

**Kinetik S.à r.l.**

**Consolidated Financial Statements**

**For the year ended December 31<sup>st</sup>, 2020**  
**(with the report of the Réviseur d'Entreprises Agréé thereon)**

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



Consolidated Financial Statements  
For the year ended December 31<sup>st</sup>, 2020

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To the Shareholders of  
Kinetik S.à r.l.  
1, rue Peterelchen  
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## **REPORT OF THE REVISEUR D'ENTREPRISES AGREE**

### ***Report on the audit of the consolidated financial statements***

#### ***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 2020, and the consolidated statement of profit or (loss) and other comprehensive (loss)/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 2020, 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 as adopted for Luxembourg by the CSSF 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 Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for 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.

#### ***Other information***

The Board of Managers is responsible for the other information. The other information comprises the information stated in the consolidated management report but does not include the consolidated financial statements and our report of the "réviseur d'entreprises agréé" thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.



In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report this fact. We have nothing to report in this regard.

***Responsibilities of the Board of Managers and Those Charged with Governance 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.

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.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

***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 the "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.

***Report on other legal and regulatory requirements***

The consolidated management report is consistent with the consolidated financial statements and has been prepared in accordance with the applicable legal requirements.

Luxembourg, 29 June 2021

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 (loss)/income

For the year ended December 31<sup>st</sup>, 2020

<i>In thousands of euro</i>		<b>2020</b>	<b>2019</b>
	Note		
<b>Continuing Operations</b>			
Revenue		92	-
Cost of sales		<u>(77)</u>	<u>-</u>
<b>Gross Profit</b>		<u>15</u>	<u>-</u>
Operating Expenses	19C	(111.703)	(74.934)
Other operating income	19A	2.799	2.763
Other operating expenses	19B	<u>(7.377)</u>	<u>(6.997)</u>
<b>Operating loss</b>		<u>(116.266)</u>	<u>(79.168)</u>
Financial income	20	369.664	4.625
Financial cost	20	(33.916)	(418.986)
Share of the result of equity-accounted investments	8	<u>(806)</u>	<u>(3.349)</u>
<b>Net finance income/(expense)</b>		<u>334.942</u>	<u>(417.710)</u>
<b>Profit from sale of ANNA</b>	8	<u>17.663</u>	<u>-</u>
<b>Profit/(Loss) before tax</b>		<b>236.339</b>	<b>(496.878)</b>
Tax income	16A	<u>18.308</u>	<u>5.204</u>
<b>Profit/(Loss) for the year</b>		<u><b>254.647</b></u>	<u><b>(491.674)</b></u>
<b>Attributable to:</b>			
- Owners of the Company		261.887	(487.107)
- Non-controlling interests		(7.240)	(4.567)

Consolidated Statement other comprehensive (loss)/income

<i>In thousands of euro</i>		<b>2020</b>	<b>2019</b>
	Note		
<b>Profit/(loss) for the year</b>		<b>254.647</b>	<b>(491.674)</b>
<b>Items that may be reclassified subsequently to profit or loss</b>			
Exchange differences on translating foreign operations	13C	<u>(8.416)</u>	<u>4.691</u>
<b>Total other comprehensive income for the year</b>		<u><b>246.231</b></u>	<u><b>(486.983)</b></u>
<b>Attributable to:</b>			
- Owners of the Company		253.544	(482.413)
- Non-controlling interests		(7.313)	(4.570)

The notes on pages 10 to 50 are an integral part of these financial statements.

Kinetik S.à r.l.

Consolidated statement of financial position

As at December 31<sup>st</sup> 2020

<i>In thousands of euro</i>		<b>December 31<sup>st</sup> 2020</b>	<b>December 31<sup>st</sup> 2019</b>
<b>ASSETS</b>			
<u>Non-Current Assets</u>	Note		
Property, plant and equipment	6	121.523	45.581
Intangible assets and goodwill	7	181.213	91.004
Investments in associated companies	8	-	8.033
Prepayments			119
Deferred tax asset	16B	1.624	2.838
Trade and other receivables	10A	<u>11.287</u>	<u>9.932</u>
<b>Total Non-Current Assets</b>		<b><u>315.647</u></b>	<b><u>157.507</u></b>
<u>Current Assets</u>			
Inventory	11	12.069	6.013
Trade and other receivables	10B	59.658	15.735
Prepayments		21.429	8.682
Cash and cash equivalents	12	<u>68.735</u>	<u>99.661</u>
<b>Total Current Assets</b>		<b><u>161.891</u></b>	<b><u>130.091</u></b>
<b>TOTAL ASSETS</b>		<b><u>477.538</u></b>	<b><u>287.598</u></b>
<b>EQUITY AND LIABILITIES</b>			
<u>Capital and reserves</u>	13		
Share capital		16	16
Share Premium		432.419	335
Other reserves		48.284	9.528
Retained earnings		<u>(172.506)</u>	<u>(423.286)</u>
<b>Equity attributable to owners of the Company</b>		<b>308.213</b>	<b>(413.407)</b>
Non-controlling interest		<u>33.341</u>	<u>15.896</u>
<b>Total Equity</b>		<b><u>341.554</u></b>	<b><u>(397.511)</u></b>
<u>Non-Current Liabilities</u>			
Loans and Borrowings	14	91.534	286.056
Deferred Taxes	16B	<u>2.751</u>	<u>2.525</u>
<b>Total Non-Current Liabilities</b>		<b><u>94.285</u></b>	<b><u>288.581</u></b>
<u>Current Liabilities</u>			
Loans and Borrowings	14	4.528	7.244
Current tax liabilities		514	172
Derivative	15	-	365.869
Trade and other payables	17	<u>36.657</u>	<u>23.243</u>
<b>Total Current Liabilities</b>		<b><u>41.699</u></b>	<b><u>396.528</u></b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b><u>477.538</u></b>	<b><u>287.598</u></b>

The notes on pages 10 to 50 are an integral part of these financial statements.

Kinetik S.à r.l.

Consolidated statement of changes in equity

For the year ended December 31<sup>st</sup>, 2020

<i>In thousands of euro</i>	Note	Share capital	Share Premium	Retained Earnings	Other Reserves*	Total	Non-controlling interest	Total Equity
<b>Balance at January 1<sup>st</sup>, 2020</b>		16	335	(423.286)	9.528	(413.407)	15.896	(397.511)
Profit/(loss) for the year		-	-	261.887	-	261.887	(7.240)	254.647
Other comprehensive income	13C	-	-	-	(8.343)	(8.343)	(73)	(8.416)
		<u>16</u>	<u>335</u>	<u>(161.399)</u>	<u>1.185</u>	<u>(159.863)</u>	<u>8.583</u>	<u>(151.280)</u>
<b>Transactions with shareholders</b>								
Capital increase		-	432.084	-	-	432.084	-	432.084
Restricted share plan to employees		-	-	-	24.748	24.748	2.652	27.400
Equity settled share-based payments		-	-	-	22.351	22.351	2.396	24.747
Sale of percentage to minorities		-	-	(11.107)	-	(11.107)	19.710	8.603
<b>Balance at December 31<sup>st</sup>, 2020</b>		<u>16</u>	<u>432.419</u>	<u>(172.506)</u>	<u>48.284</u>	<u>308.213</u>	<u>33.341</u>	<u>341.554</u>
<b>Unadjusted balance at January 1<sup>st</sup>, 2019</b>		16	335	(161.137)	4.837	(155.949)	1.014	(154.935)
Changes in accounting policy to reflect IFRS 16		-	-	(560)	-	(560)	-	(560)
<b>Balance at January 1<sup>st</sup>, 2019</b>		16	335	(161.697)	4.837	(156.509)	1.014	(155.495)
Loss for the year		-	-	(487.107)	-	(487.107)	(4.567)	(491.674)
Other comprehensive income	13C	-	-	-	4.691	4.691	3	4.694
		<u>16</u>	<u>335</u>	<u>(648.804)</u>	<u>9.528</u>	<u>(638.925)</u>	<u>(3.550)</u>	<u>(642.475)</u>
<b>Transactions with shareholders</b>								
Sale of percentage to minorities		-	-	225.518	-	225.518	19.446	244.964
<b>Balance at December 31<sup>st</sup>, 2019</b>		<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>

\*Other reserves comprise of translation reserves and equity reserves which are not distributable (see note 13).

The notes on pages 10 to 50 are an integral part of these financial statements.



**Kinetik S.à r.l.**

Consolidated Statement of Cash Flows

For the year ended December 31<sup>st</sup>, 2020

*In thousands of euro*

		<b>2020</b>	<b>2019</b>
	Note		
<b>Operating activities</b>			
Profit/(Loss) for the year		254.647	(491.674)
<b>Adjustments for:</b>			
- Depreciation/Amortization	19C	10.809	7.241
- Impairment losses and write offs	19, 20	7.657	8.165
- Result of entities consolidated under Equity method	8	806	3.349
- Profit from the modification of leases	19	(1.036)	-
- Employee share scheme	21	9.326	-
- Gain from disposal on equity accounting subsidiary	8	(17.663)	-
- Net unrealized foreign exchange differences		489	11
- Net finance cost	20	(341.625)	413.240
- Loss from sale of fixed assets	19	21	(444)
- Deferred taxes	16A	1.294	(402)
- Tax expense	16A	<u>(19.602)</u>	<u>(4.802)</u>
<b>Cash flows used in operations before working capital changes</b>		<b>(94.874)</b>	<b>(65.316)</b>
Decrease/(Increase) in trade and other receivables		(74)	(5.303)
Increase in trade and other payables		10.252	10.366
(Increase) of inventory		<u>(7.163)</u>	<u>(4.299)</u>
<b>Cash flows used in operations</b>		<b>(91.859)</b>	<b>(64.552)</b>
Income tax and other taxes received		4.311	7.054
Interest received	20	<u>338</u>	<u>107</u>
<b>Net cash used in operating activities</b>		<b><u>(87.210)</u></b>	<b><u>(57.391)</u></b>
<b>Cash flows from investing activities</b>			
Acquisition of intangible fixed assets	6	(84.510)	(50.692)
Acquisition of property, plant and equipment	7	(11.640)	(8.736)
Prepayment of fixed assets		(17.657)	-
Call deposits		-	(2.351)
Cash Guarantees and Deposits		(3.258)	(2.133)
Grants received		1.067	-
Acquisition of entities, net of cash received	9	56	-
Disposal of subsidiaries, net of cash on the bank account of the entities	8	21.872	-
Proceeds from the sale of intangible and tangible fixed assets		31	100
Loans (granted)/repaid	10	<u>(2.071)</u>	<u>5.105</u>
<b>Net cash used in investing activities</b>		<b><u>(96.110)</u></b>	<b><u>(58.707)</u></b>
<b>Cash flows from financing activities</b>			
Investment in associated companies	8	-	(9.464)
Acquisition of the minority interest in Tatakoto Company Ltd		-	(450)
Sale of shares in Arrival Luxembourg S.à r.l.	13	160.500	100.000
Interest paid		(63)	(3.528)
Repayment of lease liabilities	14	(7.629)	(1.123)
Repayment of loans and borrowings	14	(16.896)	-
Proceeds from loans and borrowings	14	<u>15.896</u>	<u>127.634</u>
<b>Net cash from financing activities</b>		<b><u>151.808</u></b>	<b><u>213.069</u></b>
<b>Net increase/decrease in cash and cash equivalents</b>		<b>(31.512)</b>	<b>96.971</b>
Cash and cash equivalents at January 1 <sup>st</sup>		99.661	2.607
Effects of movements in exchange rates on cash held		<u>586</u>	<u>83</u>
<b>Cash and cash equivalents at December 31<sup>st</sup></b>		<b><u>68.735</u></b>	<b><u>99.661</u></b>

Notes to the consolidated financial statements

For the year ended December 31<sup>st</sup>, 2020

**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 3<sup>rd</sup>, 2014 as a Société à responsabilité limitée. The Company has its registered address at 1, rue Peternelchen, 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 1<sup>st</sup> to December 31<sup>st</sup>, 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 adopted by the European Union (EU). It complies with the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRSIC) as adopted by the European Union (EU).

