangible fixed assets are comprised as follows:

| | 12-31-2014<br>€ | 12-31-2013<br>€ | Change<br>€ |
|---|---|---|---|
| Furniture and fittings | 164,075.05 | 174,327.35 | -10,252.30 |
| Technical equipment and machinery | 1,806,872.83 | 2,038,261.79 | -231,388.96 |
| Factory and office equipment | 257,872.60 | 334,429.62 | -76,557.02 |
| Payments on account and construction in process | 244,098.71 | 24,719.43 | 219,379.28 |
| | 2,472,919.19 | 2,571,738.19 | -98,819.00 |

Factory and office equipment includes a collective item in the amount of € 124k for low-cost assets with acquisition costs of between € 150.00 and € 1,000.00 each. The increase in payments on account and construction in process is mainly related to new test facilities.

Financial assets relate to the 100 % shareholding in Albonair (Taicang) Automotive Technology Co. Ltd. in Taicang City/China. The start-up losses as of the balance sheet date amount to € 744k. The registered capital of the company converted into Euro amounts to € 548k. The book value of the shareholding net of valuation allowances amounts to € 439k. As of the balance sheet date, the shareholding was fully depreciated, as it cannot be seen yet when the company will achieve operational results.

As of balance sheet date, three loans in the amount of US-$ 250k were granted to the Chinese subsidiary and have already been drawn in full. The loans bear interest at a rate of 5.0 % p. a. However, interests have not been paid yet but are shown under other assets (€ 17k, prior year: € 9k). A valuation allowance of the loans was waived so far; the company assumes that the loans will be serviced as planned as soon as the subsidiary started its operative business.

**Trade receivables**

This item including its increase is mainly due to receivables from the customers VOLVO (€ 636k), Renault (€ 243k) and Liebherr (€ 60k).

**Receivables from affiliated companies**

These primarily concern receivables from an Indian affiliated company (€ 954k). In addition, interest receivables from loans made to the Chinese subsidiary (€ 17k) are shown.

**Receivables from shareholders**

Receivables result from development orders and are depreciated due to ambiguities about the value of a receivable from one of these development projects.

**Other assets**

This item mainly includes claims for tax refunds (€ 232k) and advance payments for development services (€ 284k).

**Liquid assets**

The liquid assets break down as follows:

| | 12-31-2014<br>€ | 12-31-2013<br>€ | Change<br>€ |
|---|---|---|---|
| Cash on hand | 109.40 | 423.49 | -314.09 |
| Bank balances | | | |
| Commerzbank Munich | 1,561,558.68 | 4,228.78 | 1,557,329.90 |
| Deutsche Bank | 3,271.49 | 1,707.39 | 1,564.10 |
| | 1,564,830.17 | 5,936.17 | 1,558,894.00 |
| | 1,564,939.57 | 6,359.66 | 1,558,579.91 |

**Equity in terms of balance sheet analysis**

Equity in terms of balance sheet analysis includes the subscribed capital, contributions made to carry out a capital increase, the accumulated loss and the special item for investment grants.

Therefore, the equity in terms of balance sheet analysis is as follows:

| | 12-31-2014<br>€ | 12-31-2013<br>€ | change<br>€ |
|---|---|---|---|
| Subscribed capital | | | |
| Registered capital | 39,367,000.00 | 30,025,000.00 | 9,342,000.00 |
| Contributions made to carry out a capital increase | 3,128,000.00 | 10,970,000.00 | -7,842,000.00 |
| Accumulated loss | -41,627,201.51 | -36,353,803.81 | -5,273,397.70 |
| Special item for investment grants | 189,332.61 | 241,169.56 | -51,836.95 |
| | 1,057,131.10 | 4,882,365.75 | -3,825,234.65 |

By duly notarized agreement of December 11, 2013 (register of deeds no. 597/2013 of the notary public Ulrich Rainer Modersohn, Werl/Westph.) it was resolved to increase the share capital of the company by € 9,342,000.00. The capital increase is exclusively provided by Ashok Leyland Ltd. The payment was received on December 16, 2013 by the company under review. The registration with the commercial register was effected on August 1, 2014.

In addition, another € 1,628,000.00 was already contributed by Ashok Leyland Ltd. on December 16, 2013, and further € 1,500,000.00 on December 15, 2014. This money will be needed for a further capital increase in the year 2015.

For further details, reference is made to our explanations of the legal circumstances in Appendix 5.

The Company received investment grants as part of the regional economic development program of North Rhine-Westphalia. These grants have been entered on the liabilities side in the amount received and will be released to profits over the average useful life of the subsidized fixed assets.

## Other accruals

Other accruals break down as follows:

| | 01-01-2014 € | Utilisation € | Reversal € | Allocation € | 12-31-2014 € |
|---|---|---|---|---|---|
| Personnel-related accruals | | | | | |
| Bonus payments | 355,400.00 | -320,091.00 | -35,309.00 | 343,200.00 | 343,200.00 |
| Vacation days not taken | 112,700.00 | -112,700.00 | 0.00 | 105,400.00 | 105,400.00 |
| Contributions to employers' liability insurance association | 31,800.00 | -30,740.44 | -1,059.56 | 35,800.00 | 35,800.00 |
| Compensatory levy for severely disabled persons | 13,630.00 | -13,630.00 | 0.00 | 2,415.00 | 2,415.00 |
| Severance payment obligations | 61,000.00 | -61,000.00 | 0.00 | 0.00 | 0.00 |
| | 574,530.00 | -538,161.44 | -36,368.56 | 486,815.00 | 486,815.00 |
| Sales-related accruals | | | | | |
| Warranties | 189,260.00 | -13,727.89 | 0.00 | 846,467.89 | 1,022,000.00 |
| Contingent losses from pending transactions | 0.00 | 0.00 | 0.00 | 19,000.00 | 19,000.00 |
| | 189,260.00 | -13,727.89 | 0.00 | 865,467.89 | 1,041,000.00 |
| Other accruals | | | | | |
| Preparation and audit of annual financial statements | 30,000.00 | -30,000.00 | 0.00 | 30,000.00 | 30,000.00 |
| Outstanding invoices | 32,000.00 | -32,000.00 | 0.00 | 807,630.00 | 807,630.00 |
| Expenses for archival storage | 800.00 | 0.00 | 0.00 | 200.00 | 1,000.00 |
| | 62,800.00 | -62,000.00 | 0.00 | 837,830.00 | 838,630.00 |
| | 826,590.00 | -613,889.33 | -36,368.56 | 2,190,112.89 | 2,366,445.00 |

Accruals for warranties have been built due to the warranty obligations concerning the serial production for the customer VOLVO and Renault. This is based on a "Global Warranty Charter" agreed upon with VOLVO which commits the company to take over warranty costs incurred at VOLVO - including the costs for recall campaigns, if applicable - and in which a scrap rate of 1.0 % is assumed. The allocation also includes a discount amount of € 30k.

