

Amival Ltd
9475811

Kinetik S.à r.l.

Consolidated Financial Statements

For the year ended December 31, 2019
(with the report of the Réviseur d'Entreprises Agréé thereon)

1, rue Peterelchen
L-2370 Howald
R.C.S. Luxembourg: B 191311

SATURDAY



A9EFKGCI

A02

26/09/2020

#281

COMPANIES HOUSE

Consolidated Financial Statements
For the year ended December 31, 2019

C O N T E N T S

	<u>Page</u>
Independent Auditors' report	3-5
Consolidated statement of profit or loss and other comprehensive income	6-7
Consolidated statement of financial position	8
Consolidated statement of changes in equity	9
Consolidated statement of cash flows	10
Notes to the consolidated financial statements	11-44
Members Register	45-49



KPMG Luxembourg, Société coopérative
39, Avenue John F. Kennedy
L-1855 Luxembourg

Tel.: +352 22 51 51 1
Fax: +352 22 51 71
E-mail: info@kpmg.lu
Internet: www.kpmg.lu

To the Board of Managers of
Kinetik S.à r.l.
1, rue Petermelchen
L-2370 Howald

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Opinion

We have audited the consolidated financial statements of Kinetik S.à r.l. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession ("Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under the Law of 23 July 2016 and ISAs are further described in the « Responsibilities of "Réviseur d'Entreprises agréé" for the audit of the consolidated financial statements » section of our report. We are also independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Managers for the consolidated financial statements

The Board of Managers is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Managers determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

KPMG Luxembourg, Société coopérative, a Luxembourg entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity

T.V.A. LU 27351518
R.C.S. Luxembourg B 149133

SATURDAY



A9EFL7UA

A16

26/09/2020
COMPANIES HOUSE

#31



In preparing the consolidated financial statements, the Board of Managers is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Managers either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the Réviseur d'Entreprises agréé for the audit of the consolidated financial statements

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of "Réviseur d'Entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Managers.
- Conclude on the appropriateness of Board of Managers' 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "Réviseur d'Entreprises agréé" to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "Réviseur d'Entreprises agréé". However, future events or conditions may cause the Group to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Luxembourg, 16 April 2020

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé


Stephan Lego-Deiber

Kinetik S.à r.l.

Consolidated Statement of profit or loss and other comprehensive income

For the year ended December 31st, 2019

<i>In thousands of euro</i>		2019	2018
	Note		'Represented'
Continuing Operations			
Operating Expenses	18C	(74.934)	(65.876)
Other operating income	18A	2.763	1.804
Other operating expenses	18B	<u>(6.997)</u>	<u>(32)</u>
Operating result		<u>(79.168)</u>	<u>(64.104)</u>
Financial income	19	4.625	1.481
Financial cost	19	(418.986)	(28.859)
Share of the result of equity-accounted investments	8	<u>(3.349)</u>	<u>(94)</u>
Net finance cost		<u>(417.710)</u>	<u>(27.472)</u>
Loss before tax		(496.878)	(91.576)
Income tax income/expense	16A	<u>5.204</u>	<u>3.478</u>
Loss from continuing operations		<u>(491.674)</u>	<u>(88.098)</u>
Attributable to:			
- Owners of the Company		(487.107)	(88.098)
- Non-controlling interests		(4.567)	(-)

Kinetik S.à r.l.

Consolidated Statement of profit or loss and other comprehensive income (continued)

For the year ended December 31st, 2019

In thousands of euro

	Note	2019	2018 'Represented'
Profit/(loss) for the year		(491.674)	(88.098)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	12C	<u>4.691</u>	<u>(587)</u>
Total other comprehensive income for the year		<u>(486.983)</u>	<u>(88.685)</u>
Attributable to:			
- Owners of the Company		(482.413)	(88.685)
- Non-controlling interests		(4.570)	-

The notes on pages 11 to 44 are an integral part of these consolidated financial statements.

Kinetik S.à r.l.
Consolidated statement of financial position
As at December 31st 2019

<i>In thousands of euro</i>		December 31st 2019	December 31st 2018
ASSETS			‘Represented’
<u>Non-Current Assets</u>	Note		
Property, plant and equipment	6	45.581	14.581
Intangible assets and goodwill	7	91.004	41.418
Investments in associated companies	8	8.033	9.384
Prepayment		119	
Deferred tax asset	16B	2.838	-
Trade and other receivables	9A	9.932	5.457
Total Non-Current Assets		<u>157.507</u>	<u>70.840</u>
<u>Current Assets</u>			
Inventory	10	6.013	1.455
Current tax asset		700	2
Trade and other receivables	9B	15.035	9.130
Prepayments	8	8.682	2.551
Deferred tax asset	16B	-	117
Cash and cash equivalents	11	99.661	2.607
Total Current Assets		<u>130.091</u>	<u>15.862</u>
TOTAL ASSETS		<u>287.598</u>	<u>86.702</u>
EQUITY AND LIABILITIES			
<u>Capital and reserves</u>			
Share capital	12	16	16
Share Premium	12	335	335
Other reserves	12	9.528	4.837
Retained earnings		(423.286)	(161.137)
Equity attributable to owners of the Company		<u>(413.407)</u>	<u>(155.949)</u>
Non-controlling interest		15.896	1.014
Total Equity		<u>(397.511)</u>	<u>(154.935)</u>
<u>Non-Current Liabilities</u>			
Loans and Borrowings	13	264.131	228.700
Lease liability	15	21.925	-
Deferred taxes	16B	2.525	50
Total Non-Current Liabilities		<u>288.581</u>	<u>228.750</u>
<u>Current Liabilities</u>			
Loans and Borrowings	13	1.001	-
Current tax liabilities		172	57
Derivative	14	365.869	-
Lease liability	15	6.243	-
Trade and other payables	17	23.243	12.830
Total Current Liabilities		<u>396.528</u>	<u>12.887</u>
TOTAL EQUITY AND LIABILITIES		<u>287.598</u>	<u>86.702</u>

Kinetik S.à r.l.

Consolidated statement of changes in equity

For the year ended December 31st, 2019

<i>In thousands of euro</i>	Note	Share capital	Share premium	Retained Earnings	Translation Reserve	Total	Non-controlling interest	Total Equity
Balance at January 01st, 2019		16	335	(161.137)	4.837	(155.949)	1.014	(154.935)
Loss for the year		-	-	(487.107)	-	(487.107)	(4.567)	(491.674)
Sale of percentage to minorities		-	-	225.518	-	225.518	19.446	244.964
IFRS 16		-	-	(560)	-	(560)	-	(560)
Other comprehensive income	12C	-	-	-	4.691	4.691	3	4.694
Balance at December 31st, 2019		<u>16</u>	<u>335</u>	<u>(423.286)</u>	<u>9.528</u>	<u>(413.407)</u>	<u>15.896</u>	<u>(397.511)</u>
Balance at January 01st, 2018		16	335	(73.039)	5.424	(67.264)	1.014	(66.250)
(unaudited)		-	-	(88.098)	-	(88.098)	-	(88.098)
Loss for the year		-	-	-	(587)	(587)	-	(587)
Other comprehensive income	12C	-	-	-	-	-	-	-
Balance at December 31st, 2018		<u>16</u>	<u>335</u>	<u>(161.137)</u>	<u>4.837</u>	<u>(155.949)</u>	<u>1.014</u>	<u>(154.935)</u>

On April 24th, 2019, K Health S.à r.l. has purchased the remaining 30% of Tatakoto Company Ltd from Greenwich International Capital Ltd for an amount of EUR 900.

On December 30th, 2019 the Company has sold 4,69% of Arrival S.à r.l. to GemTech Ltd ("GemTech"). The Company sold to GemTech Ltd 42.641.351 ordinary shares of Arrival S.à r.l. for a total amount of EUR 145.368. The transaction was settled by converting part of the loan that was due to GemTech (see note 13) and an amount of EUR 10.141 is still outstanding (see note 9B).

In addition, the Company allowed external investors to subscribe to the share capital of Arrival S.à r.l. at a pre-determined price (see note 11). The total percentage given to minorities was 7,915%. The impact from the sale of the shares and the dilution of the percentage holding in Arrival S.à r.l. appears in sale of percentage to minorities in the above table.

Kinetik S.à r.l.

Consolidated Statement of Cash Flows

For the year ended December 31st, 2019

In thousands of euro

	Note	2019	2018
Operating activities			
Profit/(Loss) for the year		(491.674)	(88.098)
Adjustments for:			
- Depreciation/Amortization	6,7	7.241	3.282
- Impairment losses	6,7,18, 19	8.165	32.017
- Result of entities consolidated under Equity method	8	3.349	94
- Net foreign exchange differences	19	11	(126)
- Net finance cost	19	413.240	18.624
- Loss from sale of fixed assets	18	(444)	(9)
- Deferred taxes	16A	(402)	(1.078)
- Tax expense	16A	(4.802)	183
Cash flows used in operations before working capital changes		(65.316)	(35.111)
Increase/decrease in trade and other receivables		(5.303)	(1.943)
Increase/decrease in trade and other payables		10.366	(1.067)
Increase/decrease of inventory		(4.299)	219
Cash flows used in operations		(64.552)	(37.902)
Income tax income/(expense)		7.054	(88)
Interest received	19	107	127
Net cash used in operating activities		(57.391)	(37.863)
Cash flows from investing activities			
Acquisition of intangible fixed assets	6	(50.692)	(25.102)
Acquisition of tangible fixed assets	7	(8.736)	(4.596)
Call deposits	9	(2.351)	-
Cash Guarantees and Deposits	9	(2.133)	246
Proceeds from the sale of intangible and tangible fixed assets		100	-
Loans repaid/(paid)	9	5.105	(4.463)
Net cash used in investing activities		(58.707)	(33.915)
Cash flows from financing activities			
Investment in associated companies	8	(9.464)	(3.213)
Acquisition of the minority interest in Tatakoto Ltd		(450)	-
Sale of shares in Arrival S.à r.l.	11	100.000	-
Interest paid	15	(3.528)	-
Repayment of lease liabilities	15	(1.123)	-
Proceeds from loans and borrowings	13	127.634	69.389
Net cash from financing activities		213.069	66.176
Net increase/decrease in cash and cash equivalents		96.971	(5.602)
Cash and cash equivalents at January 1 st		2.607	8.486
Effects of movements in exchange rates on cash held		83	(277)
Cash and cash equivalents at December 31st		99.661	2.607

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

1. INCORPORATION AND PRINCIPAL ACTIVITIES

General

Kinetik S.à r.l. (the “Company” or the “Group” if taken together with its subsidiaries) was incorporated in Luxembourg on October 3rd, 2014 as a Société à responsabilité limitée. The Company has its registered address at 1, rue Peterelchen, L-2370 Howald Luxembourg and is registered at the Luxembourg Commercial Register under number R.C.S Luxembourg n° 191311.