These consolidated financial statements were authorised for issue by the Board of Managers on June 22, 2021.

**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.

Despite the high level of uncertainty as to how the COVID-19 pandemic might evolve over 2021, COVID-19 has had limited impact on the Group with sites having remained open for critical onsite engineering tasks and the remainder of the Company having continued to work remotely. The Group has seen some impact of the pandemic in the efficiency of the supply chain as certain suppliers have had to adjust production timescales through the lockdown, however, the Group has mitigated this where possible by bringing activities in-house and adjusting schedules for development programs where this has not been possible with no significant impact overall on the Business Plan.

**Functional and presentation currency**

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

Notes to the consolidated financial statementsFor the year ended December 31<sup>st</sup>, 2020**2. BASIS OF PREPARATION (continued)****Adoption of new and revised International Financial Reporting Standards**

The following Standards, Amendments to Standards and Interpretations have been issued and adopted by the Group as of the effective date.

Effective date	New standards or amendments
January 1, 2020	Amendments to References to Conceptual Framework in IFRS Standards
	IFRS 3 – Definition of a Business
	IAS 1 and IAS 8 – Definition of Material
	IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark Reform
June 1, 2020	Amendments to IFRS 16 Leases COVID-19 – Related Rent Concessions
January 1, 2019	IFRIC 23 – Uncertainty over Tax Treatments
	IFRS 16 – Leases
	IFRS 9 – Prepayments Features with Negative Compensation
	Annual improvements to IFRSs 2015-2017 Cycle (Amendments to IFRS3, IFRS 11, IAS 12 and IAS 23)

The following Standards, Amendments to Standards and Interpretations have been issued but are not effective for the year ended December 31, 2020:

January 1, 2021	IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2
January 1, 2022	IFRS 3 – Amendments to References to Conceptual Framework
January 1, 2022	IAS 16 – Proceeds before intended use
January 1, 2022	IAS 37 – Cost of fulfilling a contract
January 1, 2023	IAS 1 – Classification of Liabilities as Current or Non-Current
January 1, 2023	IFRS 17 – Insurance Contracts
Available for optional adoption/effective date deferred indefinitely	IFRS 10 and IAS 28 – Sale or Contribution of Assets between Investor and its Associate or Joint Venture

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

**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.

Notes to the consolidated financial statementsFor the year ended December 31<sup>st</sup>, 2020**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****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. Acquisition-related costs are expensed in the consolidated statement of profit or (loss) and other comprehensive (loss)/income 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 consolidated statement of profit or (loss) and other comprehensive (loss)/income.

Any contingent consideration to be transferred by the Group is recognised 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 recognised in accordance with IAS 39 either in the consolidated statement of profit or (loss) or as a change to the consolidated statement of other comprehensive (loss)/income. Contingent consideration classified as equity is not remeasured and its subsequent settlement is recognised 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 recognised in consolidated statement of profit or (loss) and other comprehensive (loss)/income.

**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:

The Group	Country	Participation in share capital		Principal activity
		2020	2019	
Arrival Luxembourg S.à r.l. (previously named Arrival S.à r.l.)	Lux	90,32%	92,08%	Acquisition and holding of participating interests
K Health S.à r.l.	Lux	100%	100%	Acquisition and holding of participating interests
K Robolife S.à r.l.	Lux	-	100%	Liquidated – December 21, 2020
Charge Cars S.à r.l. (previously named Charge Automotive S.à r.l.)	Lux	100%	100%	Acquisition and holding of participating interests
K Remy Robotics S.à r.l.	Lux	100%	100%	Acquisition and holding of participating interests
Happy Electron S.à r.l.	Lux	100%	100%	Acquisition and holding of participating interests

Notes to the consolidated financial statementsFor the year ended December 31<sup>st</sup>, 2020**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

The Group	Country	Participation in share capital		Principal activity
		2020	2019	
Studio 26 S.à r.l.	Lux	100%	100%	Acquisition and holding of participating interests
Arrival Team S.à r.l.	Lux	-	100%	Liquidated – December 21, 2020
K Fintech S.à r.l.	Lux	-	100%	Liquidated – December 21, 2020
K Robolife Team S.à r.l.	Lux	-	100%	Liquidated – December 21, 2020
K Cybernation S.à r.l.	Lux	100%	100%	Acquisition and holding of participating interests
K Jungle S.à r.l.	Lux	100%	100%	Acquisition and holding of participating interests
Arrival (previously named Arrival Group S.A.)	Lux	90,32%	-	Acquisition and holding of participating interests
Arrival Ltd	UK	90,32%	92,08%	R&D
Arrival Nominees Ltd	UK	-	-	Dissolved – February 5, 2019
Arrival R Ltd (previously named Roborace Ltd)	UK	90,32%	92,08%	R&D
Seven.me Ltd	UK	100%	100%	R&D
Experiment X Ltd	UK	100%	100%	R&D
Arrival Software Ltd	UK	-	73,67%	Dissolved – January 14, 2020
Sim-ply Designed Ltd	UK	-	-	Dissolved – May 7, 2019
Happy Electron Lab Ltd	UK	100%	100%	R&D
Happy Electron Ltd	UK	100%	100%	R&D
Arrival Robotics Ltd (previously named TRA Robotics Ltd)	UK	90,32%	92,08%	R&D
Charge Cars Ltd (previously named Charge Automotive Ltd)	UK	100%	100%	Production of electric cars
Arival One Ltd	UK	-	-	Dissolved – March 26, 2019
Arrival Jet Ltd	UK	90,32%	92,08%	R&D
Robonetica Ltd	UK	100%	100%	R&D
HE SpinBattery Ltd	UK	100%	100%	R&D
HE Hypercap Ltd (previously named HE Magnetic UltraCap Ltd)	UK	100%	100%	R&D
HE Carbon SuperCap Ltd	UK	100%	100%	R&D
Remy Robotics Ltd	UK	100%	100%	R&D
Arrival M Ltd (ex- Arrival Management Systems Ltd)	UK	-	92,08%	Dissolved – September 22, 2020
Studio 26 Lab Ltd	UK	100%	100%	Dormant

Notes to the consolidated financial statementsFor the year ended December 31<sup>st</sup>, 2020**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

The Group	Country	Participation in share capital		Principal activity
		2020	2019	
Absolutely No Nonsense Admin Ltd	UK	-	27,781%	Sold
Roborace Ltd	UK	90,32%	100%	R&D
Arrival Management Systems Ltd (ex-Cybernation Ltd)	UK	-	92,08%	Dissolved – January 14, 2020
Arrival Automotive UK Ltd	UK	90,32%	92,08%	R&D
Cybernation Ltd	UK	100%	100%	R&D
Arrival Elements Ltd	UK	90,32%	92,08%	Dissolved – March 3, 2020
Arrival Mobility Ltd	UK	90,32%	-	Services
Arrival Solutions Ltd	UK	90,32%	-	Services
Arrival Vault Ltd	UK	90,32%	-	Services
Tatakoto Company Ltd	CY	-	100%	Sold
Arrival Elements BV	NL	90,32%	-	Distributor
Arrival USA Inc	US	90,32%	92,08%	R&D
Happy Electron Lab Inc	US	100%	100%	R&D
Charge Cars Inc (previously named Charge Automotive Inc)	US	100%	100%	Production of electric cars
Arrival Automotive Inc	US	90,32%	92,08%	R&D
Seven.me Inc	US	100%	100%	R&D
Roborace Inc	US	90,32%	100%	R&D
Arrival Solutions Inc	US	90,32%	-	Services
Arrival Vault Inc (previously named ARSNL Merger Sub Inc)	US	90,32%	-	Services
KeyArk Inc	US	60%	-	R&D
Arrival Automotive PTE Ltd	SGP	90,32%	92,08%	Acquisition and holding of participating interests
Arrival RUS LLC	Russia	90,32%	92,08%	R&D
Arrival Robotics LLC	Russia	90,32%	92,08%	R&D
Experiment X LLC	Russia	100%	100%	R&D
HE Carbon SuperCap LLC	Russia	65%	65%	R&D
Remy Robotics LLC	Russia	100%	100%	R&D
Arrival Germany GmbH	GER	90,32%	92,08%	R&D
Arrival Automotive Germany GmbH	GER	90,32%	92,08%	R&D
Arrival Solutions Germany GmbH (previously named Cybernation Germany GmbH)	GER	90,32%	100%	R&D
Jungle Robotics GmbH	GER	89%	-	Services
Experiment X GmbH	GER	100%	100%	R&D
Remy Robotics SL	ES	100%	100%	R&D
Remy Food Venture SL	ES	100%	-	Services
Arrival Israel Ltd	IL	90,32%	92,08%	R&D
Arrival LT UAB	LT	90,32%	-	R&D

Notes to the consolidated financial statements

For the year ended December 31<sup>st</sup>, 2020

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

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, 2020.

The entities granted the exemption under section 479C are:

Arrival Ltd, Arrival R Ltd, Seven.me Ltd, Experiment X Ltd, Happy Electron Lab Ltd, Happy Electron Ltd, Arrival Robotics Ltd, Charge Cars Ltd, Arrival Jet Ltd, Robonetica Ltd, HE SpinBattery Ltd, HE Hypercap Ltd, HE Carbon SuperCap Ltd, Remy Robotics Ltd, Studio 26 Lap Ltd, Roborace Ltd, Arrival Automotive UK Ltd, Cybernation Ltd, Arrival Mobility Ltd, Arrival Solutions Ltd and Arrival Vault 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.

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 recognised 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.

Notes to the consolidated financial statementsFor the year ended December 31<sup>st</sup>, 2020**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****Basis of consolidation (continued)****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 to the functional currency of the Company at the average rate of the year. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency of the Company 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 recognised in consolidated statement of profit or (loss) and other comprehensive (loss)/income.

**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 average rate of the year.

Foreign currency differences are recognised in Other Comprehensive Income ("OCI") and accumulated in the translation reserve, except to the extent that the translation difference is allocated to Non-Controlling Interest ("NCI").

When a foreign operation is disposed of 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 consolidated statement of profit or (loss) and other comprehensive (loss)/income. as part of the gain or loss on disposal. If the Group disposes of 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 of 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 consolidated statement of profit or (loss) and other comprehensive (loss)/income.

Foreign exchange gains and losses are presented net in the consolidated financial statements.

The rates applied to convert the foreign currencies into EUR are presented in the following table:

		Consolidated Balance Sheet Closing rates		Consolidated Statement of profit or (loss) and other comprehensive (loss)/income Average rates	
		2020	2019	2020	2019
British Pounds	GBP	1,11234705	1,17536436	1,12440301	1,14171543
Russian Rubles	RUB	0,01093289	0,01429464	0,01187300	0,01384692
US Dollar	USD	0,81492950	0,89015489	0,87183958	0,89329581
Singapore Dollar	SGD	0,61659884	0,66176957	0,63344594	0,6556159
Israeli Shekel	ILS	0,25350470	0,25743339	0,25488151	0,25138208



Notes to the consolidated financial statementsFor the year ended December 31<sup>st</sup>, 2020**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****Basis of consolidation (continued)****Foreign currencies (continued)**

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 recognised in OCI and accumulated in the translation reserve.