The contingent losses result from an expected negative cash value of profit contributions from a serial project.

Accruals for outstanding invoices mainly relate to pending development costs for already invoiced projects.

**Trade payables**

This item has increased due to the higher business volume and end-of-period effects and breaks down as follows:

| | 12-31-2014<br>€ | 12-31-2013<br>€ | Change<br>€ |
|---|---|---|---|
| Payables – domestic | 708,762.25 | 974,626.90 | -265,864.65 |
| Payables – international | 310,762.37 | 185,893.61 | 124,868.76 |
| | 1,019,524.62 | 1,160,520.51 | -140,995.89 |

**Other payables**

This item mainly covers wage and church tax liabilities.

## 3. Financial position

### Liquidity position

The structural analysis of the liquidity of the company – in the previous year disregarding the shareholder loans which are attributed to equity – is reflected in the following table:

| | 12-31-2014<br>k€ | 12-31-2013<br>k€ | Change<br>k€ |
|---|---|---|---|
| Liquid assets | 1,565 | 6 | 1,559 |
| Short-term account liabilities | -4,775 | 0 | -4,775 |
| **= 1st degree liquidity** | -3,210 | 6 | -3,216 |
| | | | |
| Inventories and short-term receivables | 4,178 | 3,106 | 1,072 |
| Supplier and short-term liabilities | -3,483 | -2,547 | -936 |
| **= 2nd and 3rd degree liquidity** | -2,515 | 565 | -3,080 |

### Cash Flow Statement

In the cash flow statement, cash flows have been subdivided into the categories operating activities, investment and financing activities. They are determined in accordance with the German accounting standard no. 2 (DRS 2).

| | | 2014 k€ | 2013 k€ | Change k€ |
|---|---|---|---|---|
| | Result for the year (before extraordinary items) | -5,273 | -7,531 | 2,258 |
| + | Depreciation of fixed assets | 2,064 | 1,418 | 646 |
| + | Decrease in accruals | 1,539 | 343 | 1,196 |
| + | Other non-cash expenses | 189 | 178 | 11 |
| - / + | Profit/loss on disposals of fixed assets | -3 | 38 | -41 |
| - | Increase in inventories, trade receivables and other assets not attributable to investment or financing activities | -1,351 | -319 | -1,032 |
| - / + | Decrease/increase in trade payables and other liabilities not attributable to investment or financing activities | -606 | 303 | -909 |
| = | **Cash flow from operating activities** | **-3,441** | **-5,570** | **2,129** |
| + | Cash inflow from disposals of tangible fixed assets | 24 | 0 | 24 |
| - | Cash outflow for investments in tangible fixed assets | -467 | -633 | 166 |
| - | Cash outflow for investments in intangible fixed assets | -744 | -923 | 179 |
| - | Cash outflow for investments in financial assets | -88 | -114 | 26 |
| = | **Cash flow from investment activities** | **-1,275** | **-1,670** | **395** |
| | **Free cash flow** | **-4,716** | **-7,240** | **2,524** |
| + | Cash inflow from equity contributions (capital increases, sale of own shares etc.) | 1,500 | 20,970 | -19,470 |
| + | Cash inflow from issuing bonds and raising (financial) credits | 4,700 | 5,392 | -692 |
| - | Cash outflow for repayment of bonds and (financial) credits | 0 | -19,342 | 19,342 |
| = | **Cash flow from financing activities** | **6,200** | **7,020** | **-820** |
| | **Change in cash and cash equivalents** | 1,484 | -220 | 1,704 |
| + | Cash and cash equivalents at the beginning of the period | 6 | 226 | -220 |
| = | **Cash and cash equivalents at the end of the period** | **1,490** | **6** | **1,484** |
| | **Composition of cash and cash equivalents at the end of the period** | | | |
| | Cash | 1,565 | 6 | 1,559 |
| | Bank liabilities due on demand | -75 | 0 | -75 |
| | | **1,490** | **6** | **1,484** |

Cash inflow from equity contributions relates to payments received in the year under review in respect of a capital increase planned for 2015 (€ 1,500k). Further, the borrowing in the financing area concerns the current utilization of the credit line at Punjab National Bank (International) Limited, London.

## E. Statement of audit opinion and final comments

In accordance with the result of our audit, we have issued an unqualified audit opinion on the annual financial statements enclosed with this report as Appendices 1 to 3 and the management report (Appendix 4) as follows:

> "We have audited the annual financial statements - comprising the balance sheet, the income statement and the notes to the financial statements - together with the bookkeeping system and the management report of ALBONAIR GmbH, Dortmund, for the fiscal year from January 1, 2014 to December 31, 2014. The maintenance of the books and records and the preparation of the annual financial statements and the management report in accordance with German commercial law are the responsibility of the company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report, based on our audit.
>
> We conducted our audit of the annual financial statements in accordance with section 317 HGB [*German Commercial Code*] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [*Institute of Public Auditors in Germany*] (IDW). These standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] generally accepted accounting principles are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company and expectations as to possible misstatements are taken into account in the determination of audit procedures.

The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes the assessment of the accounting principles applied and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the company in accordance with generally accepted accounting principles. The management report is consistent with the annual financial statements and as a whole provides an accurate view of the company's position and accurately presents the opportunities and risks of future development."

In the event of publication or distribution of the financial statements in a version that deviates from the audited version, our prior approval is again required in cases where our audit certificate is cited or our audit is referenced; reference is made to sec. 328 HGB

In the event of discrepancies between the German text of the audit report and its translation into the English language, the original German text shall prevail.