Principal activities

The Group principal activity is research and development (“R&D”) of electric motor vehicles, robotics, health care equipment, electric batteries, artificial intelligence and software.

2. BASIS OF PREPARATION

The Group’s financial year starts from January 1st to December 31st, which is also the annual closing date of the individual entities’ financial statements which have been incorporated into the Group’s consolidated financial statements.

Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). It complies with the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRSIC) as adopted by the European Union (EU).

Some comparative figures have been reclassified in order to better reflect the economic substance of transaction. We refer to the amount related to tax relief granted by the UK government in Note 14 and in investment in associates in Note 8. The reclassification has no impact on total equity nor result of the year.

These consolidated financial statements were authorised for issue by the Board of Managers on April 16, 2019.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except for the derivatives which are measured at fair value.

Going concern

The consolidated financial statements have been prepared on a going concern basis (see note 4A)

The Board of Managers has made an assessment of the ability of the Group to continue their work as continuing operations and it is satisfied that the consolidated financial statements can be prepared on the going concern basis.

Functional and presentation currency

The consolidated financial statements are presented in euro (EUR) which is the functional and presentation currency of the Group, rounded off to the nearest thousand, unless otherwise stated.

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

2. BASIS OF PREPARATION (continued)

Adoption of new and revised International Financial Reporting Standards

The following Standards, Amendments to Standards and Interpretations have been adopted by the Group as of January 1st, 2019

Effective date	New standards or amendments
January 1 st , 2019	IFRS 16 – Leases
	IFRIC 23 – Uncertainty over Tax Treatments
	IFRS 9 – Prepayments Features with Negative Compensation
	IAS 19 – Plan Amendment, Curtailment or Settlement
	Annual improvements to IFRSs 2015-2017 Cycle (Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)

The Group had to adopt the above changes in its accounting policies. The new standards and the amendments listed above did not have any impact on the amounts recognised in prior periods as the Group did not have any transactions which required the application of these standards, with an exemption of IFRS 16. The Group has adopted IFRS 16 with the modified retrospective approach effect. The cumulative effect of adopting IFRS 16 is recognized as an adjustment to the opening balance of retained earnings as of January 1st, 2019, with no restatement of comparative information.

Analysis on the New Standards adopted by the Group:

- *IFRS 16 “Leases”*

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard introduces a single, on-balance sheet lease accounting model for lessees. IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. The previous distinction between operating and finance leases is removed for lessees. Instead, a lessee recognized a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items.

The impact on the financial statements from this transition is as follows:

On transition to IFRS 16, the Group recognised additional right-of-use assets, and additional lease liabilities, recognising the difference in retained earnings. The Group has used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application. In addition, we excluded initial direct costs from the measurement of the right-of-use asset as at the date of initial application as well as the Group used hindsight when determining the lease terms.

On transition to IFRS, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16.

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

2. BASIS OF PREPARATION (continued)

Adoption of new and revised International Financial Reporting Standards (continued)

<i>In thousands of euro</i>	January 1st 2019
<i>The impact at transition</i>	
Right of use assets – property plan and equipment	7.137
Lease liability	(7.697)
Retained earning	560
 <i>In thousands of euro</i>	 January 1st 2019
<i>Lease liabilities at transition</i>	
Operating lease commitments at December 31 st , 2018 as disclosed under IAS 17	17.418
Discounted using the incremental borrowing rate at January 1 st , 2019	7.137
Lease liabilities recognized at January 1st, 2019	7.137

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted the lease payments using its incremental borrowing rate at 1 January 2019. The weighted average of the incremental borrowing rate applied to the lease liabilities was 18,3%.

- *IFRIC 23 "Uncertainty over Income Tax Treatments"*
IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. The key test is whether it is probable that the tax authority will accept the chosen tax treatment, on the assumption that tax authorities will have full knowledge of all relevant information in assessing a proposed tax treatment. The uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty being either the most likely amount or the expected value. The interpretation also requires companies to reassess the judgements and estimates applied if facts and circumstances change. IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements in relation to judgements made, assumptions and estimates used, and the potential impact of uncertainties that are not reflected.
The Group had no impact from this change in its consolidated financial statements.
- *IFRS 9 "Prepayment Features with Negative Compensation"*
The amendment of IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.
The Group had no impact from this change in its consolidated financial statements.
- *IAS 28 "Long-term Interests in Associates and Join Ventures"*
The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).
The Group had no impact from this change in its consolidated financial statements.

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

2. BASIS OF PREPARATION (continued)

Adoption of new and revised International Financial Reporting Standards (continued)

- *IAS 19 – “Plan Amendment, Curtailment or Settlement”*

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The Group had no impact from this change in its consolidated financial statements.

- *IFRS10 – “Sale or Contribution of Assets between an Investor and its Associate or joint Venture”*

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture.

Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The Group had no impact from this change in its consolidated financial statements.

The following Standards, Amendments to Standards and Interpretations have been issued but are not effective for the year ended December 31st 2019:

Effective date	New standards or amendments and interpretations
January 1 st , 2020	Amendments to References to Conceptual Framework in IFRS Standards
	IFRS 3 – Definition of a Business
	IAS 1 and IAS 8 – Definition of Material
January 1 st , 2021	IFRS 17 – Insurance Contracts

The above-mentioned new standards, amendments and interpretations are not expected to have a significant impact on the consolidated financial statements.

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

a) Subsidiary companies

Subsidiaries are all the entities controlled by the Group. Control exists where the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses the existence of control when it does not hold more than 50% of the voting rights but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of other shareholders participation, give to the Group the power to govern the financial and operating policies of an entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

b) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed in the profit and loss as incurred.

If the business combination is achieved in stages, the fair value at the acquisition date of the interest previously held by the Group is valued again at fair value at the acquisition date through profit and loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is considered as an asset or liability is recognized in accordance with IAS 39 either in the profit and loss account or as a change to other comprehensive income. Contingent consideration classified as equity is not remeasured and its subsequent settlement is recognized in equity.

Goodwill is measured as the excess of the sum of the consideration transferred and the fair value of the amount of any non-controlling interests in the acquiree, over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If the consideration price is lower than the fair value of the net assets of subsidiaries acquired, the excess is recognized in profit or loss.

c) Loss of control

When the Group ceases to have control or significant influence over an entity, any retained interest the Group holds in the entity is remeasured to its fair value, with the change in carrying amount recognized in profit or loss. The fair value is used as the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may imply that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

The list of the subsidiary companies of the Group is:

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group	Country	Consolidation Basis	Participation in share capital		Principal activity
			2019	2018	
Arrival S.à r.l.	Lux	Global	92,08%	100%	Acquisition and holding of participating interests
K Health S.à r.l.	Lux	Global	100%	100%	Acquisition and holding of participating interests
K Robolife S.à r.l.	Lux	Global	100%	100%	Acquisition and holding of participating interests
Charge Automotive S.à r.l.	Lux	Global	100%	100%	Acquisition and holding of participating interests
K Remy Robotics S.à r.l.	Lux	Global	100%	100%	Acquisition and holding of participating interests
Happy Electron S.à r.l.	Lux	Global	100%	100%	Acquisition and holding of participating interests
Studio 26 S.à r.l.	Lux	Global	100%	100%	Acquisition and holding of participating interests
Arrival Team S.à r.l.	Lux	Global	100%	100%	Acquisition and holding of participating interests
K Fintech S.à r.l.	Lux	Global	100%	100%	Acquisition and holding of participating interests
K Robolife Team S.à r.l.	Lux	Global	100%	100%	Acquisition and holding of participating interests
K Cybernation S.à r.l.	Lux	Global	100%	100%	Acquisition and holding of participating interests
K Jungle S.à r.l.	Lux	Global	100%	-	Acquisition and holding of participating interests
Arrival Ltd	UK	Global	92,08%	100%	R&D
Arrival Nominees Ltd	UK	Global	-	100%	Dissolved
Arrival R Ltd (ex-Roborace Ltd)	UK	Global	92,08%	100%	R&D
Seven.me Ltd	UK	Global	100%	100%	R&D
Experiment X Ltd	UK	Global	100%	100%	R&D
Arrival Software Ltd	UK	Global	73,67%	80%	Dormant
Sim-ply Designed Ltd	UK	Global	-	100%	Dissolved
Happy Electron Lab Ltd	UK	Global	100%	100%	R&D
Happy Electron Ltd	UK	Global	92,08%	100%	R&D
Arrival Robotics Ltd (ex-TRA Robotics Ltd)	UK	Global	92,08%	100%	R&D
Charge Automotive Ltd	UK	Global	100%	100%	Production of electric cars
Arrival One Ltd	UK	Global	-	100%	Dissolved
Arrival Jet Ltd	UK	Global	92,08%	100%	R&D
Robonetica Ltd	UK	Global	100%	100%	R&D
HE SpinBattery Ltd	UK	Global	100%	100%	R&D
HE Magnetic UltraCap Ltd	UK	Global	100%	100%	R&D