**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 consolidated statement of profit or (loss) and other comprehensive (loss)/income.

Assets that have been acquired but are not available for use are not depreciated. Leasehold improvements under construction are also not depreciated.

Leasehold improvements that are available for use are depreciated over the shorter of their useful economic life and the duration of the lease.

The right of use assets for leases is depreciated over the shorter of their useful economic life and the duration of the lease.

Depreciation amount is presented in administration expenses. Depreciation of assets used in the development of intangible assets is capitalised (see note 19C).

**Intangible fixed assets and goodwill**

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

Notes to the consolidated financial statementsFor the year ended December 31<sup>st</sup>, 2020**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****Intangible fixed assets and goodwill (continued)**

Expenditure on research activities is recognised in the consolidated statement of profit or (loss) and other comprehensive (loss)/income as an expense as incurred. Expenditure on development activities may be recognised as assets under construction 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.

Assets under construction involve design for, construction or testing of the production of a new or substantially improved products or processes. The expenditure recognised includes the cost of materials, direct labour, an appropriate proportion of overheads and borrowing costs. Other development expenditure is recognised in the consolidated statement of profit or (loss) and other comprehensive (loss)/income as an expense as incurred. There will be no amortisation until the asset is completed. Capitalised development expenditure is stated at cost less accumulated impairment losses.

Intangible assets are depreciated as follows:

	<u>Depreciation method</u>	<u>Depreciation Rate</u>
Trademarks and Patents	Straight line	10 years
Software	Straight line	33,33% or over the period which any licenses cover

The amortisation of intangible assets is presented in administration expenses. Goodwill is not amortised.

In a business combination, goodwill 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 amount 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.

**Trade and other receivables**

Trade and other receivables without significant financing components are initially measured at the transaction price. Other receivables which have significant financing components, are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue.

The amount of provision for trade and other receivables 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 and they are measured at amortised cost.

**Financial Assets**

The Group classifies its financial assets as assets measured at amortised cost. Financial assets measured at amortised cost are held under the business model that is aimed at collecting contractual cash-flows. The cash-flows of the financial assets relate solely to payments of the principal and interest on the principal amount.

### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Financial Assets (continued)**

Financial assets recognised at amortised cost are initially measured at fair value less costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently they are adjusted to the payments received and the cumulative amortisation of any difference between the original amount and the amount repayable at maturity, using the effective interest method over the term of the financial asset. Interest income from these financial assets is included in finance income. When there is a difference between the fair value and the amount of the transaction at initial recognition, this difference is recognised in finance income or expenses in the consolidated statement of profit or (loss) and other comprehensive (loss)/income.

#### **Measurement of fair value**

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the chief financial officer.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of the Standards, including the level in the fair value hierarchy in which the valuations should be classified. Significant valuation issues are reported to the those charged with Governance.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

#### **Inventories**

Inventories are measured at the lower of cost and net realisable value. Cost of inventory is determined using the first-in-first-out basis and is net of any rebates and discounts received. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs to make the sale. At the reporting date inventory is written down through an obsolescence provision if necessary. When such provision is recognised it is presented in the Research and Development expenses in the consolidated statement of profit or (loss) and other comprehensive (loss)/income.

#### **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 or (loss) and other comprehensive (loss)/income.

### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Derivatives (continued)**

The derivative disclosed in note 15 was initially classified as liability because there was an option from the noteholder to exchange it for shares of the Company. The derivative was separated from the loan instrument, and it was presented in 2019 separately on the consolidated statement of financial position. The component of fair value changes relating to the Company's own credit risk is recognised in consolidated statement of profit or (loss) and other comprehensive (loss)/income 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. Long term deposits are presented on the consolidated statement of financial position as trade and other receivables, as these deposits are not liquid investments. For the purposes of preparing the statement of cash flows, transactions occurred within such long-term deposits appear within cash flows used in operations.

#### **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 recognised as an expense in the statement of comprehensive income of the year.

In the 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 consolidated statement of profit or (loss) and other comprehensive (loss)/income.

Expected Credit Loss ("ECL") is a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (for example: the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset. Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. Based on management assessment the impact of ECL is not material to the consolidated financial statements.

#### **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.

### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **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.

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 the consolidated statement of profit or (loss) and other comprehensive (loss)/income 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, prepayment options) but does not consider future credit losses. The calculation includes all 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.

### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Government Grants**

The Group recognises an unconditional government grant relating to development in the consolidated statement of profit or (loss) and other comprehensive (loss)/income as other income when the grant becomes receivable. Government grants which become receivable and relate directly to capital expenditure are credited in Intangible assets (Assets under Construction). The Group considers that a grant becomes receivable when it is reasonably certain that the amount will be received.

#### **Leases**

##### **1. 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.

##### **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 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 at the discount rate implicit in the lease if that rate can be readily determined, otherwise the Group's incremental borrowing rate is used. The Group in 2019 determined its incremental borrowing rate by obtaining interest rates from various external financing sources and made certain adjustments to reflect the terms of the lease and type of the asset leased. In 2020, in the absence of external borrowing and Group's credit risk, the Group has calculated its incremental borrowing rate based on property yields adjusted for economic environment and duration of the leases.

### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Leases (continued)**

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

- fixed payments, including in-substance fixed payments, less any lease incentives receivable; and
- amounts expected to be payable under a residual value guarantee.

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 consolidated statement of profit or (loss) and other comprehensive (loss)/income if the carrying amount of the right-of-use asset has been reduced to zero.

#### **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.

#### **Share-based payments**

Share-based compensation benefits are provided to employees via the Arrival Share Option Plan ("SOP") and Arrival Restricted Share Plan ("RSP"). Share-based payment arrangements in which an entity receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions.

The grant date fair value of share-based payments awards granted to employees is recognised as an employee expense or it is capitalised as part of the development cost, with a corresponding increase in equity, over the vesting period. For awards that are vested on grant date, the services received are recognized in full, with a corresponding increase in equity. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the revised estimated number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting and market conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

#### **Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Notes to the consolidated financial statements

For the year ended December 31<sup>st</sup>, 2020

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Taxation (continued)**

The income tax expense or income for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred taxes and liabilities attributable to temporary differences and to unused tax losses. Current tax is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group's subsidiaries operate and generate taxable income.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxing authority.

**R&D Tax Credits**

UK registered entities in the Group are eligible to apply for a credit from the UK tax authorities calculated based on the cost of specific qualifying research and development activities in the period ("R&D Tax Credits"). The calculation of these tax credits, and the approval of them by the tax authorities, is sufficiently uncertain, as it requires the approval from the UK authorities that all conditions are met. Research and Development Expenditure Credit ("RDEC") and Small and Medium Enterprise credits ("SME credit") are recognised as tax receivable and they are recognised when it is reasonably certain that the amount will be received from Her Majesty's Revenue and Customs ("HMRC").

**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 judgments**

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. A higher degree of judgment has been applied to:



Notes to the consolidated financial statementsFor the year ended December 31<sup>st</sup>, 2020**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****Use of estimates and judgments (continued)**Impairment testing

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 the research and development cash generating units ("CGU"), was determined using a value-in-use model for the year ended December 31<sup>st</sup>, 2020 and was based on the following assumptions: 1) the expected future cash flows based on the current economic conditions and market trends for the years 2021 to 2025. The net cash flows are discounted back to December 31<sup>st</sup>, 2020, with an estimated weight average cost of capital of 35% (2019: 35%) for Arrival CGU, 40% (2019: -) for Experiment X and 20% (2019: 20%) for Charge CGUs. The Group has considered 2.5% (2019: 2,5%) growth rate in its computation for its terminal value for all CGUs. 2) the increase of number of vehicles that are forecast to be sold in the following years. The increase is calculated on management's projections for product sales growth. For Arrival the average rate for such growth is 195% (2019: 195%). The above model is based on the assumption that commencement date will start in 2022 for Arrival. Charge and Experiment X had their first indicative sales at the end of 2021 as per the business plan and it expected that sales will increase significantly in 2022. For Charge CGU the average rate of growth is 311% and for Experiment X is 176%. The Group will need to reassess its calculation of impairment and its potential impact on any delays in production which is currently not measurable.

Management has identified that changes in the 2 key assumptions could cause the carrying amount to exceed the recoverable amount. The following table shows the amount by which these 2 assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount:

	Change required for carrying amount to equal recoverable amount		
	Arrival CGU	Charge CGU	Experiment X CGU
Weighted average cost of capital	78%	41,8%	37,5%
Product growth rate	0,319%	0,335%	0,399%

Capitalised assets in the course of construction

Management uses judgment to determine when a project has reached the development phase, to ascertain the ability to use or sell the asset, which is a criteria for capitalization for development expenditure per IAS 38. Management estimates the cost to completion and probable future cash flows that will flow in order to determine if the project is economically viable. If the conditions are met and it is believed that there is a market for the product under development, then all directly attributable costs relating to the project are capitalised.

Share based payments

In determining the value of the employee share schemes (see Note 21), management used the following assumption: a) participants that will resign before 1 year of service or before the milestone dates are achieved: 4,3% and 13,75% respectively - The estimation was performed based on latest available information on the staff turnover of the Group, and b) the date that milestones will be achieved: the dates used are in line with the value-in-use model that was performed for impairment testing.

Reasonably possible changes at the reporting date to one of the relevant assumptions, holding other assumptions constant, would have affected the share based payments by the amounts shown below:

Notes to the consolidated financial statementsFor the year ended December 31<sup>st</sup>, 2020**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****Use of estimates and judgments (continued)**Share based payments (continued)

	December 31, 2020	
	Increase	Decrease
Resign before one year (1% movement)	0	0
Resign before the milestone dates (1% movement)	(62)	62
Milestones be achieved (6 months earlier or 6 months later)	(872)	1,508

Fair Value of Loans

Participants in the RSP have received interest bearing and interest free loans, all provided on a full recourse basis. For the determination of fair value of loans granted to employees, management has used the following assumptions: 1) Redemption of loans: loans repayable in October 2021 will be repaid at the maturity of the loans. Loans with maturity in October 2030, it is estimated that these loans will be repaid in Q3 2022. 2) Risk free rate: The zero-coupon German government bond with a maturity commensurate to the expected terms has been used. 3) Volatility of RSU price: Same assumptions have been used as per share-based payments (see note: 21). 4) Initial savings at loan issue: OECD data for the United Kingdom, Germany and the USA regarding average household financial assets, average proportion of household financial assets that are cash or deposits and average wages as well as average loan value for the borrowers as a percentage of their salary have been used. 5) Annual increase in savings: management has also used the OECD data on average wages, average disposable income, average savings as a percentage of disposable income and scaled up for the average loan value for the borrowers as a percentage of their salary.

Reasonably possible changes at the reporting date to one of the relevant assumptions, holding other assumptions constant, would have affected the fair value of the loans by the amounts shown below:

	December 31, 2020	
	Increase	Decrease
Repayment of loans (6 months movement)	134	(16)
Discount rate (2,5% movement)	43	(44)
Annual increase in savings (0,2% decrease, 1% increase)	(268)	54
Initial savings (2,5% movement)	(636)	646
Volatility (10% movement)	1.239	(1.263)

**Changes in significant accounting policies**

To date the Group has applied the following accounting policy: Government grants which become receivable and relate to a capital expenditure are credited to a deferred income account and are released to the consolidated statement of profit or (loss) and other comprehensive (loss)/income over the expected useful lives of the relevant assets.