Münster, February 26, 2015

DR. SCHUMACHER & PARTNER GMBH

Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(Tönnes)
Wirtschaftsprüfer

(Benassi)
Wirtschaftsprüfer

# APPENDICES

**ALBONAIR GmbH, Dortmund**

**Balance Sheet as of December 31, 2014**

**ASSETS**

| | 12-31-2014 € | 12-31-2013 € |
|---|---|---|
| **A. Fixed assets** | | |
| **I. Intangible assets** | | |
| 1. Internally generated industrial rights and similar rights and assets | 516,346.00 | 730,939.54 |
| 2. Acquired concessions, industrial rights and similar rights and assets and licenses in such rights and assets | 279,859.99 | 721,191.55 |
| | 796,205.99 | 1,452,131.09 |
| **II. Tangible assets** | | |
| 1. Land, similar rights and buildings incl. buildings on third-party land | 164,075.05 | 174,327.35 |
| 2. Technical equipment and machinery | 1,806,872.83 | 2,038,261.79 |
| 3. Other equipment, factory and office equipment | 257,872.60 | 334,429.62 |
| 4. Payments on account and assets under construction | 244,098.71 | 24,719.43 |
| | 2,472,919.19 | 2,571,738.19 |
| **III. Financial assets** | | |
| 1. Shares in affiliated companies | 0.00 | 78,917.14 |
| 2. Loans to affiliated companies | 193,652.26 | 145,022.00 |
| | 193,652.26 | 223,939.14 |
| | 3,462,777.44 | 4,247,808.42 |
| **B. Current assets** | | |
| **I. Inventories** | | |
| 1. Raw materials and supplies | 979,505.99 | 926,883.93 |
| 2. Work In process | 45,744.89 | 1,336,093.86 |
| 3. Finished goods and goods for resale | 371,903.95 | 678,618,09 |
| 4. Payments received on account of orders | 0.00 | -1,243,560.46 |
| | 1,397,154.83 | 1,698,035.42 |
| **II. Receivables and other assets** | | |
| 1. Trade receivables | 1,105,261.73 | 957,821.63 |
| 2. Receivables from affiliated companies | 971,140.79 | 219,299.35 |
| 3. Receivables from shareholders | 159,230.00 | 0.00 |
| 4. Other assets | 544,491.79 | 230,982.85 |
| | 2,780,124.31 | 1,408,103.83 |
| **III. Cash on hand, bank balances** | 1,564,939.57 | 6,359.66 |
| | 5,742,218.71 | 3,112,498.91 |
| **C. Prepaid expenses and deferred charges** | 109,874.77 | 68,821.70 |
| | 9,314,870.92 | 7,429,129.03 |

**LIABILITIES**

| | 12-31-2014 € | 12-31-2013 € |
|---|---|---|
| **A. Equity** | | |
| **I. Subscribed capital** | 39,367,000.00 | 30,025,000.00 |
| **II. Contributions made to carry out a capital increase** | 3,128,000.00 | 10,970,000.00 |
| **III. Accumulated loss** | -41,627,201.51 | -36,353,803.81 |
| | 867,798.49 | 4,641,196.19 |
| **B. Special item for grants** | 189,332.61 | 241,169.56 |
| **C. Accruals** | | |
| Other accruals | 2,366,445.00 | 826,590.00 |
| **D. Payables** | | |
| 1. Liabilities towards banks | 4,775,291.02 | 0.00 |
| - of which with a remaining term of up to one year: € 4,775,291.02 (prior year: € 0.00) | | |
| 2. Payments received on account of orders | 0.00 | 466,874.24 |
| 3. Trade payables | 1,019,524.62 | 1,160,520.51 |
| - of which with a remaining term of up to one year: € 1,019,479.18 (prior year: € 1,160,520.51) | | |
| 4. Other liabilities | 96,479.18 | 92,778.53 |
| - of which taxes: € 96,479.18 (prior year: € 85,691.69) | | |
| - of which with a remaining term of up to one year: € 96,479.18 (prior year: € 92,778.53) | | |
| | 5,891,294.82 | 1,720,173.28 |
| | 9,314,870.92 | 7,429,129.03 |

## ALBONAIR GmbH, Dortmund

## Income Statement 2014

| | | | 2014<br>€ | 2013<br>€ |
|---|---|---|---|---|
| 1. | Gross profit | | 8,437,342.06 | 4,441,825.93 |
| 2. | Personnel expenses | | | |
| | a) Wages and salaries | -5,955,448.07 | | -5,479,841.10 |
| | b) Social security, pension and other benefit costs | -1,092,465.88 | | -998,453.80 |
| | - of which for retirement benefits: € 68,448.01 (prior year: € 51,659.04) | | | |
| | | | -7,047,913.95 | -6,478,294.90 |
| 3. | Amortization, depreciation | | -1,945,158.32 | -1,211,534.93 |
| 4. | Other operating expenses | | -4,458,036.74 | -3,719,774.83 |
| 5. | Income from other securities and loans of financial assets | | 8,367.81 | 6,664.48 |
| | - of which from affiliated companies: € 8,367.81 (prior year: € 6,664.48) | | | |
| 6. | Other interest and similar income | | 35,859.82 | 5,880.60 |
| | - of which from discounting of accruals: € 30,000.00 (prior year: € 0.00) | | | |
| 7. | Write-down of financial assets and short-term investments | | 35,859.82 | -207,314.76 |
| 8. | Interest and similar expenses | | -118,676.78 | -248,815.06 |
| | - of which for affiliated companies: € 0.00 (prior year: € 242,351.97) | | | |
| 9. | Net operating results | | -5,269,803.56 | -7,411,363.47 |
| 10. | Taxes on income | | -1,303.40 | -116,752.96 |
| 11. | Other taxes | | -2,290.74 | -2,575.39 |
| 12. | Net loss for the year | | -5,273,397.70 | -7,530,691.82 |
| 13. | Cumulative losses brought forward | | -36,353,803.81 | -28,823,111.99 |
| 14. | Balance sheet loss | | -41,627,201.51 | -36,353,803.81 |

**ALBONAIR GmbH, Dortmund**

**Notes to the Financial Statements 2014**

## I. General information concerning the annual financial statements

The annual financial statements have been prepared in accordance with the provisions of the Handelsgesetzbuch (HGB) [*German Commercial Code*] and of the GmbH-Gesetz [*German Law pertaining to Companies with Limited Liability*].

As of the balance sheet date, ALBONAIR GmbH meets the size criteria of a medium-sized company (sec. 267 para. 2 HGB).