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group	Country	Consolidation Basis	Participation in share capital		Principal activity
			2019	2018	
HE Carbon SuperCap Ltd	UK	Global	100%	100%	R&D
Remy Robotics Ltd	UK	Global	100%	100%	R&D
Arrival M Ltd (ex-Arrival Management Systems Ltd)	UK	Global	92,08%	100%	R&D
Studio 26 Lab Ltd	UK	Global	100%	100%	Dormant
Absolutely No Nonsense Admin Ltd	UK	Equity	27,781%	24,641%	Mobile Business Account Provider
Roborace Ltd	UK	Global	100%	-	R&D
Arrival Management Systems Ltd (ex-Cybernation Ltd)	UK	Global	92,08%	100%	Dormant
Arrival Automotive UK Ltd	UK	Global	92,08%	-	R&D
Cybernation Ltd	UK	Global	100%	-	R&D
Arrival Elements Ltd	UK	Global	92,08%	-	Dormant
Tatakoto Ltd	CY	Global	100%	70%	Dormant
Arrival USA Inc (ex-Roborace Inc)	US	Global	92,08%	100%	R&D
Happy Electron Lab Inc	US	Global	100%	100%	R&D
Charge Automotive Inc	US	Global	100%	100%	Production of electric cars
Arrival Automotive Inc	US	Global	92,08%	100%	R&D
Seven.me Inc	US	Global	100%	-	R&D
Roborace Inc	US	Global	100%	-	R&D
Arrival Automotive PTE Ltd	SGP	Global	92,08%	100%	Acquisition and holding of participating interests
Arrival RUS LLC (ex-Arrival Software LLC)	Russia	Global	92,08%	100%	R&D
Arrival Robotics LLC (ex-TRA Robotics LLC)	Russia	Global	92,08%	100%	R&D
Experiment X LLC	Russia	Global	100%	100%	R&D
HE Carbon SuperCap LLC	Russia	Global	65%	-	R&D
Remy Robotics LLC	Russia	Global	100%	-	
Remy Robotics SL	Spain	Global	100%	100%	R&D
Arrival Germany GmbH	GER	Global	92,08%	100%	R&D

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group	Country	Consolidation Basis	Participation in share capital		Principal activity
			2019	2018	
TRA Robotics GmbH	GER	Global	-	100%	Merged with Arrival Germany GmbH
Arrival Automotive Germany GmbH	GER	Global	92,08%	-	R&D
Cybernation Germany GmbH	GER	Global	100%	-	R&D
Experiment X GmbH	GER	Global	100%	-	R&D
Arrival Israel Ltd	IL	Global	92,08%	-	R&D
Arrival Elements BV	NL	Global	92,08%	-	Distributor

The UK subsidiaries set out below are exempt from the requirements of the Company Act relating to the audit of the individual statutory accounts under section 479A and filing of individual statutory accounts under section 448A of the Companies Act 2006 UK. The Company which has prepared audited consolidated accounts, has given a guarantee under section 479C of the UK Companies Act and all members of the subsidiaries below agree to the exemption of an audit for the year ended December 31st, 2019.

The entities granted the exemption under section 479C are:

Arrival Ltd, Arrival Nominees Ltd, Arrival R Ltd, Seven.me Ltd, Experiment X Ltd, Arrival Software Ltd, Happy Electron Lab Ltd, Happy Electron Ltd, Arrival Robotics Ltd, Charge Automotive Ltd, Arrival Jet Ltd, Robonetica Ltd, HE SpinBattery Ltd, HE Carbon SuperCap Ltd and HE Magnetic UltraCap Ltd, Remy Robotics Ltd, Arrival M Ltd, Studio 26 Lap Ltd, Roborace Ltd, Arrival Management Systems Ltd, Arrival Automotive UK Ltd, Cybernation Ltd and Arrival Elements Ltd.

d) Transactions with non-controlling interests

The non-controlling interests in the profit and loss and in the equity of the subsidiaries are presented separately in the consolidated statement of profit and loss, consolidated statement of changes in equity and consolidated statement of financial position.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired or the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses of the Group on disposals to non-controlling interests are also recorded in equity.

e) Associate companies

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% to 50% of the voting rights.

Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill, identified on acquisition net of any accumulated impairment loss.

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% to 50% of the voting rights.

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill, identified on acquisition net of any accumulated impairment loss.

Dividends received or receivable from associate companies are recognized as a reduction in the carrying amount of the investment.

The Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in reserves is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise any further losses, unless it has incurred obligations or made payments on behalf of the associate.

f) Transactions eliminated at consolidation

Intergroup balances and any recognized gains and losses or income and expenses arising from intergroup transactions, are eliminated during the preparation of the consolidated financial statements. Unrealised gains arising from transactions with associate companies are eliminated to the extent of the Group's interest in the net assets of the associate company. Unrealised losses are eliminated in the same way, but only to the extent that there is no evidence for impairment.

Sale of subsidiaries, joint ventures or associate companies

In the consolidated financial statements the gain or loss from the disposal of subsidiaries, joint ventures or associate companies is calculated as the difference between the sale proceeds and the Group's share of net assets of the subsidiary, joint venture or associate company at the date of disposal less any unamortised goodwill arising from the acquisition of the subsidiary, joint venture or associate company.

Foreign currencies

1. Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in profit or loss.

2. Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into Euro at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into Euro at the exchange rates at the dates of the transactions.

Foreign currency differences are recognized in OCI and accumulated in the translation reserve, except to the extent that the translation difference is allocated to NCI.

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

When a foreign operation is disposed off in its entirety or partially such control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit and loss as part of the gain or loss on disposal. If the Group disposes off part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes off only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit and loss.

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, the foreign currency differences arising from such items form part of the net investment in the foreign operation. Accordingly, such differences are recognized in OCI and accumulated in the translation reserve.

Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group. As the Group has a flat structure, each entity that the management decide to liquidate and/or dispose is then classified as discontinued operation

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

Property, plant and equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment.

The depreciation rates for property, plant and equipment are as follows:

	<u>Depreciation method</u>	<u>Depreciation Rate</u>
Plant and machinery	Straight line	20%
Furniture & Fittings	Straight line	20%
Computer equipment	Straight line	33%
Motor vehicles	Straight line	20%

At the end of each annual reporting period, the depreciation method, useful life and residual value of each asset is reviewed. Any revisions are accounted for prospectively as a change in estimate.

When an asset is disposed, the gain or loss is calculated by comparing proceeds received with its carrying amount and is taken to profit or loss.

Intangible fixed assets and goodwill

Intangible fixed assets are valued at purchase price including the expenses incidental thereto or at production cost, less accumulated amortization, accumulated impairment losses. Where factors, such as technological advancement or changes in market price, indicate that residual value or useful life have changed, the residual value, useful life or amortization rate are amended prospectively to reflect the new circumstances. The assets are reviews for impairment if the above factors indicate that the carrying amount may be impaired.

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible fixed assets and goodwill (continued)

Expenditure on research activities is recognized in the profit and loss account as an expense as incurred. Expenditure on development activities may be recognized if the product or process is technically and commercially feasible and the Group intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Group can measure reliably the expenditure attributable to the intangible asset during its development.

Development activities involve design for, construction or testing of the production of a new or substantially improved products or processes. The expenditure recognized includes the cost of materials, direct labor, an appropriate proportion of overheads and borrowing costs. Other developments expenditure is recognized in the profit and loss account as an expense as incurred. There will be no depreciation/amortization until the project is completed and the asset is placed into service. Capitalised development expenditure is stated at cost less accumulated recognized and less accumulated impairment losses.

Intangible assets are depreciated as follows:

	<u>Depreciation method</u>	<u>Depreciation Rate</u>
Software	Straight line	20%
Computer software	Straight line	33,33%

Goodwill results from the acquisition of subsidiaries, associate companies and joint ventures and represents the excess of the consideration paid over the fair value of the net identifiable assets, liabilities and contingent liabilities of the entity acquired.

Goodwill is stated at cost, less accumulated impairment losses.

Goodwill impairment testing is performed annually or more frequently if events or changes in circumstances indicate possible impairment. The carrying value of goodwill is compared with its recoverable amount which is the higher of the value in use and the fair value less cost to sell. Any impairment is recognized immediately as an expense and is not reversed in future periods.

Trade and other receivables

Trade and other receivables are presented at their nominal value less provision for doubtful debtors, which is estimated by examining all the outstanding balances at year end. Unrecoverable amounts are written off when identified.

The amount of provision for doubtful debts represents the difference between the carrying amount and the recoverable amount, which is equal to the present value of the estimated cash flow.

Amounts receivable in more than one year are presented in non-current assets.

Inventories

Inventories are measured at the lower of cost and net recognized value. Cost of inventory is determined using the first-in-first-out basis and is net of any rebates and discounts received. Net recognized value is estimated using the most reliable evidence available at the reporting date and inventory is written down through an obsolescence provision if necessary.