This accounting policy has been amended during 2020 and the Group now recognises the government grants which become receivable and relate to capital expenditure are credited in Intangible assets.

Management decided to implement this change in accounting policy as several of the assets under development may have indefinite useful economic life and such as the deferred income recognised on the balance sheet would not be released. It is considered by changing the accounting policy that this will give a better view of the financial position of the company. The change of this accounting policy did not have a material impact to the numbers of the prior periods.

#### **4. FINANCIAL RISK AND CAPITAL MANAGEMENT**

##### A. Financial risk factors

The Group is exposed to the following financial risks:

- Liquidity risk
- Credit risk
- Market risk

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. 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. During the year, Arrival Luxembourg S.à r.l. has increased its share capital and raised EUR 160.500.000. In addition, Arrival Group, as of March 25<sup>th</sup>, 2021, has listed certain number of shares on NASDAQ following the successful completion of the merger with CIIG Merger Corp. The transaction has led to the raising of USD 611.734.000, net of all expenses. Furthermore, the Group has secured a loan facility of an amount of up to USD 85.000.000 with possibility to increase by another USD 40.000.000. On a monthly basis the Group entities provide their monthly cash-flow forecast and after careful consideration from management, a draw down is made by the Company which is then transferred to the various entities of the Group through capital contribution.

##### (ii) Credit risk

Credit risk arises from the possibility that counterparties to transactions may default on their obligations, causing financial losses for the Group. The risk is minimal as of year end as it applies only to the other debtors which provide services to the Group. Management is closely monitoring all amounts due and takes actions where it is necessary to do so to mitigate this risk. In addition, management is monitoring the expected credit risk from the non-repayment of the loans that have been provided to employees as participants of the RSP. These loans are pledged over the shares of the Company and currently, there is no indication that these loans will not be recoverable.

##### (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"), Israeli Shekel ("ILS") and United States Dollars ("USD").

Currently there are no currency forwards, options or swaps to hedge this exposure as the Group is in the development phase and the Management is committed to funding all projects.

The management is monitoring 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.

Notes to the consolidated financial statementsFor the year ended December 31<sup>st</sup>, 2020**4. FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)**

The following table shows the fluctuation of the main currencies the Group is using against Euro:

	<b>2020</b>	<b>2019</b>
EUR/USD	(2,40%)	5,34%
EUR/GBP	(1,52%)	1,15%
EUR/RUB	(14,26%)	2,70%
EUR/ILS	1,39%	6,92%

The net impact from the fluctuation of operational foreign exchange rates amounted to EUR (1.727) (2019: EUR (855)).

**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 Board's policy is to secure the Group as a going concern and finance its long-term growth. In addition to the analysis provided in liquidity risk above, Management also received a strategic order of 10,000 vehicles from UPS which need to be delivered over the next 5 years. In addition, several development projects have been completed or they are at the latest stage of development and it is expected to be in the market in the next few months.

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

1. Operational risk
2. Compliance risk
3. Legal risk
4. Risk due to the COVID-19 pandemic
5. Risk due to Brexit

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 14).

**5. NON-FINANCIAL RISK MANAGEMENT (continued)**

Risk due to COVID-19 pandemic

The COVID-19 pandemic has created considerable macro-economic uncertainty for all sectors. The immediate risk to the Group is limited due to our ability, in general, to work remotely or to continue on site in a controlled fashion for critical engineering work. Management is continuously evaluating the situation as it evolves and adjust our response accordingly in the event that this risk profile changes.

Furthermore, an analysis was made to assess the impact of COVID-19 on the most significant balance items of our Group:

- Capitalised development costs - These assets are in relation to projects that will deliver economic benefits to the Group. We do not consider that there is any impairment as 1) this extends into the period during which the pandemic is likely to have ended, 2) we anticipate that demand for our products will be largely unimpacted by the pandemic.
- The Group's right-of-use assets for leased property is not impacted by COVID-19 as the activities of the Group have continued to grow over 2020. This required us to lease additional premises in UK, USA, Russia, Lithuania, Spain, Israel and Germany. As the real estate market has been impacted by COVID-19, this presented us with the opportunity to enter into favourable lease agreements.

Brexit

On January 31, 2020, the United Kingdom left the European Union with transition arrangements in place until December 31, 2020. This arrangement allowed continued trading on EU terms through 2020. As from January 1, 2021, the UK and the EU have entered into a Trade and Cooperation Agreement, which allows companies to continue their trading between the UK and the EU without major disruptions. It has been agreed that neither side will charge taxes or duties on goods crossing borders. In addition, a set of rules has been agreed to ensure that one country or group of countries does not have an unfair advantage over another.

As a business with global manufacturing locations, Kinetik does not have a significant reliance on UK/EU trade and it has not been directly impacted by the new rules.

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31<sup>st</sup>, 2020

6. PROPERTY, PLANT AND EQUIPEMENT

<i>In thousands of euro</i>	Land and Buildings*	Plant and Equipment	Furniture and fittings	Motor Vehicles	Assets under development	Prototypes	TOTAL
<b>Cost</b>							
At January 1 <sup>st</sup> , 2020	29.652	18.980	3.867	810	1.533	3.209	58.051
Additions	52.179	9.440	2.737	100	4.461	-	68.917
Disposals	(32)	(170)	(330)	-	-	-	(532)
Modification of lease**	24.506						24.506
Additions through business combinations	165	735	4	10	-	-	914
Transfer	(2.049)	3.209	-	-	(708)	(3.209)	(2.757)
Foreign exchange differences	(3.800)	(2.188)	(237)	(45)	(122)	-	(6.392)
At December 31 <sup>st</sup> , 2020	<u>100.621</u>	<u>30.006</u>	<u>6.041</u>	<u>875</u>	<u>5.164</u>	<u>-</u>	<u>142.707</u>
<b>Depreciation/impairment</b>							
At January 1 <sup>st</sup> , 2020	(4.355)	(6.514)	(954)	(115)	-	(532)	(12.470)
Depreciation	(6.773)	(5.732)	(871)	(141)	-	-	(13.517)
Disposal	13	213	292	-	-	-	518
Modification of lease	1.114	-					1.114
Impairment	-	(25)	-	-	-	-	(25)
Transfer	2.049	(532)			-	532	2.049
Foreign exchange differences	376	703	61	7	-	-	1.147
At December 31 <sup>st</sup> , 2020	<u>(7.576)</u>	<u>(11.887)</u>	<u>(1.472)</u>	<u>(249)</u>	<u>-</u>	<u>-</u>	<u>(21.184)</u>
<b>Net book Value</b>							
At January 1 <sup>st</sup> , 2020	25.297	12.466	2.913	695	1.533	2.677	45.581
At December 31 <sup>st</sup> , 2020	<u>93.045</u>	<u>18.119</u>	<u>4.569</u>	<u>626</u>	<u>5.164</u>	<u>-</u>	<u>121.523</u>

\*Land and Building comprise of leased buildings and leasehold improvements.

\*\*During 2020, the Group has entered a number of new leases and amended several existing agreements. The Group has entered into 4 lease agreements in the USA which have a right of use of asset of EUR 23,770. In addition, the Group has leased office and factory buildings in the UK of total right of use value of EUR 24,683. Due to the growth the Group, management has renegotiated several of the existing lease agreements, which resulted in obtaining better terms and at the same time extent the period of the lease terms. The total modification of the lease amounted to EUR 24,506.

Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31<sup>st</sup>, 2020

6. PROPERTY, PLANT AND EQUIPEMENT (continued)

<i>In thousands of euro</i>	Land and Buildings*	Plant and Equipment	Furniture and fittings	Motor Vehicles	Assets under development	Prototypes	TOTAL
<b>Cost</b>							
At January 1 <sup>st</sup> , 2019	32	14.505	1.400	727	1.475	590	18.729
Recognition of right-of-use asset on initial application of IFRS 16	8.186	-	-	-	-	-	8.186
Additions	20.753	4.259	2.360	264	-	2.601	30.237
Disposals	-	(1.088)	(33)	(220)	(17)	-	(1.358)
Foreign exchange differences	681	1.304	140	39	75	18	2.257
<b>At December 31<sup>st</sup>, 2019</b>	<b>29.652</b>	<b>18.980</b>	<b>3.867</b>	<b>810</b>	<b>1.533</b>	<b>3.209</b>	<b>58.051</b>
<b>Depreciation/impairment</b>							
At January 1 <sup>st</sup> , 2019	(7)	(3.111)	(417)	(137)	-	(476)	(4.148)
Recognition of right-of-use asset on initial application of IFRS 16	(1.049)	-	-	-	-	-	(1.049)
Depreciation	(3.117)	(3.852)	(527)	(182)	-	(31)	(7.709)
Disposal	-	1.034	26	209	-	-	1.269
Foreign exchange differences	(121)	(585)	(36)	(5)	-	(25)	(833)
<b>At December 31<sup>st</sup>, 2019</b>	<b>(4.355)</b>	<b>(6.514)</b>	<b>(954)</b>	<b>(115)</b>	<b>-</b>	<b>(532)</b>	<b>(12.470)</b>
<b>Net book Value</b>							
At January 1 <sup>st</sup> , 2019	-	11.392	983	590	1.475	114	14.581
At December 31 <sup>st</sup> , 2019	25.297	12.466	2.913	695	1.533	2.677	45.581

\*Land and Building comprise of leased buildings and leasehold improvements.

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Notes to the consolidated financial statements

For the year ended December 31<sup>st</sup>, 2020

7. INTANGIBLE ASSETS AND GOODWILL

<i>In thousands of euro</i>	Goodwill	Assets under construction***	Patent, trademarks and other rights	Software	TOTAL
<b>Cost</b>					
At January 1 <sup>st</sup> , 2020	3.873	134.403	524	2.454	141.254
Additions	-	98.113	62	2.308	100.483
Disposal	(3.806)	(3.381)	-	(10)	(7.187)
Additions through business combinations	26	-	-	4	30
Transfer	-	708	-	-	708
Foreign exchange differences	-	(8.447)	(29)	(154)	(8.630)
At December 31 <sup>st</sup> , 2020	<u>93</u>	<u>221.396</u>	<u>557</u>	<u>4.602</u>	<u>226.648</u>
<b>Amortisation/impairment</b>					
At January 1 <sup>st</sup> , 2020	(3.852)	(45.115)	(40)	(1.243)	(50.250)
Amortisation	-	-	(63)	(906)	(969)
Disposal	3.806	3.381	-	5	7.187
Impairment	(21)	(3.861)	-	-	(3.882)
Foreign exchange differences	-	2.396	3	75	2.474
At December 31 <sup>st</sup> , 2020	<u>(67)</u>	<u>(43.199)</u>	<u>(100)</u>	<u>(2.069)</u>	<u>(45.435)</u>
<b>Net book Value</b>					
At January 1 <sup>st</sup> , 2020	<u>21</u>	<u>89.288</u>	<u>484</u>	<u>1.211</u>	<u>91.004</u>
At December 31 <sup>st</sup> , 2020	<u>26</u>	<u>178.197</u>	<u>457</u>	<u>2.533</u>	<u>181.213</u>

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



Kinetik S.à r.l.