The income statement has been prepared based on the total cost method (sec. 275 para. 2 HGB).

The figures for the fiscal year are only partially comparable to the previous year, since the company is still in the process of being set-up.

## II. Information on accounting and valuation methods

In detail, the following accounting and valuation methods are applied:

Internally generated intangible assets were valued at the production costs incurred in their development less necessary amortization.

Acquired intangible assets were valued at acquisition costs less straight-line amortization (based on a useful life of 3 to 5 years).

Tangible fixed assets are valued at acquisition or production costs less regular depreciation.

For building installations a useful life of 3 to 20 years is applied.

The useful life for technical equipment and machinery is between 2 and 16 years.

The useful life of other equipment, factory and office equipment is between 3 and 13 years.

The company uses the straight-line method of depreciation/amortization for additions to fixed assets.

A collective item is formed for additions of assets with acquisition costs of € 150.00 to € 1,000.00. This collective item will be dissolved by one fifth in each fiscal year, with the effect of decreasing profits (sec. 6 para. 2a EStG [*German Income Tax Act*]).

Assets of the financial fixed assets are valued at cost, where applicable, at the lower cost value.

Raw materials and supplies are generally valued at acquisition or production costs taking into account the strict lower of cost or market principle.

Work in process and finished products and services are taken into account at production cost.

In addition to direct material and manufacturing costs, production costs include exceptional costs of manufacturing as well as adequate portions of material overhead costs, manufacturing overhead costs and of the depreciation of fixed assets as far as caused by the manufacture. Costs of general administration, voluntary social security and old age benefits are not included in production costs.

Interest on debt capital is not included in production costs.

Goods for resale are recognized at acquisition cost.

Reductions in value based on loss-free valuations and for identifiable risks based on long storage periods or reduced technical usability are included in inventories as appropriate.

Payments received on account of inventories are openly deducted from the inventories.

The raw materials and supplies included in inventories are valued at the weighted average value (€ 980k) as of the balance sheet date. Applying the market price as of the balance sheet date as a basis would result in the same value of € 980k and therefore would not cause a difference in valuation.

Receivables and other assets are recognized at their nominal value after deduction of necessary accumulated value adjustments. All identifiable individual risks are taken into account.

The general default and credit risk in trade receivables has been adequately taken into account by applying flat-rate adjustments at 1.0 % to net receivables that were not previously and individually adjusted in terms of their value.

Liquid assets are taken into account at nominal value.

In assessing other accruals all identifiable risks and uncertain obligations are taken into account.

For other accruals the settlement amount was considered as the standard for valuation.

Accruals with a remaining term of more than one year are discounted on the basis of term-congruent market interests.

Payables are generally stated at their settlement amount.

Transactions in foreign currencies are converted at the foreign exchange spot mean rate in compliance with sec. 256a clause 2 HGB.

In respect of receivables, payables and foreign currency holdings, profits and losses from exchange rate fluctuations are taken into account as of the balance sheet date.

## III. Balance sheet information

### 1. Fixed assets

The structure of, and movements in, fixed assets are shown in Appendix 3a to the Notes (Statement of movements in fixed assets according to sec. 268 no. 2 HGB).

Of the total expenses relating to research and development costs in 2014 (€ 1,781k), € 706k have been capitalized as internally generated intangible assets as part of the fixed assets and € 920k have been recognized as unscheduled write-offs.

### 2. Financial assets

The company holds 100 % of Albonair (Taicang) Automotive Technology Co. Ltd. in Taicang City/China. The company has a paid-in capital of USD 665k. The company's equity converted to EUR amounts to € 548k. The company is not yet operational and accordingly does not show a result for the year.

For Albonair (Taicang) Automotive Technology Co. Ltd., the book value as of the reporting date exceeded the current value. For this reason, the shareholding was fully depreciated. The further granted loans were not further written down pursuant to sec. 253 para. 2 clause 3 HGB, since such further decrease in value is not considered permanent. These are customary start-up losses.

### 3. Receivables and other assets

Receivables from affiliated companies include balanced trade receivables and trade payables in the amount of € 954k (prior year: € 210k). The remaining receivables relate to interest receivables from loans to Albonair (Taicang) Automotive Technology Co. Ltd., which bear interest at a rate of 5.0 % p.a.

Receivables from shareholders result from supplies and services and are written off at an amount of € 233k.

## 4. Equity capital

The share capital of the company amounts to € 39,367k (prior year: € 30,025k). A contribution of € 3,128k has already been made in respect of a capital increase that had not been performed yet; this capital increase was entered into the commercial register on February 26, 2015. Alongside this, there is an accumulated loss of € 41,627k (prior year: € 36,354k).

A payout block is in place with respect to capitalized internally generated intangible assets in the amount of € 516k.

## 5. Special item

The special item includes an investment grant from a funding program of the Land of North Rhine-Westphalia, which will be released to profits over the useful life of the subsidized assets.

## 6. Accruals

Other accruals break down as follows:

| | 12-31-2014<br>k€ | 12-31-2013<br>k€ |
|---|---|---|
| Personnel-related accruals | | |
| Bonus payments | 343 | 355 |
| Vacation days not taken | 105 | 113 |
| Contributions to employers' liability insurance association | 36 | 32 |
| Compensatory levy for severely disabled persons | 3 | 14 |
| Severance payment obligations | 0 | 61 |
| | 487 | 575 |
| Sales-related accrual | | |
| Warranties | 1,022 | 189 |
| Contingent losses from pending transactions | 19 | 0 |
| | 1,041 | 189 |
| Other accruals | | |
| Outstanding invoices | 807 | 32 |
| Preparation and audit of annual financial statements | 30 | 30 |
| Expenses for archival storage | 1 | 1 |
| | 838 | 63 |
| | 2,366 | 827 |

## 7. Payables

The payables have the following remaining terms:

| | total | Of which with a remaining term of Up to 1 year | More than1 and up to 5 years | More than 5 years |
|---|---|---|---|---|
| | k€ | k€ | k€ | k€ |
| 1. Payments received on account of orders | 0 | 0 | 0 | 0 |
| 2. Liabilities towards banks | 4,775 | 4,775 | 0 | 0 |
| 2. Trade payables | 1,020 | 1,020 | 0 | 0 |
| 3. Other payables | 96 | 96 | 0 | 0 |
| | 5,891 | 5,891 | 0 | 0 |

All payables have a remaining term of up to one year.