Derivatives

Derivatives are initially recognised at fair value on the date the financial instrument is entered into, and they are subsequently remeasured to their fair value at the end of each financial year. The accounting for subsequent changes in fair value of the derivatives are recognized through the Consolidated Statement of Profit and Loss and Other Comprehensive Income.

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivatives (continued)

The derivative described in note 14 is classified as liability because there is an option from the noteholder to exchange it for shares of the Company. The derivative has been separated from the loan instrument and it is presented in a separate line on the Balance Sheet. The component of fair value changes relating to the Company's own credit risk is recognised in Profit or Loss as the amount of change in its fair value is attributable to changes in market conditions that give rise to market risk.

Cash and cash equivalents

Cash and cash equivalents, for the purpose of preparing the statement of cash flows, comprise cash in hand and at banks and short-term deposits expiring not more than three months after the acquisition date.

Impairment of assets

The carrying amount of the Group's assets is reviewed at each reporting date to determine whether there is any indication of impairment in the value of the assets. If such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is determined as the higher of its net selling price in an arm's length transaction and the present value of the estimated future cash flows from the continued use of the asset and its sale at the end of its useful life. When the recoverable amount of an asset is lower than its carrying amount, this decrease is recognized as an expense in the statement of comprehensive income of the year.

Where assets are presented at their revalued amounts, the permanent decrease is debited to the revaluation reserve. The amount of impairment that is not covered by the accumulated surpluses in the revaluation reserve for the specific asset is recognized in the statement of comprehensive income of the year.

Any impairment amount for goodwill cannot be reversed.

In case that in future accounting periods the amount of impairment that corresponds to the remaining assets decreases due to events that occurred after the recognition of the impairment, the corresponding amount is reversed through the statement of comprehensive income.

Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options which vest immediately are recognized as a deduction from equity, net of any tax effects.

The share premium is the difference between the fair value of the consideration receivable for the issue of shares and the nominal value of the shares.

Trade and other payables

Trade and other payables are initially recognized at their fair value and subsequently measured at amortised cost.

Trade and other payables are classified as current liabilities unless the Group has the right, unconditionally, to postpone the repayment of the liabilities for at least twelve months after the reporting date.

Provisions

A provision is recognized in the statement of financial position, when an entity of the Group has a present legal or constructive obligation as a result of past events, from which it is probable that a future outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provision is not recognized for future losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Revenue

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a good or service to a customer.

For contracts that permit the customer to return an item, revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Therefore, the amount of revenue recognised is adjusted for expected returns, which are estimated based on the historical data for specific types of paper, size, finish etc. In these circumstances, a refund liability and a right to recover returned goods asset are recognised.

The right to recover returned goods asset is measured at the former carrying amount of the inventory less any expected costs to recover goods. The Group reviews its estimate of expected returns at each reporting date and updates the amounts of the asset and liability accordingly.

Interest income and expense

Interest income and expense are recognized within 'finance income' and 'finance costs' in profit or loss using the effective interest rate method.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, pre-payment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Government Grants

The Group recognises an unconditional government grant related to research and development in profit or loss as other income when the grant becomes receivable.

Leases

1. Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the definition of a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Leased assets

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy before January 1st 2019:

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether the arrangement is or contains a lease. At inception or on reassessment of an arrangement that contains a lease, the Group separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Group's incremental borrowing rate.

Leased assets

Leases of property, plant and equipment that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset. Assets held under other leases are classified as operating leases and are not recognised in the Group's statement of financial position.

Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Taxation

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date. Current income tax relating to items recognized directly in equity is recognized in equity and not in income statement. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets are recognized only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be recognized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is recognized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Events after the reporting date

Assets and liabilities are adjusted for events which occurred in the period between the reporting date and the date the financial statements are approved by the Board of Managers when such events provide evidence if conditions that existed at the end of the reporting period.

Use of estimates and judgements

The preparation of consolidated financial statements in accordance with IFRS as adopted by the EU requires from Management the exercise of judgment, to make estimates and assumptions that influence the application of accounting principles and the related amounts of assets and liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are deemed to be reasonable based on knowledge available at that time. Actual results may deviate from such estimates.

Significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are:

Taxation

The Group and its subsidiaries are subject to corporation tax in accordance with the legislation and the tax rates applicable in the countries where the companies operate. For specific transactions and calculations, the final tax computation is uncertain. The Group and its subsidiaries recognized liabilities for foreseeable tax matters based on estimates of whether additional tax will arise. Where the final tax assessment of these matters is different from the amount originally recognized, the differences will affect the provision for corporation tax and deferred tax in the period of assessment.

Impairment testing

Information about the assumptions and estimation on uncertainties as at December 31st, 2019 that have significant risk of resulting in a material adjustment to carrying amounts of assets and liabilities are included in Note 7 and Note 8. The assumptions used in the impairment test represent management's best estimate for the period under consideration. The estimate of the recoverable amount, for purposes of performing the annual impairment test for each of the operating activities, was determined using fair value less costs of disposal for the year ended December 31st, 2019 and was based on the following assumptions: 1) the expected future cash flows based on the current economic conditions and market trends as well as the Group's actions for the years 2020 to 2024 and 2) the increase of number of vehicles that will sold in the following years. The increase is calculated on exponential growth basis as the Group is a start-up. The average rate for the exponential growth is 69%.

4. FINANCIAL RISK AND CAPITAL MANAGEMENT

A. Financial risk factors

The Group exposure to the following risks from its use of financial instruments:

- Liquidity risk
- Credit risk
- Market risk

The Board of Managers has overall responsibility for the establishment and oversight of the Group's risk management framework.

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

4. FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

The Group risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

(i) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group has sold 7,915% in Arrival S.à r.l.. This transaction has provided the Company with EUR 100.000 cash as of year-end as well as it reduced the amount of borrowings. The Company is on on-going negotiations with various parties who are interested in investing in our Group, which will provide us the additional cash-flows to fulfil the targets of the Group. On a monthly basis the Group entities provide their monthly cash-flow forecast and after careful consideration from management, a drawn down is made by the Company which is then funded to the various entities of the Group through capital contribution (see note 13).

(ii) Credit risk

Credit risk arises from the possibility that counterparties to transactions may default on their obligations, causing financial losses for the Group. As the Group is not actively trading, the risk is minimum. However, the management is closely monitoring the trade debtors by assessing the customers and taking actions were they necessary to do so to mitigate credit risk.

	2019			
	<u>Due within</u>	<u>Due between</u>	<u>Due between</u>	<u>Due over</u>
	<u>30 days</u>	<u>31 and 60</u>	<u>61 and 90</u>	<u>91 days</u>
<i>In thousands of euro</i>		<u>days</u>	<u>days</u>	
Trade Debtors	330	-	113	-

	2018			
	<u>Due within</u>	<u>Due between</u>	<u>Due between</u>	<u>Due over</u>
	<u>30 days</u>	<u>31 and 60</u>	<u>61 and 90</u>	<u>91 days</u>
		<u>days</u>	<u>days</u>	
Trade Debtors	334	-	-	-

(iii) Market risk

Market risk is primarily related to foreign currency exchanges rates. Foreign currency risk arises from the exposure to exchange rate fluctuations. The Group is exposed to British Pounds ("GBP"), Russian Rubles ("RUB") and United State Dollars ("USD"). Currently there are no currency forwards, options or swaps to hedge this exposure as the Group is in development face and the Management is committed in funding all projects. The Board of Managers are managing the risk by reviewing the monthly cash-flow forecasts and financing the various entities of the group with the necessary operating cash-flow on a monthly basis. The following table shows the fluctuation of the main currencies the Group is using against Euro:

	2019	2018
EUR/USD	5,34%	(3,72%)
EUR/GBP	1,15%	(1,17%)
EUR/RUB	2,70%	(12,08%)

The operational foreign exchange gains and losses incurred to the Group are:

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

4. FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

In thousands of euro

	2019	2018
<u>Gains</u>		
Russia	492	1.090
UK	196	242
Other countries	<u>224</u>	<u>13</u>
	<u>912</u>	<u>1.345</u>
<u>Losses</u>		
Russia	(768)	(1.110)
UK	(902)	(431)
Other countries	<u>(97)</u>	<u>(4.867)</u>
	<u>(1.767)</u>	<u>(6.408)</u>

B. Capital Management

The Board of Managers policy is to secure the Group as a going concern and finance its long-term growth. The Board of Managers have successfully re-negotiated the terms and conditions of the loan which ensure the day to day operations of the Group. It is management intention that several of our development projects will be finalised and put into production within the next couple of years and at the same time we see a big interest for investors to join our effort in producing innovating products.

5. NON-FINANCIAL RISK MANAGEMENT

The Group is exposed to the following non-financial risks:

1. Operational risk
2. Compliance risk
3. Legal risk

Operational risk

Operational risk is the risk derived from the weakness of information technology systems and controls as well as the risk from human error and natural disaster. This risk is limited through continuous evaluation and upgrade of the current systems and controls.

Compliance risk

Compliance risk is the risk of financial loss, including fines and other penalties, which arises from non-compliance with the laws and regulations in the countries we operate. This risk is limited due to the supervision exercised by the Legal Officer as well as by the processes and procedures applied by the Group.

Legal risk

Legal risk is the risk of financial loss, the discontinuation of the operations of companies of the Group and the Group or any other negative situation arising from the possibility of non-execution or violation of legal contracts resulting in lawsuits. This risk is limited as the only significant contracts the Group has are the lease contracts (see note 15).