Notes to the consolidated financial statements

For the year ended December 31<sup>st</sup>, 2020

7. INTANGIBLE ASSETS AND GOODWILL (continued)

<i>In thousands of euro</i>	Goodwill	Assets under construction***	Patent, trademarks and other rights	Software	TOTAL
<b>Cost</b>					
At January 1 <sup>st</sup> , 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 <sup>st</sup> , 2019	<u>3.873</u>	<u>134.403</u>	<u>524</u>	<u>2.454</u>	<u>141.254</u>
<b>Amortisation/impairment</b>					
At January 1 <sup>st</sup> , 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 <sup>st</sup> , 2019	<u>(3.852)</u>	<u>(45.115)</u>	<u>(40)</u>	<u>(1.243)</u>	<u>(50.250)</u>
<b>Net book Value</b>					
At January 1 <sup>st</sup> , 2019	-	40.305	483	630	41.418
At December 31 <sup>st</sup> , 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 phase. The projects under development relate to BUS, Electric Vehicles, Artificial Intelligence Robotics, medical devices.

Notes to the consolidated financial statementsFor the year ended December 31<sup>st</sup>, 2020**8. INVESTMENT IN ASSOCIATE COMPANIES***In thousands of euro*

	<b>2020</b>	<b>2019</b>
January 1 <sup>st</sup>	8.033	9.384
Acquisition of net equity	-	1.470
Goodwill	(4.090)	528
Share of losses for the year after taxes	(806)	(3.349)
Settlement of deferred consideration	1.450	-
Proceed received from the sale of shares	(21.925)	-
Foreign exchange	(325)	-
Gain on disposal	<u>17.663</u>	-
<b>December 31<sup>st</sup></b>	<b><u>=</u></b>	<b><u>8.033</u></b>

<b>Associated companies</b>	<b>Total issued share capital</b>	<b>Percentage of shares with voting rights</b>		<b>Calculation method</b>
		<b>2020</b>	<b>2019</b>	
Absolutely No Nonsense Admin Ltd	-	-	27,78%	Net Position

On December 21<sup>st</sup> 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 1.499.999,75 (EUR 1.746.561,89).

On October 8<sup>th</sup>, 2019, K Fintech S.à r.l. has entered into a deferred subscription agreement with ANNA for an amount of GBP 1.250.000 (EUR 1.449.779,63). 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 7<sup>th</sup>, 2020. On May 11<sup>th</sup>, 2020, K Fintech S.à r.l. has entered into a subscription and share purchase agreement with ANNA in order to subscribe to 733.433 new shares for GBP 1.250.000 (EUR 1.426.000) and at the same time sale all of its shareholding to a third party for GBP 19.216.560,33 (EUR 21.925.449,63)

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

*In thousands of euro*

	<b>May 10, 2020</b>	<b>2019</b>
<b>Summarised Profit or Loss</b>		
Turnover		
Losses for the year before tax	(2.940)	(12.056)
Taxation		
Losses for the year after tax	<u>(2.940)</u>	<u>(12.056)</u>
<b>Total comprehensive expense for the year</b>	<b><u>(2.940)</u></b>	<b><u>(12.056)</u></b>
<b>Group share of total comprehensive expense</b>	<b><u>(817)</u></b>	<b><u>(3.349)</u></b>
<b>Summarised financial position</b>		
Non-current assets	15.060	15.471
Current assets	1.656	2.927
Non-current liabilities		
Current liabilities	<u>(1.373)</u>	<u>(4.205)</u>
<b>Total net assets (100%)</b>	<b><u>15.343</u></b>	<b><u>14.193</u></b>
<b>Group's share of net assets</b>	<b><u>4.262</u></b>	<b><u>3.943</u></b>

Notes to the consolidated financial statementsFor the year ended December 31<sup>st</sup>, 2020**9. BUSINESS COMBINATIONS****A. Acquisition of a business**

On July 14, 2020, the Group acquired Arrival LT UAB (previously named Thor Motors UAB) for total consideration of EUR 2.500 satisfied in cash. Arrival LT UAB specialises in developing electric motors, inverters, gearboxes, as well as logistical and configuration services for batteries and it is believed that the addition of this entity and its workforce into our Group will strengthen further our R&D capabilities. The agreement for the acquisition was established at the beginning of January 2020. The operations of the company have been integrated with the rest of the Group on January 27, 2020, the date that management has determined the Group obtained control. The share purchase agreement was completed in July 2020 following an administrative delay due to COVID-19. The undertaking was into research and development and had no commercial operations. The company had reported a loss of EUR 210.000 for the period until acquisition date and have reported a profit of EUR 1.254.000 (before intercompany eliminations) for the period ended December 31, 2020. As the date acquisition, the company had cash and cash equivalent of EUR 59.000.

**a. The identifiable net assets acquired and liabilities recognised on acquisition were:**

The net assets acquired of Arrival LT UAB amounted to EUR (23).

**b. Measurement of fair values**

<b>Assets acquired</b>	<b>Valuation technique</b>
-Property, plant and equipment	Market comparison technique and cost technique was applied to all assets acquired. The valuation model considers market prices for similar items.

**c. Goodwill:**

<i>In thousands of euro</i>	<i>Note</i>
Consideration transferred	3
Fair value of identifiable net assets	(23)
<b>Goodwill</b>	<b><u>26</u></b>

The goodwill recognised on the acquisition of the entities was attributed to the employee know-how.

**10. TRADE AND OTHER RECEIVABLES****A. Non-Current Trade and other receivables**

<i>In thousands of euro</i>	<b>2020</b>	<b>2019</b>
Loans receivable	1.867	1.160
Trade receivables	-	1.036
Other	-	90
Call deposits	1.617	2.351
Cash Guarantees and deposits	<u>7.803</u>	<u>5.295</u>
<b>Total</b>	<b><u>11.287</u></b>	<b><u>9.932</u></b>

Notes to the consolidated financial statementsFor the year ended December 31<sup>st</sup>, 2020**10. TRADE AND OTHER RECEIVABLES (continued)****A. Non-Current Trade and other receivables (continued)****(i) Loan receivable**

During October 2020, Arrival Group entities entered into multiple loan agreements with the employees of the Group and provided (a) interest free 12-month loans in an aggregate amount of EUR 38.257.000, (b) 10-year loans with an annual interest rate of 1,12% in an aggregate amount of EUR 2.451.000 and (c) 10-year loans with an annual interest rate of 1,50% in an aggregate amount of EUR 1.402.000 (d) interest free 10-year loans in an aggregate amount of EUR 476.000 to the RSP participants to finance the purchase of ordinary shares in Arrival Luxembourg S.à r.l.. This was a non-cash transaction.

At initial recognition the loans have been measured at fair value of 27.400.000. The loans, as per the accounting policy of the Group, are accounted for at amortised cost and the impact of the interest generated is presented in finance income as interest receivable (see note 20). In 2019, loans receivable was mainly composed of a loan which the Group granted to KeyArk Inc on June 20<sup>th</sup>, 2019, for a total amount of USD 6.000.000 (EUR 5.341.000). As of the end of 2019, the principal amount due was 1.134.00. In 2020, KeyArk Inc has draw down an additional amount from the facility provided of amount of USD 2.321.000 (EUR: 2.023.540). The loan and accrued interest have been fully impaired as of the end of 2020. The total impairment amounted to EUR 3.342.368,73. The loan is repayable on December 31<sup>st</sup>, 2021, and it bears interest of 17% per annum, compounded annually and payable at the maturity of the loan.

**(ii) Cash Guarantees and Deposits**

Cash guarantees and deposits are amounts that some companies of the Group have deposited in escrow accounts in order to obtain a lease and/or to obtain services provided by third parties. The cash guarantees match each lease duration. The leases expire between 2 to 15 years.

**(iii) Call deposits**

The Call deposit is comprised of a deposit that the Group have made for the factory building in the US that is currently under construction with a maturity date of September 2022.

**B. Current Trade and other receivables**

	2020	2019
<i>In thousands of euro</i>		
VAT receivable	5.988	2.471
Grants receivable	-	694
Trade debtors	-	443
Tax receivable	21.306	-
Call deposit	427	-
Loan receivable	28.157	-
Interest	-	76
Deferred charges	81	133
Impairment of receivables	(6)	-
Other receivables	3.705	11.918
<b>Total</b>	<b><u>59.658</u></b>	<b><u>15.735</u></b>

Tax receivable relates to R&D Tax Credits that the UK companies have claimed based on the R&D incentive program of the UK government. SME R&D Relief is credited to tax expense in the consolidated statement of profit or (loss) and other comprehensive (loss)/income (see note 16A). The RDEC incentive programme credits are recognised in intangible assets.

Loans receivable as of December 31<sup>st</sup>, 2020, relates to loans provided to the employees of the Group in respect of the RSP participants (see note 10 A.i).

Notes to the consolidated financial statementsFor the year ended December 31<sup>st</sup>, 2020**10. TRADE AND OTHER RECEIVABLES (continued)****B. Current Trade and other receivables (continued)**

Other amounts receivables of 2019 mainly comprised of an outstanding amount receivable from Gemtech Ltd of an amount EUR 10.141.000. 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 14). In 2019 the Group had a receivable of EUR 3.355.000 (USD 3.763.000) which relates to the sale of K Networks S.à r.l. which occurred in 2017. The receivable in relation to the sale of K Networks S.à r.l. was initially payable at the end of 2018 and it was extended to December 22<sup>nd</sup>, 2020. The loan bears 12% interest per annum. In 2019 Management has decided to fully impair the receivable of EUR 3.355.000 (see note 20) as there were strong indications that the amount may not be recoverable. The assessment remains the same as of 31<sup>st</sup> December 2020.

**11. INVENTORY**

<i>In thousands of euro</i>	<b>2020</b>	<b>2019</b>
Raw materials and consumables	11.954	6.013
Work in progress	14	-
Advance payments	101	-
<b>Inventory</b>	<b><u>12.069</u></b>	<b><u>6.013</u></b>

**12. CASH AND CASH EQUIVALENTS**

<i>In thousands of euro</i>	<b>Note</b>	<b>2020</b>	<b>2019</b>
Bank balances of continued operations		<u>68.735</u>	<u>99.661</u>
<b>Total of cash and cash equivalent</b>		<b><u>68.735</u></b>	<b><u>99.661</u></b>

**13. CAPITAL AND RESERVES****A. Share Capital**

<i>In thousands of shares</i>	<b>2020</b>	<b>2019</b>
<b>Authorised</b>		
16 Ordinary Shares of EUR 1 each	<u>16</u>	<u>16</u>
<b>Issued and fully paid</b>		
16 Ordinary Shares of EUR 1 each	<u>16</u>	<u>16</u>

The Company was incorporated on October 3<sup>rd</sup>, 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 3<sup>rd</sup>, 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.

Notes to the consolidated financial statementsFor the year ended December 31<sup>st</sup>, 2020**13. CAPITAL AND RESERVES (continued)**

On January 22<sup>nd</sup>, 2018, with effect as at December 31<sup>st</sup>, 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.

As at December 31<sup>st</sup>, 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
<b>January 1<sup>st</sup>, 2019</b>	335	335
Movements for the year	-	-
<b>December 31<sup>st</sup>, 2019</b>	<u>335</u>	<u>335</u>
<b>January 1<sup>st</sup>, 2020</b>	335	335
Movements for the year	432.084	432.084
<b>December 31<sup>st</sup>, 2020</b>	<u>432.419</u>	<u>432.419</u>

On September 1<sup>st</sup>, 2020, the Sole Shareholder contributed the SEI loan principal and accrued interest that was due by the Company to the Share Premium (see note 14). The contribution value was EUR 432.084.626,11.