Trade payables are subject to customary reservations of title.

Other payables include liabilities on taxes in the amount of € 96k (prior year: € 86k).

As of the reporting date, other financial obligations amount to:

| | 12-31-2014 | 12-31-2013 |
|---|---|---|
| | T€ | T€ |
| Obligations under tenancy agreements with terms of several years | 3,114 | 3,524 |
| Obligations under lease agreements with terms of several years | 184 | 138 |
| | 3,298 | 3,662 |

Of the other financial obligations, € 569k (prior year: € 514k) relate to a remaining term of up to one year and € 412k (prior year: € 961k) relate to a remaining term of more than five years.

These off-balance sheet transactions or other financial obligations serve to avoid capital tie-up.

## IV. Income Statement information

Gross profit includes other operating income from currency exchange profits (€ 4k) and income from the reversal of the special item for grants (€ 41k).

Other operating expenses include expenses arising from currency exchange rate losses in the amount of € 6k.

Taxes on income relate to ordinary business activities and include deductible withholding taxes.

Deferred taxes are based on the differences between commercial and tax balance sheet items shown below:

| Type of asset, deferred item or account payable | Type of deferred tax |
|---|---|
| Internally generated intangible assets | passive |
| Other accruals (warranty) | active |
| Financial assets | active |
| Tax losses carried forward | active |

The deferred taxes are valued with a company-specific tax rate of 32.81 %. All deferred tax positions are balanced out over the financial statements as a whole. The remaining active deferred taxes are not shown in the overall balance consideration.

## V. Other information

### 1. Annual average number of employees

The average number of employees pursuant to sec. 267 para. 5 HGB amounts to:

| | 2014 | 2013 |
|---|---|---|
| Industrial Workers | 22 | 13 |
| Employees | 94 | 90 |
| | 116 | 103 |

## 2. Managing directors

From January 1 to December 31, 2014, the following individuals were part of the company management:

| | | |
|---|---|---|
| • Dr. Georg Hüthwohl (CEO) | Soest / Germany | |
| • Dr. René Rüdinger (Commercial Managing Director) | Dortmund / Germany | until October 31, 2014 |

Pursuant to sec. 286 para. 4 HGB, the total remuneration paid to the members of management has not been disclosed.

## 3. Group affiliation

The consolidated financial statement for the largest group of companies to which the company belongs is prepared by Ashok Leyland Ltd., Chennai/India.

## 4. Proposal for application of results

The net losses for the year of € -5,273k together with the losses brought forward of € -36,354k result in an accumulated loss of € -41,627k. The management proposes to carry this accumulated loss forward onto new account.

## 5. Miscellaneous

The company made use of the eased requirements based on company size according to sec. 276 and 288 HGB.

Dortmund, February 26, 2015

ALBONAIR GmbH

sgd. Dr. Georg Hüthwohl

**ALBONAIR GmbH, Dortmund**

**Movement in Fixed Assets**

| | ACQUISITION AND PRODUCTION COSTS | | | | | ACCUMULATED DEPRECIATION AND AMORTIZATION | | | | NET BOOK VALUE | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 01-01-2014 € | Additions € | Transfers € | Disposals € | 12-31-2014 € | 01-01-2014 € | Additions € | Disposals € | 12-31-2014 € | 12-31-2014 € | 12-31-2013 € |
| **I. Intangible assets** | | | | | | | | | | | |
| 1. Internally generated industrial rights and similar rights and assets | 913,939.54 | 705,528.66 | 0.00 | 0.00 | 1,619,468.20 | 183,000.00 | 920,122.20 | 0.00 | 1,103,122.20 | 516,346.00 | 730,939.54 |
| 2. Acquired concessions, industrial rights and similar rights and assets and licenses in such rights and assets | 2,831,034.66 | 38,004.00 | 0.00 | 0.00 | 2,869,038.66 | 2,109,843.11 | 479,335.56 | 0.00 | 2,589,178.67 | 279,859.99 | 721,191.55 |
| | 3,744,974.20 | 743,532.66 | 0.00 | 0.00 | 4,488,506.86 | 2,292,843.11 | 1,399,457.76 | 0.00 | 3,692,300.87 | 796,205.99 | 1,452,131.09 |
| **II. Tangible Assets** | | | | | | | | | | | |
| 1. Land, similar rights and buildings including buildings on third-party land | 250,789.10 | 9,889.14 | 0.00 | 0.00 | 260,678.24 | 76,461.75 | 20,141.44 | 0.00 | 96,603.19 | 164,075.05 | 174,327.35 |
| 2. Technical equipment and machinery | 2,772,098.05 | 157,148.39 | 6,897.72 | 0.00 | 2,936,144.16 | 733,836.26 | 395,435.07 | 0.00 | 1,129,271.33 | 1,806,872.83 | 2,038,261.79 |
| 3. Other equipment, factory and office equipment | 952,274.82 | 53,567.03 | 0.00 | -10,924.37 | 994,917.48 | 617,845.20 | 130,124.05 | -10,924.37 | 737,044.88 | 257,872.60 | 334,429.62 |
| 4. Payments on account and assets under construction | 24,719.43 | 246,880.74 | -6,897.72 | -20,603.74 | 244,098.71 | 0.00 | 0.00 | 0.00 | 0.00 | 244,098.71 | 24,719.43 |
| | 3,999,881.40 | 467,485.30 | 0.00 | -31,528.11 | 4,435,838.59 | 1,428,143.21 | 545,700.56 | -10,924.37 | 1,962,919.40 | 2,472,919.19 | 2,571,738.19 |
| **III. Financial assets** | | | | | | | | | | | |
| 1. Shares in affiliated companies | 438,917.14 | 50,434.61 | 0.00 | 0.00 | 489,351.75 | 360,000.00 | 129,351.75 | 0.00 | 489,351.75 | 0.00 | 78,917.14 |
| 2. Loans to affiliated companies | 155,696.97 | 37,955.29 | 0.00 | 0.00 | 193,652.26 | 10,674.97 | -10,674.97 | 0.00 | 0.00 | 193,652.26 | 145,022.00 |
| | 594,614.11 | 88,389.90 | 0.00 | 0.00 | 683,004.01 | 370,674.97 | 118,676.78 | 0.00 | 489,351.75 | 193,652.26 | 223,939.14 |
| | 8,339,469.71 | 1,299,407.86 | 0.00 | -31,528.11 | 9,607,349.46 | 4,091,661.29 | 2,063,835.10 | -10,924.37 | 6,144,572.02 | 3,462,777.44 | 4,247,808.42 |