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

6. PROPERTY, PLANT AND EQUIPEMENT

	Plant and Equipment	Furniture and fittings	Motor Vehicles	Leasehold improvements	Assets under development	Prototypes	TOTAL
<i>In thousands of euro</i>							
Cost							
At January 1 st , 2018	6.042	946	139	32	1.979	-	9.138
(unaudited)							
Additions	2.066	466	595	-	1.112	5.816	10.055
Reclassification	6.675	-	-	-	(1.605)	(5.221)	(151)
Foreign exchange differences	(278)	(12)	(7)	-	(11)	(3)	(313)
At December 31 st , 2018	14.505	1.400	727	32	1.475	590	18.729
Depreciation/impairment							
At January 1 st , 2018	(856)	(131)	(29)	(6)	-	-	(1.022)
(unaudited)							
Depreciation	(1.894)	(290)	(109)	(1)	-	(624)	(2.918)
Reclassification	(444)	-	-	-	-	258	(186)
Impairment	-	-	-	-	-	(114)	(114)
Foreign exchange differences	83	4	1	-	-	4	92
At December 31 st , 2018	(3.111)	(417)	(137)	(7)	-	(476)	(4.148)
Net book Value							
At January 1 st , 2018	5.186	815	110	26	1.979	-	8.116
At December 31 st , 2018	11.392	983	590	25	1.475	114	14.581

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

6. PROPERTY, PLANT AND EQUIPEMENT (continued)

<i>In thousands of euro</i>	Land and Buildings	Plant and Equipment	Furniture and fittings	Motor Vehicles	Leasehold improvements	Assets under development	Prototypes	TOTAL
Cost								
At January 1 st , 2019	-	14.505	1.400	727	32	1.475	590	18.729
Recognition of right-of-use asset on initial application of IFRS 16	8.186	-	-	-	-	-	-	8.186
Additions	20.451	4.259	2.360	264	302	-	2.601	30.237
Disposals	-	(1.088)	(33)	(220)	-	(17)	-	(1.358)
Foreign exchange differences	671	1.304	140	39	10	75	18	2.257
At December 31 st , 2019	<u>29.308</u>	<u>18.980</u>	<u>3.867</u>	<u>810</u>	<u>344</u>	<u>1.533</u>	<u>3.209</u>	<u>58.051</u>
Depreciation/impairment								
At January 1 st , 2019	-	(3.111)	(417)	(137)	(7)	-	(476)	(4.148)
Recognition of right-of-use asset on initial application of IFRS 16	(1.049)	-	-	-	-	-	-	(1.049)
Depreciation	(3.105)	(3.852)	(527)	(182)	(12)	-	(31)	(7.709)
Disposal	-	1.034	26	209	-	-	-	1.269
Foreign exchange differences	(181)	(585)	(36)	(5)	(1)	-	(25)	(833)
At December 31 st , 2019	<u>(4.335)</u>	<u>(6.514)</u>	<u>(954)</u>	<u>(115)</u>	<u>(20)</u>	<u>-</u>	<u>(532)</u>	<u>(12.470)</u>
Net book Value								
At January 1 st , 2019	-	11.392	983	590	25	1.475	114	14.581
At December 31 st , 2019	<u>24.973</u>	<u>12.466</u>	<u>2.913</u>	<u>695</u>	<u>324</u>	<u>1.533</u>	<u>2.677</u>	<u>45.581</u>

Land and buildings are composed only from leases that needed to be recognised in 2019 as per IFRS 16.

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

7. INTANGIBLE ASSETS AND GOODWILL

<i>In thousands of euro</i>	Goodwill	Assets under construction	Patent, trademarks and other rights	Software	TOTAL
Cost					
At January 1 st , 2018 (unaudited)	3.802	56.735	297	776	61.610
Additions	2	19.029	169	497	19.697
Reclassification	-	-	130	21	151
Foreign exchange differences	-	(764)	(6)	(11)	(781)
At December 31 st , 2018	<u>3.804</u>	<u>75.000</u>	<u>590</u>	<u>1.283</u>	<u>80.677</u>
Amortisation/impairment					
At January 1 st , 2018 (unaudited)	(3.802)	(6.842)	(57)	(345)	(11.046)
Amortisation	-	-	(51)	(313)	(364)
Reclassification	-	186	-	-	186
Impairment	(2)	(28.379)	-	-	(28.381)
Foreign exchange differences	-	340	-	-	346
At December 31 st , 2018	<u>(3.804)</u>	<u>(34.695)</u>	<u>1</u>	<u>5</u>	<u>(39.259)</u>
Net book Value					
At January 1 st , 2018	-	49.893	240	431	50.564
At December 31 st , 2018	-	<u>40.305</u>	<u>483</u>	<u>630</u>	<u>41.418</u>

Assets under construction include all cost of projects that are in development face.

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

7. INTANGIBLE ASSETS AND GOODWILL (continued)

<i>In thousands of euro</i>	Goodwill	Assets under construction	Patent, trademarks and other rights	Software	TOTAL
Cost					
At January 1 st , 2019	3.804	75.000	590	1.283	80.677
Additions	69	53.872	39	1.075	55.055
Disposal	-	(1)	(133)	-	(134)
Foreign exchange differences	-	5.532	28	96	5.656
At December 31 st , 2019	<u>3.873</u>	<u>134.403</u>	<u>524</u>	<u>2.454</u>	<u>141.254</u>
Amortisation/impairment					
At January 1 st , 2019	(3.804)	(34.695)	(107)	(653)	(39.259)
Amortisation	-	-	(63)	(541)	(604)
Disposal	-	-	133	-	133
Impairment	(48)	(8.438)	-	-	(8.486)
Foreign exchange differences	-	(1.982)	(3)	(49)	(2.034)
At December 31 st , 2019	<u>(3.852)</u>	<u>(45.115)</u>	<u>(40)</u>	<u>(1.243)</u>	<u>(50.250)</u>
Net book Value					
At January 1 st , 2019	<u>-</u>	<u>40.305</u>	<u>483</u>	<u>630</u>	<u>41.418</u>
At December 31 st , 2019	<u>21</u>	<u>89.288</u>	<u>484</u>	<u>1.211</u>	<u>91.004</u>

* Assets under construction include all cost of projects that are in development face. The projects under development relate to BUS, Electric Vehicles, Artificial Intelligence and Robotics.

The impairment loss was recognized in relation to the manufacturing of new products based on the present value of future cash-flows expected to be delivered from these projects. The impaired projects have been fully impaired as at December 31st, 2019 it was estimated that these projects will not generate any future cash inflows and/or it was decided that certain projects will not be forming part of the end product.

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

8. INVESTMENT IN ASSOCIATE COMPANIES

In thousands of euro

	2019	2018 'Represented'
January 1 st	9.384	-
Acquisition of net equity	1.470	5.916
Goodwill	528	3.562
Share of losses for the year after taxes	(3.349)	(94)
December 31st	<u>8.033</u>	<u>9.384</u>

Associated companies	Total issued share capital No. of shares	Percentage of shares with voting rights		Calculation method
		2019	2018	
Absolutely No Nonsense Admin Ltd	25.816.836	27,78%	24,641%	Net Position

On December 21st 2018, the Group has purchased 24,641% in Absolutely No Nonsense Admin Ltd ("ANNA"), a mobile business account provider that provides admin support and tax reminders.

The Group has purchased an additional 3,14% of ANNA in March 2019 for an amount of GBP 1.499 (EUR 1.747).

On October 8th, 2019, K Fintech S.à r.l. has entered into a deferred subscription agreement with ANNA for an amount of GBP 1.250 (EUR 1.450). The prepaid amount is presented in these consolidated financial statements in prepayments. The amount paid to ANNA is convertible to 896.379 of ANNA shares on September 7th, 2020.

The following table summarises the financial position of Absolutely No Nonsense Admin Ltd.

Summarized financial information for associates

In thousands of euro

	2019	2018
Summarised Profit or Loss		
Turnover	-	-
Losses for the year before tax	(12.056)	(383)
Taxation	-	-
Losses for the year after tax	(12.056)	(383)
Total comprehensive expense for the year	<u>(12.056)</u>	<u>(383)</u>
Group share of total comprehensive expense	<u>(3.349)</u>	<u>(94)</u>
Summarised financial position		
Non-current assets	15.471	14.715
Current assets	2.927	8.992
Non-current liabilities	-	-
Current liabilities	(4.205)	(80)
Total net assets (100%)	<u>14.193</u>	<u>23.627</u>
Group's share of net assets	<u>3.943</u>	<u>5.822</u>

In 2018, the Group had an outstanding balance with ANNA of EUR 6.219. The amount in investment in associate was presented net of this amount. In 2019, the 2018 figures have been grossed up, in order to present the appropriate value of the investment into ANNA and consequently the amount due in this company (see note 17).

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

9. TRADE AND OTHER RECEIVABLES

A. Non-Current Trade and other receivables

	2019	2018
<i>In thousands of euro</i>		
Loans receivable	1.160	2.497
Trade receivables	1.036	-
Other	90	5
Call deposits	2.351	-
Cash Guarantees and deposits	<u>5.295</u>	<u>2.955</u>
Total	<u>9.932</u>	<u>5.457</u>

(i) Loan receivable

The loans receivable from Arrival Motors UAB (ex. Thor Motors UAB) in 2018 amounted EUR 5.985. The loan to Arrival Motors UAB has been impaired in 2018 by EUR 3.489 as the management considered that the amount was highly probable not to be received given the financial situation of the vendor. The amount impaired has been reversed in 2019 as the company was able to deliver products and services for the repayment of this loan. The total amount reversed was EUR 3.563 (see note 19). The difference between last year impairment and the reversal this year is due to foreign exchange revaluation. Additionally, an amount of EUR 3.055 has been reclassified to inventory as Arrival Motors UAB has provided stock which is used in the production of our electric vehicles and an amount of EUR 1.036 was classified as trade receivables. The remaining amount was also reclassified to trade debtors as Arrival Motors UAB is providing various services to our Group. Loans receivable are mainly composed of a loan which the Group granted to KeyArk Inc on June 20th, 2019 for a total amount of USD 6.000 (EUR 5.341). The loan is repayable on December 31st, 2021 and it bears interest of 17% per annum, compounded annually and payable at the maturity of the loan. As of December 31st, 2019, the principal amount due amounts to EUR 1.134.