**C. Other reserves****1. OCI accumulated in reserves, net of tax**

<i>In thousands of euro</i>	Translation reserves	Total
<b>January 1<sup>st</sup>, 2019</b>	<u>4.837</u>	<u>4.837</u>
Foreign operations – foreign currency translation differences	4.691	4.691
<b>December 31<sup>st</sup> 2019</b>	<u>9.528</u>	<u>9.528</u>
<b>January 1<sup>st</sup>, 2020</b>		
Foreign operations – foreign currency translation differences	8.356	8.356
<b>December 31<sup>st</sup> 2020</b>	<u>1.172</u>	<u>1.172</u>

**2. Equity reserves**

<i>In thousands of euro</i>	
<b>January 1, 2020</b>	-
Treasury shares acquired by the employees of the Group	27,400
Equity-settled Share Plan to employees	24,747
<b>December 31 2020</b>	<u>52,147</u>

On August 19th, 2020, the Company entered into a Share Purchase Agreement with GemTech Limited and acquired 42.641.351 ordinary shares in Arrival Luxembourg S.à r.l. in consideration for an increase in the Settlement Exchangeable Instrument principal amount by EUR 145.368.244,07.

# Kinetik S.à r.l.

## Notes to the consolidated financial statements

For the year ended December 31<sup>st</sup>, 2020

### 13. CAPITAL AND RESERVES (continued)

On January 29<sup>th</sup>, 2020, Arrival Luxembourg S.à r.l. issued 2.933.334 new Preferred A Shares with a nominal value EUR 0,25 each and with an aggregate share premium of EUR 9.266.666,50. These shares were subscribed by United Parcel Service General Services Co ("UPS") for a total subscription price of EUR 10.000.000,00 with an additional condition on Arrival Luxembourg S.à r.l. and UPS to enter into the further binding agreement for the provision of a further at least 10.000 electric vehicles (in addition to the electric vehicles which are the subject of a commercial agreement entered between the parties).

Between October 9<sup>th</sup>, 2020, and October 12<sup>th</sup>, 2020, Arrival Luxembourg S.à r.l. entered into multiple restricted share agreements with RSP participants and made awards comprising the acquisition of 12.491.723 ordinary shares in the capital of the Arrival Luxembourg S.à r.l. for an aggregate purchase price of EUR 42.585.408,29 payable by the participants.

On October 12<sup>th</sup>, 2020, Arrival Luxembourg S.à r.l. issue 11.481.274 new Preferred A Shares with a nominal value EUR 0,25 each and with an aggregate share premium of EUR 36.270.377,88 and 17.998.734 new Preferred A Shares with a nominal value EUR 0,25 each and with an aggregate share premium of EUR 56.859.620,60. These shares were subscribed by twelve BlackRock Funds ("BlackRock") for a total subscription price of EUR 100.500.000,48.

On October 12<sup>th</sup>, 2020, Arrival Luxembourg S.à r.l. resolved to issue 14.666.671 new Preferred A Shares with a nominal value EUR 0,25 each and with an aggregate share premium of EUR 46.333.333,69. These shares were subscribed by WCPF II Holdings Limited for a total subscription price of EUR 50.000.001,44

The total value of treasury shares held by Arrival Luxembourg S.à r.l. as at year end was EUR 9.377.000 (2019: Nil).

### 14. LOANS AND BORROWINGS

	2020	2019
<i>In thousands of euro</i>		
<b>Non-current liabilities</b>		
Lease liability	91.535	21.925
Loans	-	<u>264.131</u>
<b>Total non-current liabilities</b>	<b><u>91.535</u></b>	<b><u>286.056</u></b>
<b>Current liabilities</b>		
Lease liability	4.513	6.243
Bank overdraft	15	-
Loans	-	<u>1.001</u>
<b>Total Current liabilities</b>	<b><u>4.528</u></b>	<b><u>7.244</u></b>

The loans are analysed as follows:

	2020	2019
<i>In thousands of euro</i>		
<b>Non-current liabilities</b>		
Balance as of January 1 <sup>st</sup>	264.131	228.700
Interest for the year	22.585	44.024
New loans	145.368	126.634
Exchange part of the loan to shares in Arrival Luxembourg S.à r.l.	-	(135.227)
Repayment of loans	<u>(432.084)</u>	-
<b>Total bank loan</b>	<b><u>-</u></b>	<b><u>264.131</u></b>

## Notes to the consolidated financial statements

For the year ended December 31<sup>st</sup>, 2020

## 14. LOANS AND BORROWINGS (continued)

*In thousands of euro*

	2020	2019
<b>Current liabilities</b>		
Balance as of January 1 <sup>st</sup>	1.001	-
Interest for the year	9	1
New loans	15.896	1.000
Repayment of loan	(16.906)	-
<b>Total current loans and borrowings</b>	<b>-</b>	<b>1.001</b>

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

On June 17<sup>th</sup>, 2016 Telconet Capital LP ("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 400.000.000, having maturity December 2021 and an interest rate of 17%. The assignment of Telconet loan was EUR 164.007.000 of principal amount and EUR 5.981.000 of interest. The assignment of loan from Marsfield was EUR 1.774.000 of principal amount and EUR 35.000 of accrued interest. During the year and up to October 17<sup>th</sup>, 2019, the Company has made additional drawdowns in total amount of EUR 75.151.000. based on the Longspeed loan.

On April 26<sup>th</sup>, 2019, the Company entered into a new borrowing loan agreement with Gemcorp Holdings Limited, with a maturity date November 29<sup>th</sup>, 2019 and interest rate of 9% per annum. The total amount drawn was EUR 28.500.000 and accrued interest as at November 29<sup>th</sup>, 2019 was in amount of EUR 1.563.000. This loan was transferred to GemTech Limited ("GemTech").

On October 17<sup>th</sup>, 2019, Longspeed decided to transfer the loan principal (EUR 287.248.000) and the accrued interest as of this date (EUR 49.780.000) to Teleconet Capital Limited Partnership ("Teleconet"). During 2019 the Company made additional drawdowns in total amount of EUR 7.000.000 based on Teleconet loan. As at November 11<sup>th</sup>, 2019, the Teleconet loan was in total amount of EUR 347.398.000 out of which EUR 294.248.000 represents the principal amount and the rest accrued interest.

On November 11<sup>th</sup>, 2019, the Company entered into a Settlement Exchangeable instrument (the "SEI") and converted an amount of EUR 259.859.000 into an unsecured loan out of the above Teleconet loan. On November 21<sup>st</sup>, 2019, the loan was transferred to GemTech under the following conditions: maturity date December 31<sup>st</sup>, 2021, and interest rate 12% per annum having also an option clause (see note 15). The remaining balance of the above Teleconet loan was assigned to GemTech. During 2019 the Company made additional drawdowns in total amount of EUR 15.983.000 based on GemTech loan. As of December 30<sup>th</sup>, 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 145.368.000 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 10.141.000 is outstanding as at December 31<sup>st</sup>, 2019 (see note 10B).



Notes to the consolidated financial statementsFor the year ended December 31<sup>st</sup>, 2020**14. LOANS AND BORROWINGS (continued)**

On August 19<sup>th</sup>, 2020, the Company entered into a Share Purchase Agreement with GemTech Limited and acquired 42.641.351 ordinary shares in Arrival Luxembourg S.à r.l. in consideration for an increase in the SEI principal amount by EUR 145.368.244,07. On August 30<sup>th</sup>, 2020, the SEI principal of EUR 405.227.287,07 together with accrued interest of EUR 26.857.339,05 was assigned from GemTech Limited to Longspeed Investments Limited. On September 1<sup>st</sup>, 2020, the SEI principal of EUR 405.227.287,07 together with the accrued interest of EUR 26.857.339,05 was assigned from Longspeed Investments Limited to the Kinetik Foundation. On the same date, the Company and the Kinetik Foundation entered into the Contribution Agreement where the Kinetik Foundation agreed to contribute in kind the SEI loan principal and accrued interest, having a contribution value of EUR 432.084.626,11 (see Note 13).

In September the Company received a short-term loan from Kinetik Foundation for an amount of EUR 10.000.000. The loan was repaid in October. In addition, the Group entered into a short-term loan with HBSC Bank for a total amount of EUR 2.396.000 in respect of its payroll arrangements. The amount was repaid in October.

On November 27<sup>th</sup>, 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. On February 25<sup>th</sup>, 2020, and March 6<sup>th</sup>, 2020, the Loan Agreement was amended, and loan principal amount increased to EUR 4.000.000,00 and to EUR 4.500.000,00 respectively. During April 2020, the outstanding amount was fully repaid.

<i>In thousands of euro</i>	Carrying amount	Total	Within one year	Between 1 and 5 years	More than 5 years
<b>December 31<sup>st</sup>, 2020</b>					
Leases	96.048	140.983	10.730	45.589	84.664
<b>December 31<sup>st</sup>, 2019</b>					
Leases	28.168	50.562	7.505	25.740	17.317
<i>In thousands of euro</i>				<b>2020</b>	<b>2019</b>
<b>Amounts recognized in profit or loss</b>					
Interest on lease liability				5.291	3.528
Expenses relating to short-term leases and low value leases				548	832
<b>Amount recognized in the statement of cash flows</b>					
Total cash outflow for leases				7.629	1.123

The Group leases office buildings and industrial buildings used for the development and production of our products. Depending on the type of lease and the location, the lease durations vary from 1 to 15 years. As the Group is rapidly expanding, leases for office buildings and research and development facilities typically run for a period of 1 to 2 years. This provides our Group with the flexibility needed.

However, leases of factories and leases of buildings where we have or it is forecasted that we will have significant increase in a short period, then leases duration are usually from 9 to 15 years. Some leases rent payments can be adjusted based on changes in local price indices.

Where practical, the Group seeks to have an option to extend and/or to renew the lease. This option is exercisable only by the Group. The Group assess at the lease commencement date whether it is reasonably certain to exercise the extension option. For the leases that it is estimated that the option will be exercised, the extended lease maturity date has been factored-in when discounting the lease liability. The lease commitments shown in the above table also include the amounts that the Group will have to pay if these options are exercised.

Notes to the consolidated financial statementsFor the year ended December 31<sup>st</sup>, 2020**15. DERIVATIVE**

The exchangeable instrument on the Loan agreement with GemTech (see note 14) had an option clause that enables the noteholder to exchange at any time the loan for a number of shares in Arrival Luxembourg S.à r.l., valued at EUR 630.000.000. The option is fair value by deducting from the exchange value the outstanding amount of the loan. As of December 31<sup>st</sup>, 2019, the fair value loss recognized in the Consolidated Statement of Profit or Loss and Other Comprehensive (Loss)/Income was EUR 365.869.000 (see note 20). During 2020, the SEI loan has been assigned to Kinetik Foundation (see Note 14), which subsequently contributed the full amount to the Company (see note 13). As a result the Company derecognized the derivative and recognized a gain of EUR 365.869.000 (see note 20).

**16. INCOME TAXES****344. Amounts recognised in profit or loss**

	Note	2020	2019
<i>In thousands of euro</i>			
<b>Current tax expense</b>			
Current year		(2.184)	(363)
Other taxes		(509)	(45)
Government grant on losses		<u>22.295</u>	<u>5.210</u>
		<b><u>19.602</u></b>	<b><u>4.802</u></b>
<b>Deferred tax expense</b>			
Relating to origination and reversal of temporary differences		(1.294)	402
		<b><u>(1.294)</u></b>	<b><u>402</u></b>
<b>Tax expense on continuing operations</b>		<b><u>18.308</u></b>	<b><u>5.204</u></b>

**A. Deferred tax balances**

	2020	2019
<i>In thousands of euro</i>		
<b>Asset</b>		
Accruals	-	85
Tax losses	522	2.206
Other	<u>1.102</u>	<u>547</u>
	<b><u>1.624</u></b>	<b><u>2.838</u></b>
<b>Liabilities</b>		
Tangible and Intangible fixed assets	<u>(2.751)</u>	<u>(2.525)</u>
	<b><u>(2.751)</u></b>	<b><u>(2.525)</u></b>

**B. Unrecognised deferred tax assets**

Deferred tax assets have not been recognised in respect of the following items, because it is not sufficiently certain at this stage, the amount of future taxable profit that will be available against which the Group can use the benefits therefrom.