# ALBONAIR GmbH, Dortmund

## Management Report 2014

### Business performance and general conditions

Albonair GmbH was founded in the year 2007 and has its registered offices in Dortmund. The company is part of the multinational Hinduja Group in London. The direct owner of Albonair GmbH is Ashok Leyland Ltd. with registered offices in Chennai, India. In the year 2009, the shareholder Ashok Leyland Ltd. founded in its domestic market in India Albonair (India) Private Limited in Chennai. Albonair India is a pure manufacturing company with the target to finally assemble SCR systems for the parent company Ashok Leyland. The operations of this affiliated company of Albonair GmbH are also controlled from the Dortmund base. In addition, Albonair (Taicang) Automotive Technology Co., Ltd. was founded in 2010 near Shanghai (China) as a subsidiary of Albonair GmbH.

Since the founding of Albonair GmbH, the number of employees has increased steadily to a level of 138 employees at the end of 2014. At this time, 4 employees were employed in China and 26 in India.

At the time of the founding of Albonair GmbH, the initial objective was to develop within a short time frame an exhaust aftertreatment system for diesel engines of the parent company on the Indian market. This first development took place mainly in 2008 and 2009. This system came into series production in India in 2010, but the volumes are still low due to the repeated postponement of the implementation of the relevant legal emission standards in India. Based on the Indian system, more advanced systems for higher demands in Europe and other established markets were then developed from 2009 onwards. Since 2010, it has been possible to successfully acquire the first large and well-known customers in Europe and to cause the customers to replace the respective products of established competitors in the course of switches to new generations. Characteristic for the business in the area of exhaust aftertreatment are the extremely long development times: the development of the Euro-6 system started in 2010 in cooperation with a large European manufacturer of commercial vehicles came to series production only in 2013 and led at first to significant series revenues in the precedent financial year.

The mentioned SCR systems are the most widespread technology in terms of reducing nitric oxides in exhaust fumes in diesel engines. It is currently the central technology for compliance with the European Euro 4, 5 and 6 standards as well as the American EPA 10 and Tier 4 final standard for commercial vehicles. SCR is an abbreviation that stands for Selective Catalytic Reduction. In the Selective Catalytic Reduction procedure, reduction of nitric oxides is achieved by injecting the reducing agent AdBlue/DEF, an aqueous urea solution, into the exhaust stream. In the exhaust fumes, it decomposes into ammonia which serves to reduce the nitric oxides at the SCR catalyst and converts them into harmless nitrogen and water.

In the context of its product range, which covers all exhaust aftertreatment systems for diesel engines, Albonair focusses on SCR systems, diesel particulate filter systems and combined systems for diesel commercial vehicles and off-road vehicles. The proprietary combined system developed and produced by Albonair consists of the following components:

- AdBlue/DEF dosing system (Urea Dosing system) and control unit
- Urea tank with integrated dosing system
- Muffler with SCR catalysts
- Muffler with diesel particulate filters

Together with the individual components that Albonair develops and produces for the combined system, the company also offers system integration into the overall concept of the vehicle. This is done in close cooperation with the engine developers.

The official introduction of the Euro 6 emission standard in Europe started on January 1, 2014. Since the year 2013 featured the start of the series production of the urea dosing systems for one of the largest European manufacturers of commercial vehicles, the financial year 2014 came up for the first time with series revenues in a two-digit million range, as Albonair serves this customer as exclusive supplier for all medium-heavy and heavy diesel commercial vehicles sold in Europe.

In 2012, a notable manufacturer of off-road vehicles could be acquired as further customer. Also for this customer series production has meanwhile started, and in the coming financial year the volumes will further increase following around 408 prototypes already delivered in 2014.

In total this business development led the generated sales revenues for 2014 to quadruple to a level of € 23.9 million (2013: € 5.5 million).

The macro-economic conditions as well as the development of the automotive industry in Europe had influence on the development of Albonair's Business in so far that the volumes for Euro 6 commercial vehicles after implementation of the emission standards by January 1, 2014 turned out lower than in similar years. This is at least partly due to advanced sales of Euro 5 commercial vehicles by end of 2013. After subsiding of this one-time effect and under the assumption of a basically stable economic environment the management expects increasing volumes in Europe in 2015.

Due to the ongoing delay in the nationwide introduction of the Euro 4-comparable emission standard Bharat Stage 4 (BS4) in India, the deliveries to the Indian affiliated company Albonair (India) Private Limited and thus to the ultimate customer and parent company Ashok Leyland Ltd. continued on a very low level. We currently do not expect this BS4-emission standard to be introduced before 2017 and therefore do not expect a significant change in the sales situation in India.

**Net income for the year and other financial indicators**

The business development in 2014 was mainly in line with the expectations of the management. Total sales revenues for 2014 of € 23.9 million (2013: € 5.5 million) have increased significantly due to the reasons mentioned above, and as in previous years once again reached the highest level since the founding of the company.

In the year under review, material expenses amounted to € 14.9 million (2013: € 3.4 million). The slight workforce expansion in the course of the year, which slowed down significantly, led to increased expenses for personnel of € 7.0 million (2013: € 6.5 million). Similarly, other operating expenses increased to € 4.5 million (2013: € 3.7 million). Development costs of € 1.4 million (2013: € 1.1 million) are also included in other operating expenses. At € -5.3 million, the annual results for the year were considerably above the results of the previous year (2013: € -7.5 million). However, due to continuous investments in developing new products and due the fact that capacities are not fully loaded the results are still negative. Also because of the missing volumes in India no further contribution margins could be achieved in this market which is so important for Albonair.