(ii) Cash Guarantees and Deposits

Cash guarantees and deposits are amounts that some companies of the Group have deposited in an escrow accounts in order to obtain the lease and/or to get the services required by third parties. The cash guarantees match each lease duration. The leases expire between 2 to 12 years.

(iii) Call deposits

Call deposits are mainly composed of a deposit that we have made for our new factory building in the US that is currently under construction with maturity date May 2021 and September 2022.

B. Current Trade and other receivables

	2019	2018
<i>In thousands of euro</i>		
VAT receivable	2.471	756
Grants receivable	694	3.710
Trade debtors	443	334
Interest	76	-
Deferred charges	133	96
Other receivables	<u>11.218</u>	<u>4.234</u>
Total	<u>15.035</u>	<u>9.130</u>

Other receivable are mainly composed of an amount of EUR 10.141 from Gemtech Ltd. The amount due from Gemtech Ltd was part of the sale purchase agreement and the credit facility agreement signed between the Company and GemTech Ltd (see note 13). Included in other receivable is an amount of EUR 3.355 (USD 3.763) which relates to the sale of K Networks S.à r.l. which incurred in 2017.

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

9. TRADE AND OTHER RECEIVABLES (continued)

B. Current Trade and other receivables (continued)

The receivable in relation to the sale of K Networks S.à r.l. was payable at the end of 2018 was extended to December 22, 2020. The loan bears 12% interest per annum. Management has decided to impair the principal amount of the loan for EUR 3.355 (see note 19) as there are strong indications that the amount may not be recoverable. Government grants relate to refunds that the Group can obtain from the UK Government due to the R&D incentive program (see note 3 for accounting policy).

10. INVENTORY

<i>In thousands of euro</i>	2019	2018
Raw materials and consumables	6.013	1.421
Work in progress	-	34
Inventory	<u>6.013</u>	<u>1.455</u>

11. CASH AND CASH EQUIVALENTS

<i>In thousands of euro</i>	Note	2019	2018
Bank balances of continued operations		99.661	2.589
Call deposits		-	18
Total of cash and cash equivalent		<u>99.661</u>	<u>2.607</u>

On December 30th, 2019, external investors have subscribed to the share capital of Arrival S.à r.l.. The total cash proceeds from this subscription amounted to EUR 100.000.

12. CAPITAL AND RESERVES

A. Share Capital

<i>In thousands of shares</i>	2019	2018
Authorised		
16 Ordinary Shares of EUR 1 each	<u>16</u>	<u>16</u>
Issued and fully paid		
16 Ordinary Shares of EUR 1 each	<u>16</u>	<u>16</u>

The Company was incorporated on October 3rd, 2014 with an issued and fully paid up share capital of EUR 12.500,00 represented by 500 ordinary shares of a nominal value of EUR 25,00 each. On July 3rd, 2015, the sole shareholder decided to (i) cancel the nominal value of the shares; (ii) convert the currency of the share capital from EUR to USD in order to bring the subscribed capital from EUR 12.500,00 to USD 13.971,25; (iii) increase the share capital by an amount of USD 1.028,75 by a contribution in cash; (iv) restate the number of shares to bring it from 500 to 1.500 and fix the nominal value to USD 10,00 per share; (v) increase the share capital by an amount of USD 5.000,00 by the issuance of 500 additional shares of a nominal value of USD 10,00 each. On January 22nd, 2018, with effect as at December 31st, 2017, the sole shareholder decided to (i) cancel the nominal value of the shares; (ii) convert the currency of the share capital from USD to EUR in order to bring the subscribed capital from USD 20.000,00 to EUR 16.000,00; (iii) allocate EUR 694,00 to the share premium as a result of such change of currency; (iv) and exchange the existing 2.000 shares without par value against 16.000 shares with a nominal value of EUR 1,00 each.

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

12. CAPITAL AND RESERVES (continued)

As at December 31st, 2019, the subscribed and fully paid up share capital amounting to EUR 16.000,00 is represented by 16.000 ordinary shares of a nominal value of EUR 1,00 each.

B. Share Premium

<i>In thousands of euro</i>	Share Premium	Total
January 1st, 2018 (unaudited)	335	335
Movements for the year	-	-
December 31st, 2018	<u>335</u>	<u>335</u>
January 1st, 2019	335	335
Movements for the year	-	-
December 31st, 2019	<u>335</u>	<u>335</u>

12. CAPITAL AND RESERVES

C. OCI accumulated in reserves, net of tax

<i>In thousands of euro</i>	Translation reserves	Total
January 1st, 2018 (unaudited)	<u>5.424</u>	<u>5.424</u>
Foreign operations – foreign currency translation differences	<u>(587)</u>	<u>(587)</u>
December 31st 2018	<u>4.837</u>	<u>4.837</u>
January 1st, 2019		
Foreign operations – foreign currency translation differences	<u>4.691</u>	<u>4.691</u>
December 31st 2019	<u>9.528</u>	<u>9.528</u>

13. LOANS AND BORROWINGS

<i>In thousands of euro</i>	2019	2018
Non-current liabilities		
Loans	<u>264.131</u>	<u>228.700</u>
Current liabilities		
Loans	<u>1.001</u>	<u>-</u>

The loans are analysed as follows:

<i>In thousands of euro</i>	2019	2018
Non-current liabilities		
Balance as of January 1 st	228.700	-
Interest for the year	44.024	16.603
New loans	126.634	40.300
Exchange part of the loan to shares in Arrival S.à r.l.	(135.227)	-
Assignment of loans	-	171.797
Total bank loan	<u>264.131</u>	<u>228.700</u>

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

13. LOANS AND BORROWINGS (continued)

<i>In thousands of euro</i>	2019	2018
Current liabilities		
Balance as of January 1 st	-	140.560
Interest for the year	1	2.148
New loans	1.000	24.400
Foreign exchange differences	-	4.689
Assignment of loans	-	(171.797)
Total current loans and borrowings	1.001	-

<i>In thousands of euro</i>	Currency	Nominal interest rate	Year of Maturity	2019		2018	
				Face value	Carrying amount	Face value	Carrying amount
GemTech loan	EUR	12%	2021	330.618	264.131	-	-
Longspeed credit facility	EUR	17%	2021	-	-	228.700	228.700
Telconet loan	EUR	1,7%	2020	1.001	1.001	-	-
Total interest-bearing liabilities				331.619	265.132	228.700	228.700

On June 17th, 2016 Telconet Capital L.P ("Telconet") granted an interest-bearing loan facility to the Company. On June 28, 2018, the Company has entered into a new credit facility agreement with Longspeed Investments Limited ("Longspeed"). It has been agreed between the various parties that the loan between the Company and Telconet as well as the loan with Marsfield, will be assigned to Longspeed and form part of this new credit facility agreement up to EUR 400.000, having maturity December 2021 and an interest rate of 17%. The assignment of Telconet loan was EUR 164.007 of principal amount and EUR 5.981 of interest. The assignment of loan from Marsfield was EUR 1.774 of principal amount and EUR 35 of accrued interest. During the year and up to October 17th, 2019, the Company has made additional drawdowns in total amount of EUR 75.151, based on the Longspeed loan.

On April 26th, 2019 the Company entered into a new borrowing loan agreement with Gemcorp Holdings Limited, with a maturity date November 29th, 2019 and interest rate of 9% per annum. The total amount drawn was EUR 28.500 and accrued interest as at November 29, 2019 was in amount of EUR 1.563. This loan was transferred to GemTech Limited ("GemTech").

On October 17, 2019 Longspeed decided to transfer the loan principal (EUR 287.248) and the accrued interest as of this date (EUR 49.780) to Teleconet Capital Limited Partnership ("Teleconet").

During 2019 the Company made additional drawdowns in total amount of EUR 7.000 based on Teleconet loan.

As at November 11th, 2019 the Teleconet loan was in total amount of EUR 347.398 out of which EUR 294.248 represents the principal amount and the rest accrued interest.

On November 11th, 2019 the Company entered into a settlement exchangeable instrument and converted an amount of EUR 259.859 into an unsecured loan out of the above Teleconet loan. On November 21st, 2019 the loan was transferred to GemTech under the following conditions: maturity date December 31st, 2021 and interest rate 12% per annum having also an option clause (see Note 14). The remaining balance of the above Teleconet loan was assigned to GemTech. During 2019 the Company made additional drawdowns in total amount of EUR 15.983 based on GemTech loan. As of December 30th, 2019 GemTech has acquired 42.641.351 ordinary shares of Arrival S.à r.l. having nominal value of EUR 0.25 each. The share purchase price of EUR 145.368 was agreed to net it against the loan due to GemTech. An amount of EUR 135.227 has been netted and an amount of EUR 10.141 is outstanding as at December 31, 2019 (see note 9B).

On November 27th, 2019 Telconet has provided a short-term loan to the Company for an amount of EUR 1.000, bearing interest at an annual rate of 1.7% and repayable in 2020.