	2020		2019	
	Gross amount	Tax effect	Gross amount	Tax effect
<i>In thousands of euro</i>				
Tax losses	305.298	65.256	602.110	140.547
Share options	149	-	-	-
Tangible and Intangible fixed assets	1.063	-	-	-
Other temporary differences	<u>2.096</u>	-	-	-
<b>Total</b>	<b><u>308.606</u></b>	<b><u>65.256</u></b>	<b><u>602.110</u></b>	<b><u>140.547</u></b>

Notes to the consolidated financial statementsFor the year ended December 31<sup>st</sup>, 2020**16. INCOME TAXES (continued)****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>	<b>2020</b>	<b>2019</b>
Expiry 2021 – 2037	127.435	112.741
No expiry	177.863	489.639

**E. Reconciliation of effective tax rate**

<i>In thousands of euro</i>	<b>2020</b>		<b>2019</b>	
Loss before tax from continuing operations		<b>236.339</b>		<b>(496.878)</b>
Tax rate using the Company's domestic tax rate	24,94%	58.943	24,94%	(123.921)
Effect of tax rates in foreign jurisdictions	2,08%	5.114	(13,06%)	6.858
Tax exempt income/Tax incentives	(37,72%)	(90.079)	4,68%	(2.459)
Non-deductible expenses	0,57%	1.358	(177,44%)	93.214
Current year losses for which no deferred tax asset is recognised	11,94%	28.979	(40,49%)	21.270
True up adjustments for taxes for prior years*	(9,78%)	(23.304)	0,41%	(215)
Other	0,28%	681	0,09%	49
<b>Income tax income</b>		<b><u>(18.308)</u></b>		<b><u>5.204</u></b>

\*True up adjustment for taxes for prior years relate to changes in estimates to UK R&D claims for prior periods, which were calculated and submitted in 2020.

**E. Change of tax rate**

On April 25<sup>th</sup>, 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 1<sup>st</sup>, 2019.

**17. TRADE AND OTHER PAYABLES**

	<b>2020</b>	<b>2019</b>
<b>Current liabilities</b>		
Trade payables	9.935	9.936
Other payables and accrued expenses	<u>26.722</u>	<u>13.307</u>
	<b><u>36.657</u></b>	<b><u>23.243</u></b>

**18. FINANCIAL INSTRUMENTS – FAIR VALUES**

The following table shows the carrying amounts and fair values of financial assets and financial liabilities.

*In thousands of euro*

		<b>Financial Assets</b>			<b>Level in the fair</b>
<b>December 31, 2020</b>	<b>Note</b>	<b>at amortised cost</b>	<b>Total</b>	<b>Fair Value</b>	<b>value hierarchy</b>
Loan receivables	10	30.024	<b>30.024</b>	30,257	3
Cash guarantees and deposits	10	9.420	<b>9.420</b>	-	1
<b>December 31, 2019</b>					
Cash guarantees and deposits	10	7.646	<b>7.646</b>	-	1

Notes to the consolidated financial statementsFor the year ended December 31<sup>st</sup>, 2020**19. INCOME AND EXPENSES**

<i>In thousands of euro</i>	<b>2020</b>	<b>2019</b>
<b>A. Other income</b>		
Government grants	1.023	1.865
Gain from the disposal of fixed assets	406	466
Modification of leases	1.036	-
Negative goodwill	-	113
Other income	<u>334</u>	<u>319</u>
<b>Total other income</b>	<b><u>2.799</u></b>	<b><u>2.763</u></b>
<b>B. Other expenses</b>	<b>2020</b>	<b>2019</b>
Receivables written off	(6)	-
Loss from the disposal of fixed assets	(428)	(22)
Other charges	<u>(6.943)</u>	<u>(6.975)</u>
<b>Total other expenses</b>	<b><u>(7.377)</u></b>	<b><u>(6.997)</u></b>

Other charges relate mainly 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.

<i>In thousands of euro</i>	<b>2020</b>	<b>2019</b>
<b>C. Expenses by nature</b>		
Depreciation/amortisation	(10.809)	(7.241)
Impairment of tangibles/intangible assets	(3.907)	(8.486)
Marketing	(1.761)	(1.180)
Travel expenses and accommodation	(1.189)	(3.554)
Legal fees	(5.510)	(1.698)
Rent and property utilities	(5.356)	(3.655)
Consultancy fees	(11.860)	(5.358)
Wages and Salaries	(40.363)	(23.541)
Employee share scheme	(9.326)	-
Contractors	(4.846)	(5.447)
Recruitment fees	(1.460)	(1.857)
Postages and carriage	(111)	(75)
Accounting fees	(826)	(424)
Audit	(3.161)	(448)
Testing	(1.448)	(344)
Meals and Subsistence	(856)	(1.073)
Consumables	(9.085)	(5.346)
License subscriptions	(5.075)	(2.575)
Office supplies	(618)	(495)
Capitalised expenses	11.535	-
Patent fees	(699)	(699)
Other	<u>(4.972)</u>	<u>(1.438)</u>
<b>Total expenses by nature</b>	<b><u>(111.703)</u></b>	<b><u>(74.934)</u></b>

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.

Notes to the consolidated financial statementsFor the year ended December 31<sup>st</sup>, 2020**19. INCOME AND EXPENSES (continued)**

An amount of EUR 3.677.000 (2019: EUR 1.072.000) of depreciation has been capitalised as it formed part of the cost of the assets under constructions.

In 2020 the research and development expenses recognised in the consolidated statement of profit or (loss) and other comprehensive (loss)/income amounted to EUR 31.208.000.

Impairment loss and write offs indicated in the consolidated statement of cash flow is comprise of impairment of tangible/intangible assets 3.907.000, receivable write off EUR 6.000 (see note 19) and impairment of loan receivable 3.744.000 (see note 20).

**20. FINANCE COST**

<i>In thousands of euro</i>	<b>2020</b>	<b>2019</b>
<b>Finance income</b>		
Interest received	3.791	130
Reversal of impairment on loan receivable	-	3.563
Gain on derivative	365.869	-
Other	4	20
Foreign exchange differences	-	912
<b>Total finance income</b>	<b><u>369.664</u></b>	<b><u>4.625</u></b>

<i>In thousands of euro</i>	<b>2020</b>	<b>2019</b>
<b>Finance cost</b>		
Other charges	(410)	(495)
Interest payable	(22.744)	(44.033)
Impairment of loan receivable	(3.744)	(3.355)
Fair value of derivative	-	(365.869)
Lease interest	(5.291)	(3.467)
Foreign exchange differences	(1.727)	(1.767)
<b>Total finance cost</b>	<b><u>(33.916)</u></b>	<b><u>(418.986)</u></b>

**21. SHARE BASED PAYMENTS**

On October 2, 2020, Arrival Luxembourg S.à r.l. ("Arrival Lux") has communicated the terms and conditions of the Arrival share option plan ("SOP") and Arrival restricted share plan ("RSP") to all employees of the Group that were eligible to participate. The employees provided their acceptance to participate in the scheme by accepting the offer provided and were necessary signed the relevant documentation.

On October 26, 2020, Arrival Lux entered into the Arrival Share Option Plan 2020 Option Deed. By this Option Deed, each of the SOP participants were granted options under the Arrival Option Plan over an aggregate of 26.899.662 shares with an exercise price of EUR 3,40909.

As per the share plan, participants are granted options which have the following vesting conditions: a) 50% of share options granted vest on the first anniversary of the participant's start date, b) 25% of the share options vest subject to a production rate milestone and c) 25% of the share options vest subject to a contribution milestone. All the above conditions are subject to an exit event, which is the asset or share sale of the Group or an initial public offering ("IPO").

In addition, the employee participating in the share option scheme must be an employee of the Group at the time a vesting condition has been met. During the year, there was no other movement in the RSP and SOP other than the issuance of shares mentioned above for the RSP.

Notes to the consolidated financial statementsFor the year ended December 31<sup>st</sup>, 2020**21. SHARE BASED PAYMENTS (continued)**

For 2020 an amount of EUR 24.747.000 has been recognised based on the vesting conditions mentioned above and the estimation made by management as to when these options will be vested. The total charge for the year amounted to EUR 24.747.000. An amount of EUR 9.326.000 is presented in the consolidated statement of profit or loss and other comprehensive (loss)/income and an amount of EUR 15.421.000 was capitalised. The service condition (one year of employment) has been met by most of the participants and as such the expense relating to this condition was recognised in the consolidated statement of profit or loss and other comprehensive (loss)/income. The cost of the performance conditions has been spread over the current period and the expected date that it is envisioned that these milestones will be met. Estimation by management is that these milestones will be reached in 2022. The production rate milestone will be met when in a calendar month, a microfactory that has been fully operational and has achieved the set target of production. Similarly, the contribution milestone will be met when the target sales for the relevant vehicles produced by a microfactory on a calendar month are achieved.

The awards granted under the SOP carry no dividend or voting rights.

<b>2020</b>	<b>RSP</b>	<b>SOP</b>
Weighted average fair value at grant date	2,62	1,93
Share price of Preferred A shares based on transactions occurred at the same time of the issues of the scheme	3,41	3,41
Exercise price	-	3,41
Contractual life of the options	-	10 years

*In thousands***2020****SOP**

Outstanding at the beginning of the year	-
Granted during the year	26.890
Exercised during the year	-
Expired during the year	-
Forfeited during the year	-
Outstanding at the end of the year	<u>26.890</u>
Exercisable at the end of the year	-

Fair value of the options granted

The assessed fair value at the grant date of awards granted during 2020 was EUR 51.804.000. The fair value at grant date is independently determined using Black Scholes Option Pricing Methodology ("BSOPM"). The BSOPM was used to apportion the total equity value between the different classes of securities within the Company's capital structure. This apportionment captures the current value of each security class with reference to its expected value at a future exit date under different scenarios. The total equity value at the at grant date was estimated by back solving the BSOPM for the price paid by the preference A shareholders which have subscribed to the share capital of the Arrival Lux few days before.

By determining the total equity value, the expected exercise dates of the various tranches of the SOP and RSP have been incorporated into the BSOPM to derive the estimated value of the options issued.

The model inputs for options granted as of December 31, 2020 included:

## Notes to the consolidated financial statements

For the year ended December 31<sup>st</sup>, 2020

## 21. SHARE BASED PAYMENTS (continued)

Input	IPO	Delayed exit	Justification
Valuation date	October 2, 2020	October 2, 2020	This is the date that the option scheme was communicated to the employees and the date that management has made an estimation of the valuation of the scheme. Given the short time elapsed between the valuation date and the date that the actual agreements were signed management does not consider there to be any material change in value across the valuation date and the date the agreements have been signed (grant date).
Risk free rate	0%	0%	Risk free rates are taken from yields on UK government bonds for corresponding periods to the exit dates for each valuation event. Rates are linearly interpolated from yields for bonds with the closest available maturities. Where negative, rates have been capped at 0%.
Dividend yield	Nil	Nil	No dividend is anticipated to be paid prior to an exit event. SOPs are not entitled to dividends but RSPs are.
Expected volatility	146%	102%	Based on the average observed volatility in the equity value of listed comparable companies over a historic period commensurate with the expected exit date
Expected exit event	January 31, 2021	January 1, 2022	Estimation as to when the exit event will occur
Scenario weighting	75%	25%	This is the expected likelihood of the different exit routes as at the grant dates. We have assumed a one-year delay if the exit does not occur in early 2021.