At the balance sheet date, the balance sheet total for the company amounted to € 9.3 million compared to € 7.4 million for the previous year. Fixed assets only changed slightly during the year ended and now amount to € 3.5 million (2013: € 4.2 million). In 2013, a further capital increase by the shareholder Ashok Leyland Ltd. was completed and paid-in in the amount of € 9.3 million. The registration of this further capital increase was completed on August 1, 2014. In December 2014 another payment into the capital reserve of € 1.5 million was made by the shareholder. This current net improvement together with another net improvement of € 1.6 million out of December 2013 has been turned into subscribed capital by means of an increase of nominal capital in the first quarter of 2015. Further increases in capital based on an existing shareholders' resolution of Ashok Leyland Ltd. are planned for 2015. At balance sheet date the credit line of € 5.0 million brokered by the shareholder was nearly fully utilized, and it will presumably be provided to Albonair also for the coming financial year. The financial position is therefore stable and secured by equity provided by the shareholders. Liquidity is continuously monitored and possibly necessary financing sources are secured at an early stage.

Cash flows from operating and investment activities were at negative levels of € -3.4 million (2013: € -5.6 million) and € -1.3 million (2013: € -1.7 million), respectively, and compensated with cash flow from financing activities in the amount of € 6.2 million (2013: € 7.0 million). Overall, first degree liquidity decreased by € 3.2 million to € -3.2 million.

**Research and Development**

In the year 2014, the focus in the area of research and development was on ongoing development of the Euro 6 Urea dosing system for Europe as well as the Euro 4/5 Urea dosing system for the Asian market in India and China. Extensive trials, in which the calculated system properties are tested and optimized and ongoing controls of our products ensure that we are able to meet our high standards of quality and that our systems allow for a safe and permanent compliance with the necessary emission standards. The know-how of the company includes construction using well-tried CAD systems and the application of CFD tools for flow computation. Test devices such as climate chambers and vibrating tables as well as testing possibilities in fixed or movable test stations serve to ensure the high quality of the company's exhaust aftertreatment systems. In 2014, numerous patent applications were again filed providing Albonair with a unique selling proposition. At the turn of the year 2015, about 32 % (2013: 31 %) of the entire staff were involved in research and development.

**Outlook, opportunities and risks**

Due to the mandatory introduction of the Euro 6 emission standard in Europe as of January 1, 2014 and the exclusive supply to one of the largest manufacturers of commercial vehicles in Europe, sales situation for 2015 will remain stable and on a rising trend for Albonair. Especially for our main customer we assume an increase in order volumes of about 30 % in 2015. This will be complemented by increased volumes in 2015 from the off-road customer mentioned above - although branch-related on a lower level than in the on-road area. However, Albonair will continue to invest in future business development and thus realize additional future investments in pursuit of its objective to successfully face up to large multi-national competitors in the long term and to secure a sustainable position in the market for exhaust aftertreatment. This continuation of purposeful future investments in research and development, market penetration and further customer acquisition will in 2015 once again lead to projected negative results for the year on prior-year level. On the back of the successful market entry for a well-known OEM and a market share of more than 20 % in Europe in 2014, it is our professed aim to win further prestigious customers in these segments thus increasing the business basis for the future while at the same time reducing dependency on individual customers. Business development will also be influenced by the actual implementation of the respective next-highest emission standards in Europe and other markets.

The programs that have been in series production in India already since 2010 and 2011 will continue on a very low level due to the fact that the respective emission standards have not yet been implemented by the government authorities. Yet, looking forward, Albonair is confident that it will be able to gain a stable position in this growing market in the medium to long term.

The Chinese subsidiary is still not operational. AT the moment Albonair is working together with a European partner to acquire a large Chinese manufacturer of commercial vehicles. In the event of a successful series project in China, the Chinese company would promptly commence operations and - in case of sufficient quantities - a local production site would be set up. In parallel first activities have been started in order to make the Chinese market usable as procurement market for single components for Albonair. This could also increase the importance of the company in 2015 and lead to broadening activities in China.

In the medium term, the market for emission aftertreatment systems offers further great potential for growth as the worldwide emission standards are intensified and more urea injection systems are also used in diesel cars. Risks result from the failure to implement emission standards and a weakening global economy leading to a reduced demand for commercial vehicles. In addition, there are risks involved in the limited number of the few large competitors that could possibly try to prevent an increase of Albonair's market share through, for instance, aggressive pricing strategies. Due to its close integration into the strong international Hinduja Group, Albonair believes it is well-positioned for future competition. Overall, the risk situation has not worsened compared to previous years. Rather, the risk profile has substantially reduced due to the series start and the successful production ramp-up in Europe.

Purchases and sales as well as financings are almost exclusively made in Euro, so there is no currency risk involved. The financing of the company currently still depends on the provision of financial resources by shareholders.

At this time, it is not possible to estimate the effects that the development of the financial markets and the ongoing discussions on the future of the Euro may have on the company under review. However, risks cannot be ruled out. We will carry on to closely monitor the development of the political and economic environment.

Dortmund, February 26, 2015

sgd. Dr. Georg Hüthwohl

**ALBONAIR GmbH, Dortmund**

**Legal and tax circumstances**

## A. Legal circumstances

### I. Commercial Register and articles of association

The **name** of the company named ALBONAIR GmbH. It has been registered with the **commercial register** of the local court of Dortmund under HR B 21172. The entry was made on April 21, 2008; on this date the registered office of the company was transferred to Dortmund.

The company has its **registered office** in Dortmund. The **management** is also situated at this location.

Business address: Carlo-Schmid-Allee 1a
44263 Dortmund / Germany

The **articles of association** of May 16, 2007, as amended on December 11, 2013, are applicable.

The **purpose** of the company is the development, production and sale of exhaust aftertreatment and related systems as well as the provision of development services.

The **fiscal year of the company** corresponds to the calendar year.

## II. Equity, ownership structure

The company's **share capital** amounts to € 39,367,000.00 and has been fully paid in. The shareholders share in the capital of the company as follows:

| | Amount in € | % |
|---|---|---|
| Ashok Leyland Ltd., Chennai/India | 28,954,000.00 | 73.55 |
| Ashley Services Limited, Chennai/India | 10,413,000.00 | 26.45 |
| | 39,367,000.00 | 100.00 |

Until March 19, 2008 Ashok Leyland Ltd., Chennai/India was the sole shareholder of the company under review. By agreement of March 19, 2008 (register of deeds no. 1022 / 2008 of the notary public Dr. Michael Bohrer, Munich) the shares in the capital of the company were sold with a nominal value of € 7,500.00 each to Ashley Investments Limited, Chennai / India and Ashley Holdings Limited, Chennai / India. The proportionate share was 40 % for Ashok Leyland Ltd. and 30 % in respect of each of the new shareholders.