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

14. DERIVATIVE

The exchangeable instrument on the Loan agreement with GemTech (see note 13) has an option clause that enables the noteholder to exchange at any time the loan for a number of shares in the Company, valued at EUR 630.000. The option is fair value by deducting from the exercise price the outstanding amount of the loan. As of December 31st, 2019, the fair value recognized in the Consolidated Statement of Profit and Loss and Other Comprehensive Income is EUR 365.869 (see note 19).

15. LEASE LIABILITIES

<i>In thousands of euro</i>	2019	2018
Non-Current lease liabilities		
Lease Liability	21.925	-
Total non-current lease liabilities	<u>21.925</u>	<u>-</u>
Current lease liabilities		
Balance as of January 1 st	-	-
Current portion of lease liabilities	6.243	-
Total current loans and borrowings	<u>6.243</u>	<u>-</u>

<i>In thousands of euro</i>	Carrying amount	Total	Within one year	Between 1 and 5 years	More than 5 years
December 31st, 2019					
Leases	28.168	50.562	7.505	25.740	17.317
Amounts recognized in profit or loss					2019
Interest on lease liability					3.528
Expenses relating to short-term leases and low value leases					<u>832</u>
Amount recognized in the statement of cash flows					
Total cash outflow for leases					<u>5.483</u>

The leased buildings are offices and industrial buildings used for the development of our products.

16. INCOME TAXES

A. Amounts recognised in profit or loss

<i>In thousands of euro</i>	Note	2019	2018 'Represented'
Current tax expense			
Current year		(363)	(158)
Other taxes		(45)	(53)
Government grant on losses*		5.210	2.611
		<u>4.802</u>	<u>2.400</u>
Deferred tax expense			
Relating to tax losses		1.999	-
Relating to origination and reversal of temporary differences		(1.545)	1.114
Other deferred tax expense		(52)	(36)
		<u>402</u>	<u>1.078</u>
Tax expense on continuing operations		<u>5.204</u>	<u>3.478</u>

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

16. INCOME TAXES (continued)

* The amount of 2.611 was classified as other income in 2018 financial statements (see note 18). In 2019, it has been noticed that this classification was incorrect as the grant received was relating to tax relief that Arrival Ltd has received as part of the research and development relief support that the UK government is granting.

B. Deferred tax balances

	2019	2018
<i>In thousands of euro</i>		
Asset		
Depreciation and amortisation	-	6
Accruals	85	40
Tax losses	2.206	56
Other	547	15
	<u>2.838</u>	<u>117</u>
Liabilities		
Depreciation and amortisation	318	42
Fixed assets	2.207	8
	<u>2.525</u>	<u>50</u>

C. Unrecognised deferred tax assets

Deferred tax assets have not been recognized in respect of the following items, because it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom

	2019		2018	
<i>In thousands of euro</i>	Gross amount	Tax effect	Gross amount	Tax effect
Tax losses	602.110	140.547	144.832	29.424

D. Tax losses carried forward

Tax losses for which no deferred tax asset was recognized and expire as follows:

<i>In thousands of euro</i>	2019	Expiry date	2018	Expiry date
Expire	602.110	2020-2037	144.634	2019-2036

E. Reconciliation of effective tax rate

<i>In thousands of euro</i>	2019		2018	
			'Represented'	
Loss before tax from continuing operations		(496.878)		(91.756)
Tax rate using the Company's domestic tax rate	24,94%	(123.921)	26,01%	(23.819)
Effect of tax rates in foreign jurisdictions	(13,06%)	6.858	(8,7%)	7.984
Tax incentives	4,68%	(2.459)	3,59%	(3.191)
Tax exempt income		-	2,74%	2.609
Non-deductible expenses	(177,44%)	93.214	(3,22%)	2.865
Current year losses for which no deferred tax asset is recognised	(40,49%)	21.270	(20,33%)	18.085
Recognition of previously unrecognized tax losses/temporary difference	0,41%	(215)	0,08%	(52)
Changes in estimates related to prior years		-	(1,17%)	(1.038)
Other domestic taxes (minimum tax payments)	0,09%	49	(0,04%)	35
Income tax income		<u>5.204</u>		<u>3.478</u>

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

16. INCOME TAXES (continued)

E. Tax impact of the UK giving notice to withdraw from the EU

On March 29th, 2017, the UK government invoked Article 50 of the Treaty of Lisbon, notifying the European Council of its intention to withdraw from the EU. There is an initial two-year timeframe for the UK and EU to reach an agreement on the withdrawal and the future UK and EU relationship, although this timeframe can be extended. At this stage, there is significant uncertainty about the withdrawal process, its timeframe and the outcome of the negotiations about the future arrangements between the UK and the EU. As a result, there is still significant uncertainty over the period for which the existing EU laws for member states will continue to apply to the UK and which laws will apply to the UK after an exit. Following the negotiations between the UK and the EU, the UK's tax status may change and this may impact the Group. However, at this stage the level of uncertainty is such that it is impossible to determine if, how and when that tax status will change.

On April 25th, 2019, the Luxembourg parliament has passed a legislation, reducing the corporate tax rate for the Luxembourg entities, from 26,01% to 24,94%. The new rate is applicable for all Luxembourg entities as from January 1st, 2019.

17. TRADE AND OTHER PAYABLES

	2019	2018
Current liabilities		'Represented'
Trade payables	9.936	4.128
Other payables and accrued expenses	<u>13.307</u>	<u>8.702*</u>
	<u>23.243</u>	<u>12.830</u>

* See Note 8

18. INCOME AND EXPENSES

In thousands of euro

	2019	2018
A. Other income		'Represented'
Government grants	1.865	1.750*
Gain from the disposal of fixed assets	466	-
Negative goodwill	113	-
Other income	<u>319</u>	<u>54</u>
Total other income	<u>2.763</u>	<u>1.804</u>
B. Other expenses	2019	2018
Loss from the disposal of fixed assets	(22)	-
Other charges	<u>(6.975)</u>	<u>(32)</u>
Total other expenses	<u>(6.997)</u>	<u>(32)</u>

* See Note 16A

Other charges relate to fees that do not fall within the normal operating activity of the Group. These expenses relate to fees incurred for due diligence, legal fees and successful completion of fund raising.

Government grants recognised in other income relate to grants received from the Innovate UK which is part of UK research and innovation, a non-departmental public body which funded by the UK government. Comparative figures have been amended as an amount of EUR 2.611 has been reclassified from other income to taxes (see note 16A).

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

18. INCOME AND EXPENSES (continued)

<i>In thousands of euro</i>	2019	2018
C. Expenses by nature		
Depreciation/amortisation	(4.136)	(3.282)
Depreciation on leases	(3.105)	-
Impairment of tangibles/intangible assets	(8.486)	(28.495)
Sponsorship	-	(1.553)
Marketing	(1.180)	(767)
Travel expenses and accommodation	(3.554)	(2.166)
Legal fees	(1.698)	(562)
Rent and property utilities	(3.655)	(3.398)
Consultancy fees	(5.358)	(2.186)
Wages and Salaries	(23.541)	(11.602)
Contractors	(5.447)	(4.794)
Recruitment fees	(1.857)	(697)
Postages and carriage	(75)	(572)
Accounting fees	(424)	(414)
Audit	(448)	(300)
Testing	(344)	(517)
Meals and Subsistence	(1.073)	(713)
Consumables	(5.346)	(2.888)
License subscriptions	(2.575)	(280)
Freight cost	(360)	-
Training fees	(240)	(40)
Office supplies	(495)	(252)
Patent fees	(699)	(219)
Other	(838)	(179)
Total expenses by nature	(74.934)	(65.876)

The amount impaired relates mainly to projects which have been capitalised as Assets under Construction. Management is constantly evaluating the progress of each project and when we identify any difference or change in the initial plan and/or the expected future cash flows that these projects will generate, then the appropriate impairment is booked to adjust the carrying amount of the development cost.

An amount of EUR 1.072 of depreciation has been capitalised as it formed part of the cost of the assets under constructions.

19. FINANCE COST

<i>In thousands of euro</i>	2019	2018
Finance income		
Interest received	130	127
Gain on disposal of subsidiary	-	9
Reversal of impairment on loan receivable	3.563	-
Other	20	-
Unrealised foreign exchange differences	571	136
Realised foreign exchange differences	341	1.209
Total finance income	4.625	1.481

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

19. FINANCE COST (continued)

<i>In thousands of euro</i>	2019	2018
Finance cost		
Other charges	(495)	(187)
Interest payable	(44.033)	(18.751)
Impairment of loan receivable	(3.355)	(3.522)
Fair value of derivative	(365.869)	-
Lease interest	(3.467)	-
Unrealised foreign exchange differences	(582)	(10)
Realised foreign exchange differences	(1.185)	(6.389)
Total finance cost	(418.986)	(28.859)

20. RELATED PARTY TRANSACTIONS

The Group's related parties include any subsidiaries or entities under significant influence of Kinetik S.à r.l. key management personnel and shareholder. The Group had the following related party transactions:

<i>In thousands of euro</i>	Creditors		Debtors	
Related party	2019	2018	2019	2018
Arrival Management Systems LLC	(53)	-	-	-
Arrival Solutions LLC	(27)	-	-	-
Shishkov Rodion	(64)	-	251	-
Arrival Management Systems Ltd	-	(59)	-	-
Telconet	(1.001)	-	-	-
Gemtech	(264.131)	-	-	-
	(265.276)	(59)	251	-

<i>In thousands of euro</i>	Transactions	
Related party	2019	2018
Employees		
Shishkov Rodion	187	-
Affiliated entities		
Arrival Management Systems LLC	(264)	-
Arrival Solutions LLC	(30)	-
Teleksir LLC	(89)	-
Telconet	(1.001)	-
Gemtech	(264.131)	-
Smart Space LLC	(399)	-
Arrival Management Systems Ltd	-	(59)
	(265.727)	(59)

The related party transactions relate mainly to acquisition of fixed assets and consulting services.