## 22. 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:

In thousands of euro Related party	Creditors		Debtors	
	2020	2019	2020	2019
Arrival Management Systems LLC	-	(53)	-	-
Arrival Solutions LLC	-	(27)	-	-
Shishkov Rodion	-	(64)	-	251
Dilettant Ltd	6	-	-	-
Telconet Capital LP	-	(1.001)	-	-
Gemtech	-	(264.131)	-	-
	<u>6</u>	<u>(265.276)</u>	<u>251</u>	<u>251</u>

Notes to the consolidated financial statementsFor the year ended December 31<sup>st</sup>, 2020**22. RELATED PARTY TRANSACTIONS (continued)**

<i>In thousands of euro</i>	<b>Transactions</b>	
Related party	<b>2020</b>	<b>2019</b>
<b>Employees</b>		
Shishkov Rodion	256	187
<b>Affiliated entities</b>		
Arrival Management Systems LLC	-	(264)
Arrival Solutions LLC	4	(30)
Teleksir LLC	-	(89)
Telconet Capital LP	3.508	(1.001)
Gemtech Ltd	(167.954)	(264.131)
Kinetik Foundation	(436.217)	-
Longspeed Investment Ltd	423.085	-
Smekalka LLC	(164)	-
CSC LLC	568	-
Dilettant Ltd	12	-
Smart Space LLC	393	(399)
	<u><b>(176.509)</b></u>	<u><b>(265.727)</b></u>

The transactions between Kinetik Foundation, Longspeed Investment Ltd and Gemtech are described in note 14. The other related party transactions relate mainly to acquisition of fixed assets and consulting services.

<i>In thousands of euro</i>	<b>Transactions for the year</b>	
	<b>2020</b>	<b>2019</b>
<b>Key Management personnel</b>		
Wages and salaries	4.038	3.323
Social contributions	478	607
Other benefits	87	1
Other earnings	-	73
RSP loans	14.708	-
SOP expense	3.141	-

**23. PERSONNEL**

<i>In thousands of euro</i>	<b>2020</b>	<b>2019</b>
Wages and salaries	(85.088)	(43.968)
Social Security	(9.098)	(4.688)
Other	(3.408)	(1.485)
Employee share scheme	(24.747)	-
Capitalised cost	<u>72.652</u>	<u>26.600</u>
	<u><b>(49.689)</b></u>	<u><b>(23.541)</b></u>

**24. OFF BALANCE SHEET EVENTS**

The Group has granted a credit facility to KeyArk Inc on June 20<sup>th</sup>, 2019, for a total amount of USD 6.000.000 (EUR 4.889.577) (see note 10). The undrawn amount as of December 31<sup>st</sup>, 2020, is USD 2.409.000 (EUR 1.963.165).

No other off balance events exists as of December 31<sup>st</sup>, 2020.



## 25. SUBSEQUENT EVENTS

- On February 2<sup>nd</sup>, 2021, the Company and the Kinetik Foundation entered into the Loan Facility Agreement where the Kinetik Foundation agreed to provide the Company with an unsecured term loan facility of up to EUR 30.000.000. The loan facility bears 6,25% of interest per annum and matures on December 31<sup>st</sup>, 2021. During January to March 2021, several drawdowns in an aggregate amount of EUR 6.390.945,33 were made to the Company.
- On April 20<sup>th</sup>, 2021, Kinetik Finance S.à r.l. was incorporated with the share capital set at EUR 12.000,00 divided into 12.000 shares with a nominal value of EUR 1,00 each which were subscribed by the Company.
- On May 11<sup>th</sup>, 2021, the Company made a contribution in kind of 75.770.000 ordinary shares in Arrival S.A. to a special equity reserve account 115 of Kinetik Finance S.à r.l..
- On May 14<sup>th</sup>, Kinetik Finance S.à r.l. has entered into a margin loan agreement with Citibank N.A. for a total Facility of USD 85.000.000 with the possibility to increase by another USD 40.000.0000. The loan facility bears an annual interest of 3-Month LIBOR. 31.481.500 shares of Arrival S.A. are pledged as collateral for this loan.
- On May 28<sup>th</sup>, 2021, the Company and the Kinetik Foundation entered into the Loan Facility Agreement where the Company agreed to provide the Kinetik Foundation with an unsecured term loan facility of up to USD 9.600.000,00. The loan facility bears 3-Month LIBOR plus 2,20% of interest per annum and matures on May 28<sup>th</sup>, 2024. In June 2021, a drawdown of USD 5.698.800,00 (EUR 4.633.786,09) was made by the Company.
- In 2021, the Company has entered into a Warranty Agreement with Hyundai Motor Company and Kia Motors Corporation in relation to the contribution transaction that occurred in January 2021.
- On January 4<sup>th</sup>, 2021, the Directors of Arrival Group S.A. (now known as Arrival) resolved to increase the share capital of Arrival Group S.A. by EUR 4.265.114,40, to waive any preferential rights subscription rights (to the extent necessary), accept the subscription for the Preferred Exchange New Shares by the following entities and accept payment for these new shares by contributions in kind consisting in shares in Arrival with payment of a share premium in an aggregate amount of EUR 256.234.886,99 in the following numbers and proportions: 1) 13.098.240 ordinary shares by Hyundai Motor Company with a payment of a share premium in an amount of EUR 78.690.176,26, paid by a contribution in kind consisting of 23.466.673 preferred A convertible preference shares in Arrival S.à r.l., 2) 3.274.560 ordinary shares by Kia Motors Corporation with a payment of a share premium in an amount of EUR 19.672.543,21, paid by a contribution in kind consisting of 5.866.668 preferred A convertible preference shares in Arrival Luxembourg S.à r.l., 3) 1.637.280 ordinary shares by United Parcel Service General Services Co. with a payment of a share premium in an amount of EUR 9.836.272,00, paid by a contribution in kind consisting of 2.933.334 preferred A convertible preference shares in Arrival Luxembourg S.à r.l., 4) 8.186.400 ordinary shares by WCPF II Holdings Limited with a payment of a share premium in an amount of EUR 49.181.361,44, paid by a contribution in kind consisting of 14.666.671 preferred A convertible preference shares in Arrival Luxembourg S.à r.l. and 5) 16.454.664 ordinary shares by twelve BlackRock Funds with a payment of a share premium in an amount of EUR 98.854.534,08, paid by a contribution in kind consisting of 29.480.008 preferred A convertible preference shares in Arrival Luxembourg S.à r.l.. All contributions in kind represents a value in an aggregate amount of EUR 260.500.001,39.
- On February 1<sup>st</sup>, 2021, the Group entered into a prepayment agreement with LG Energy Solutions Ltd ("LG"). The agreement specifies that an amount of EUR 25.830.000 will be paid to LG and in return, LG has to build an assembly line for the manufacturing of cells at the specifications required by the Group. The assembly line will be determined by the Group and LG guarantees the supply of 82.000.000 cells to the Group.
- On March 23<sup>rd</sup>, 2021, the Directors of Arrival Group S.A. resolved to increase the share capital of Arrival Group S.A. by EUR 49.118.385,60 and accept the subscription for the Ordinary Exchange New Shares by the following entities and accept payment for these new shares by contributions in kind consisting in shares in Arrival Luxembourg S.à r.l. with payment of a share premium in an aggregate amount of EUR 4.033.273.470,30 in the following numbers and proportions: 463.275.682.

Notes to the consolidated financial statements

For the year ended December 31<sup>st</sup>, 2020

**23. SUBSEQUENT EVENTS (continued)**

shares by Kinetik S.à r.l. with a payment of a share premium in an amount of EUR 3.858.887.655,60, paid by a contribution in kind consisting of 830.000.000 shares in Arrival Luxembourg S.à r.l., 20.935.750 shares by Arrival Luxembourg S.à r.l. with a payment of a share premium in an amount of EUR 174.385.814,70, paid by a contribution in kind consisting of 37.508.277 shares in Arrival S.à r.l. and 6.972.424 shares by Computershare Trustees (Jersey) Limited with a payment of a share premium in an amount of EUR 58.077.300,30, paid by a contribution in kind consisting of 12.491.723 shares in Arrival S.à r.l.. All contributions in kind represent a value in an aggregate amount of EUR 4.140.469.156,20.

- On March 23<sup>rd</sup>, 2021, during the Extraordinary General Meeting of Arrival Group S.A. it was resolved to change the name of the company "Arrival Group" to "Arrival", to reduce the share capital by an amount of EUR 30.000,00 by cancellation of 300.000 shares held by Arrival Luxembourg S.à r.l. and to allocate the amount of the capital reduction to a free reserve. Also, it was resolved to approve the employee participation schemes of Arrival in accordance with the rules of the Arrival Share Option Plan 2020, the Arrival Restricted Share Plan 2020 and the Arrival Incentive Compensation Plan.
- On March 23<sup>rd</sup>, 2021, during the Extraordinary General Meeting of Arrival Luxembourg S.à r.l. it was resolved to change the name of the company "Arrival S.à r.l." to "Arrival Luxembourg S.à r.l.", to reclassify the existing 76.413.354 preferred A convertible preference shares into 76.413.354 ordinary shares and to reduce the corporate capital by an amount of EUR 239.091.338,50 to EUR 12.000,00 by cancellation of 956.365.354 ordinary shares with a nominal value of EUR 0,25 each, and to allocate the proceeds of such capital reduction to a free reserve.
- Arrival has signed a Business Combination Agreement on November 18<sup>th</sup>, 2020, in contemplation of a planned merger (the 'Merger') which completed on March 24<sup>th</sup>, 2021. On that date, the Directors of Arrival S.A. resolved to increase the share capital of Arrival S.A. by EUR 7.232.226,70 so as to raise to an amount of EUR 60.615.726,70 by issuing 72.322.267 Merger New Shares with a nominal value of EUR 0,10 each having the same rights and privileges as the existing shares and to accept the subscription for the Merger New Shares by persons and entities (the "Subscribers") and to accept payment for these new shares by contributions in kind consisting in all the class A common stock issued by CIIG Merger Corp. with a par value of USD 0,0001 per share (other than such class A common stock held in treasury by CIIG Merger Corp.) by the stockholders of CIIG Merger Corp. through the merger of ARSNL Merger Sub Inc. into CIIG Merger Corp. with payment of a share premium in an aggregate amount of EUR 602.413.453,14. All contributions in kind represent a value in an aggregate amount of EUR 609.645.679,84.
- Following the merger with CIIG, the listing on NASDAQ of Arrivals' shares was completed on March 25<sup>th</sup>, 2021. This listing constituted an exit event of the share-based payment schemes (see note 21) and as such the options provided to the Group employees can be exercised up-on completion of the lock-up period, which is 6 months as from the date of the listing subject to the vesting conditions having been met.
- In March 2021, certain executive officers of Arrival received a onetime bonus in connection with the successful merger with CIIG. With the money received, the executive officers settled the loans that they had with certain subsidiaries of the Company, prior to closing of the merger transaction and listing to a total nominal value of EUR 6.100.000.
- On June 18, Arrival has elected to redeem all outstanding warrants that were issued under the Warrant Agreement dated December 12, 2019. The registered holders of Public Warrants will have until July 19<sup>th</sup>, 2021 to exercise their public warrants.