On August 26, 2009 the shareholders' meeting resolved to increase the capital by € 10.0 million to € 10,025,000.00 and has amended the articles of association accordingly (register of deeds no. 3663 / 2009 of the notary public Dr. Michael Bohrer, Munich). The entry in the commercial register was made on September 23, 2010 following payment of the outstanding contributions. The proportionate shares in the capital were retained unchanged.

On November 11, 2010 the shareholders' meeting decided to increase the capital of the company by another € 10.0 million to € 20,025,000.00 and has amended the articles of association accordingly (register of deeds no. 789 / 2010 of the notary public Ulrich Rainer Modersohn, Werl / Westph.). The share capital increase was entered into the commercial register on February 16, 2011. As a result, the proportionate shares in the capital changed to 48 % in respect of Ashok Leyland Ltd. and 26 % each in respect of Ashley Investments Limited and Ashley Holdings Limited.

On May 9, 2011 the shareholders' meeting concluded to increase the capital of the company by another € 10.0 million to € 30,025,000.00 and amended the articles of association accordingly (register of deeds no. 224 / 2011 of the notary public Ulrich Reiner Modersohn, Werl / Westph.). The proportionate shares in the capital were retained unchanged. The share capital increase has been entered into the commercial registry on June 10, 2011. The contribution has been fully paid in by Ashok Leyland Ltd. in the year under review.

On July 15, 2013, Ashley Investments Limited, Chennai / India and the Ashley Holdings Limited, Chennai / India were - together with other shareholdings - merged to Ashley Services Limited, Chennai / India. All shareholdings in the respective companies were previously held by Ashley Investments Limited and Ashley Holdings Limited.

By duly notarized agreement of August 27, 2013 (register of deeds no. 401 / 2013 of the notary public Ulrich Rainer Modersohn, Werl / Westph.), all of the shares from the most recent capital increase were acquired by Ashok Leyland Ltd. from the remaining shareholders. Previously, the shareholders' proportion shares in the capital were as follows:

| | Amount in € | % |
|---|---|---|
| Ashok Leyland Ltd., Chennai / India | 14,412,000.00 | 48.00 |
| Ashley Investments Limited, Chennai / India | 7,806,500.00 | 26.00 |
| Ashley Holdings Limited, Chennai / India | 7,806,500.00 | 26.00 |
| | 30,025,000.00 | 100.00 |

By duly notarized agreement of December 11, 2013 (register of deeds no. 597/2013 of the notary public Ulrich Rainer Modersohn, Werl / Westph.) it was resolved to increase the share capital of the company by € 9,342,000.00. The capital increase is exclusively provided by Ashok Leyland Ltd. Payment was received by the company on December 16, 2013. The registration with the commercial register was completed on August 1, 2014.

In addition, another € 1,628,000.00 were already contributed by Ashok Leyland Ltd. on December 16, 2013, and further € 1,500,000.00 on December 15, 2014. This money is meant for a further capital increase in the year 2015.

## III. Management and power of representation

The following individuals have been appointed as **managing directors**:

- Dr. Georg Hüthwohl, Soest, Germany
- Dr. René Rüdinger, Dortmund (until October 31, 2014)

If only one managing director has been appointed, he shall represent the company acting alone. If more than one managing directors have been appointed, the company shall be represented by two managing directors jointly or by one managing director together with a person vested with *Prokura [general power of attorney under German commercial law]*.

The removal of Dr. Rüdinger as managing director was registered with the commercial register on November 14, 2014.

Mr. Ulrich Cramer, Auhagen, has been vested with ***Prokura*** *(general power of representation)*. The entry with the commercial register was made on September 4, 2014.

## IV. Shareholders' meeting

At the ordinary shareholders' meeting on April 15, 2014 the following resolutions were adopted:

- Approval of the annual financial statements for the year ended December 31, 2013,
- formal approval of the actions of the managing directors for the fiscal year,
- appointment of Dr. Schumacher & Partner GmbH, Münster, as auditor for the fiscal year 2014.

## V. Main contracts

### Tenancy agreement

On May 8, 2009, ALBONAIR GmbH signed a tenancy agreement for office and warehouse space with TZ-Invest Dortmund GmbH, Dortmund. This has been supplemented several times (most recently on November 17, 2011).

In respect of the earlier rental property (Rental Property 1), the office space amounts to approx. 1,850 sqm and the warehouse space to approx. 1,090 sqm. The investment amounts to approx. € 4.38 million (approx. 64.43 % office and approx. 34.57 % warehouse space). With the new rental property (Rental Property 2) the warehouse space has increased by approx. 728 sqm and by approx. 396 sqm of manufacturing, commissioning and other space.

Following the completion of the extension of the rental property, the most recent supplement has, as of January 1, 2013, replaced the terms and conditions governing the rent as follows:

a) Rental Property 1

A new average rent instalment for the remaining term of the tenancy will be calculated based on the aggregate amount of the remaining rent instalments. The prior arrangement for anticipated increases in rent payments has been cancelled. The approved investment grant continues to reduce the rent.

b) Rental Property 2:

The annual rent amounts to 9.92 % of the investment for the building as well as 6.00 % of the costs for the land including charges for utilities, where applicable.

c) Term

The tenancy will run for a fixed term until September 30, 2020. Any existing special termination rights are no longer available.

Based on the most recent calculations of the landlord, the monthly rent (plus VAT) from January 1, 2014 onwards is presented below:

| | from 01-01-2014 € | from 10-01-2015 € | from 01-01-2016 € |
|---|---|---|---|
| Rental property 1 | 28,453.36 | 28,453.36 | 28,453.36 |
| Rental property 2 | 17,305.65 | 17,305.65 | 17,305.65 |
| less grant under RWP (regional business promotion program) no. 1 | -6,250.40 | 0.00 | 0.00 |
| less grant under RWP (regional business promotion program) no. 2 | -2,249.60 | 0.00 | 0.00 |
| | 37,259.01 | 45,759.01 | 45,759.01 |

To secure the rent income, Ashok Leyland Ltd., Chennai / India has submitted a letter of support for the term of the tenancy.

## B. Tax circumstances

The company is registered at the tax office of Dortmund-Hörde with the tax number of 315/5720/0911.

The company has been assessed for taxes through the year 2012. The tax years until 2011 are no longer subject to verification pursuant to sec. 164 German General Tax Code [*Abgabenordnung*] and are therefore final.