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

21. PERSONNEL

Average number of employees

	2019	2018
UK	269	161
Russia	308	157
Other countries	47	5
	<u>624</u>	<u>323</u>
White collar	109	28
Blue collar	515	295
	<u>624</u>	<u>323</u>

In thousands of euro

	Personnel cost	
	2019	2018
UK	28.949	16.343
Russia	14.193	7.032
Other countries	6.999	1.226
	<u>50.141</u>	<u>24.601</u>

The personnel cost is presented grossed up as several wages and salaries are capitalised as part of our cost for the development projects.

22. OFF BALANCE SHEET EVENTS

The Group has granted a credit facility to KeyArk Inc on June 20th, 2019 for a total amount of USD 6.000 (EUR 5.341) (see note 9). The undrawn amount as of December 31st, 2019 is USD 4.730 (EUR 4.210).

The Company has granted an unsecured loan to R. Shishkov on December 18th, 2019 for an amount of EUR 410. The loan is payable in two tranches: EUR 200 were paid on December 18th, 2019 and EUR 210 were paid on 27th February 2020. As of December 31st, 2019, the EUR 210 are presented in these consolidated financial statements as off-balance sheet commitment.

No other off balance events exists as of December 31st, 2019.

23. SUBSEQUENT EVENTS

- On January 6th, 2020, the Arrival Automotive Ltd have made a deposit of GBP 1.191 for the new production facility in Bicester.
- On January 24th, 2020, Jungle Robotics GmbH was incorporated with the registered share capital of EUR 25,000 divided into 25,000 common shares with a nominal value of EUR 1 each. On the same date, K Jungle S.à r.l. subscribed for 22,250 shares for a total subscription price of EUR 22,250 and committed to make payments into the capital reserve of Jungle Robotics GmbH in an aggregate amount of EUR 2.000 during 2020.
- On January 29th, 2020, Arrival Ltd raised a purchase order of EUR 3.740 with Comau UK Ltd for Industrial Engineering or the Bus assembly process.
- On February 3rd, 2020, Arrival Ltd raised a purchase order of EUR 2.420 with Brist Axle System Srl for Interactive Drive Suspensions for the production phase of Busses.

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31st, 2019

23. SUBSEQUENT EVENTS (continued)

- On March 16th, 2020, the Management has informed the employees of Roborace UK Ltd, that is considering in closing down this entity. No formal decision has been taken yet as Management is considering all options. Management is continuing exploring ways of avoiding compulsory redundancies and minimising the number of employees affected.
- On December 31st, 2019, the World Health Organisation was informed that a limited number of cases of pneumonia, of an unknown cause, were detected in Wuhan, Hubei China. At beginning the virus affected only China. However, since early February COVID-19 has spread all over the world forcing governments to take drastic measures in order to confine the spread. COVID-19 has impacted the way day to day operations are done and even though it is difficult to estimate the full impact, it is certain that this virus will have an economic impact to the world's economy. The Group has taken all necessary precautions as per the advice of experts in order to protect its employees but at the same time, to ensure that all projects and operations are still on track. Management is closely following the developments of the virus crisis and it is the Group's first priority to enforce and comply with all actions that governments announce.

Members Report - Kinetik S.à r.l. – Year ended 31 December 2019

Dear Members, we report on the Kinetik Sarl (the Group) or (the Group's) achievements for the year ended 31 December 2019 as follows:

Kinetik Group operates in research and development in electric vehicles, batteries, medical equipment, artificial intelligence and robotics with the objective of developing new innovating products. More specifically, Kinetik Group has 7 division each operating a particular field.

Arrival division

Arrival division operates in the research, development, design and manufacture of 'Generation 2' electric vehicles including buses, vans and other commercial vehicles with autonomous features. These are vehicles that have been designed first for electric and as such have a significant cost advantage over electric vehicles that reuse traditional internal combustion engine ("ICE") components ("Generation 1 EVs").

We focus on development of our own electric automotive components, and on software as a key enabler to technology integration. Arrival vehicles are "devices on wheels" that will be robotically manufactured in micro factories, allowing rapid deployment at low capital cost.

In 2019, Arrival extended its activities in creating micro technologies and incorporating these into its core components and vehicle designs. We continued to mature the development of steer-by-wire and brake-by-wire systems, our innovative cost-efficient traction inverter system and a unique high voltage battery module, together with a ground-breaking flexible battery connection.

Arrival focussed on maturing our 3 main vehicle projects in 2019, the Arrival Van product continued testing and validation of the prototype chassis and vehicle systems. The Arrival Bus team carried out extensive testing, particularly of the steering, suspension and EMC components, and completed 'shakedown' testing of the bus structure. Arrival Ltd also progressed its P1 lightweight concept, integrating Arrival hardware and software components into a full prototype platform in late 2019.

Arrival continued to develop its robotic assembly concept utilising both robot arms and automated guided vehicles ("AGVs") along with Arrival robotics software to demonstrate robotic manufacturing at the Arrival R&D site in Banbury UK. Arrival also reached the prototype manufacturing stage of its unique composite material that will be in use in all of its production vehicles.

Arrival's production subsidiaries (Arrival Automotive) continued to build out their teams in readiness for market launch. In particular, leadership teams have been recruited covering the North American and Western Europe markets. First factory locations have been secured in New Jersey USA and also Bicester UK. Both sites meet the company's micro factory requirement of 10,000m² and are capable of producing either 1,000 buses or 10,000 vans per year these will be available for production during 2020.

During 2019 Arrival appointed advisors and commenced an equity funding round to secure the business through the remainder of the R&D phase and through to commercial launch. This programme was well underway by the end of 2019 and completed its first stage at the end of 2019 with investment announced with Hyundai/Kia Motors. Arrival's multi-year relationship with UPS was formalised soon after the 2019-year end with an investment in the group and significant vehicle order. Both investments also yield commercial opportunities that will be confirmed in due course. Arrival was expanded, and further offices were opened in Israel where development of off grid charging technology is being developed and also in Germany where advanced vehicle dynamics are being developed. Further 406 new starters joined the business in readiness for the next phase of development bringing the initial Van and Bus products to market over the next 2 years.

In September the company started its initial marketing campaign across the media including an appearance on BBC World News. Arrival was also a participant at the Goodwood Festival of Speed. This internationally renowned hill-climb event led to the creation of an entirely new automated driving software stack designed and operated by the internal Roborace developers. More than

200,000 spectators and one million viewers saw Roborace DevBot 2.0 set the first official hill-climb time at Goodwood - a historical moment that will remain in the record books for a long time.

Robolife division

Robolife division held assets with-in autonomous racing championship and an education platform in Robotics. Throughout the reporting period, these entities were involved with research, development, design, and demonstration of electric vehicles intended to serve as a platform for the future development of autonomous technology and robotics education.

In 2019 Robolife division has been restructured to gain further efficiencies. Roborace established an operational base at Las Vegas Motor Speedway (LVMS) to enable increased engagement with the autonomous vehicle industry within the USA. The workshop has direct access to test track facilities and the year-round dry weather will significantly extend the software testing and development opportunities available to competing Roborace teams.

The LVMS track will also be used to stage Roborace Season Beta competition events in the first half of 2020 which will be supplemented in the second half of the year with events in the EMEA region.

Robolife is expected in 2020 to acquire more racing teams for the competitions (now 5 teams + 3 prospects), engage more partners and sponsors paying for their media exposure (now Nvidia, Michelin, Arrival, Hot Wheels, Tamiya, Acronis) and introduce a new format of mixed reality events for broader audience acquisition and engagement. The enabler of this is Roborace Metaverse platform that is now in development.

Robolife has a team of hacker-level industry professionals capable for disruptive vision and outstanding execution. In the last couple of years, Robolife has manage to create a vast network of relationships with industry leaders both in entertainment and automotive worlds.

The end of 2019 saw the restructure of the Roborace personal to deliver competition management, organisation, logistics and operations for Season Beta that will run throughout 2020. Due to the shift of the workshop to US, the Management is considering the closure of the activities in the UK (see note 23).

Happy Electron division

Happy Electron division is exploring new electrical energy storage technologies all with the purpose of substantially increasing the energy to weight ratio of existing batteries with the focus on non-chemical energy storage. The Management believes that the on-going research of several projects will be finalised during 2020 and that production prototypes will be ready by end of 2020.

In 2019 Happy Electron division developed into a full research and development organization with offices in St. Petersburg, Russia; London, UK and Redwood City, CA, USA. By the end of the year the organization employed 30 full time, 7 part time and had consulting agreements with 6 consultants. During the year both laboratories in St. Petersburg and Redwood City were established and equipped with tools for Pulsed Laser Deposition (PLD) for generation of Carbon nano particles and a vacuum sputtering tool for the deposition of thin layers of metals and magnetic materials. Both tools are fully operational and used for process and materials development in the different projects.

K Health division

K Health division is developing technological products for preventive, complete and affordable health diagnostic and management. K Health aims to provide abortable medical equipment to clinics, points of care as well as for home users. The division has progressed further in the development in existing Lateral Flow based (LF-based) tests allow for the detection and measurement of a variety of biomarkers, pathogens, mycotoxins, nucleic acid detection products and are widely used in medical, consumer, drug abuse diagnostics for food, agriculture and environmental testing. Easy to use and commercially available LF-based tests allow for the