Swedish Electromagnet Invest AB (publ.)
559153-6510

Year-End Report and Interim Report
October – December 2018

Group overview

The SEM Group[1] is a leading supplier of highly engineered mission critical powertrain components for heavy duty commercial vehicles (“HDCV”). Core product segments includes a range of ignition systems, injector stators and sensors, primarily used for natural gas (“NG”) and diesel powered HDCVs as well as ignition systems for handheld professional power tools. The group sells its products through own sales channels worldwide and customers include well known OEM’s, Tier 1 and Tier 2 suppliers to the industry.

[1] Swedish Electromagnet Invest AB is the holding company for SEM AB in Sweden, SEM Technology (Suzhou) Co., Ltd in China, SEM Technology Inc. in USA and Senfusion AB

Sales and profit Q4 2018 and FY 2018

The ultimate parent company Swedish Electromagnet Invest AB (publ) ("SEM Invest") was established on the 26th of March 2018. SEM Invest became operative on Dec 11, 2018 through the acquisition of Swedish Electromagnet Holding AB ("SEH Group"). Hence, the figures below refer to the period from the date of the acquisition (11th of December 2018) until end of reporting period the 31st of December 2018. For information about the acquisition, please see *Notes Business combinations*.

Group Key Figures

KSEK	**Oct-Dec 2018**	**26 Mar – 31 Dec 2018**
Net sales	15 449	15 449
Reported EBITDA	1 179	1 179

Note: The above figures are equivalent to the operations in SEM Group period 11th-31st of December 2018, following the acquisition of Swedish Electromagnet Holding AB.

Pro-forma sales and profit Q4 2018 and FY 2018

Since SEM Invest only acquired SEH Group on the 11th of December, the consolidated Group figures in the table above are not representative for the underlying business. The below pro-forma financial overview aims to give a better understanding of the full year development in the SEM Group.

Comments on pro-forma Q4 2018

Sales increased by 13.5% and Adjusted EBITDA increased by 4.6% compared to Q4 2017. The demand from customers has remained stable over the period.

Comments on pro-forma full year 2018

Net Sales increased by 7.1% vs. previous year and adjusted EBITDA grew by 20.1% to a margin of 23.0% (20.5%). This development is primarily driven by high customer demands.

Pro-forma Group Key Figures, Q4

Year	**Q42017**	**Q42018**
Net sales	91 992	104 449
EBITDA	19 857	19 643
Adjustments[2]	481	1 622
EBITDA, adjusted	20 338	21 265

Pro-forma Group Key Figures, FY

Year	**FY2017**	**FY2018**
Net sales	364 125	389 815
EBITDA	68 590	86 732
Adjustments[2]	6 164	3 080
EBITDA, adjusted	74 754	89 812

Note: The pro-forma figures have been prepared excluding acquisition related adjustments. The 2018 pro-forma figures are based on unaudited figures.

[2] Adjustments include non-recurring figures such as litigation process costs, transaction costs etc. to enable better comparison of underlying development in the business

Comments from the CEO

Significant events in Q4 2018

- SEM Invest issued a 350 MSEK bond to acquire SEH Group and to refinance existing debt (external bank loans and shareholder's loan) in SEH Group. The owners of SEH Group transferred their shares to SEM Invest in exchange for a cash consideration of SEK 96 million and promissory notes of SEK 325 million. For further information, please see *Note Business combinations* and *Note Borrowings*.
- The SEM Group signed an important development contract with an OEM customer within the small engine ignition systems segment.
- Another contract was signed with a major commercial vehicle OEM for components to be used for diesel powered commercial vehicles and potentially also for commercial vehicles running on alternative fuels and electricity.

Significant events in January – December 2018

- In addition to above, SEM Group divested its product segment Laminova (heat exchangers) to Think Automotive Pty. Ltd. in September.
- A new General Manager for the Chinese operations started in July.
- SEM Technology Inc. was established in June, with headquarters in Indianapolis.
- Re-organization of the technical department separating Product Management and Project Management from Research and Development in order to clarify roles and responsibilities in a more transparent way.

Significant events after the end of the reporting period

- No significant events took place after the end of the reporting period

Outlook

The SEM Group does not provide forecasts due to the nature of its business.

Related party transactions

It is the Company's view that no material transactions with related parties have occurred during the period, neither for the Group nor for the Company.

Significant risks and uncertainties

The SEM Group is acting in the global automotive industry. As such the Company is exposed to the risk of a deterioration in the global political and economic development. The Group also considers foreign exchange rates as a possible risk for the year to come.

Financial reports

Consolidated Income Statement

The result corresponds to the result in the period from the date of the acquisition of the Swedish Electromagnet Holding Group on the 11th of December 2018 to the end of the reporting period on the 31st of December 2018

KSEK	**26 Mar-31 Dec 2018**
Net sales	15 449
Cost of goods sold	-11 526
Gross profit	**3 923**
Selling expenses	-456
Administrative expenses	-1 521
Research and development costs	-1 614
Other operating income	5
Other operating costs	-38
Operating profit (loss)	**299**
Financial income	2
Financial expenses	-1 337
Net financial items	**-1 335**
Profit (loss) before tax	**-1 036**
Income tax	220
Net profit for the period	**-816**
Other comprehensive income:	
Items that may be reclassified to profit or loss	**-93**
Exchange differences from translation of foreign operations	
Items that will not be reclassified to profit or loss	
Revaluation of the net pension obligation	**-373**
Income tax attributable to the above item	**77**
Other comprehensive income for the period, after tax	**-389**
Total comprehensive income for the period	**-1 205**

Profit (loss) for the period and total comprehensive income are, in their entirety, attributable to shareholders of the Parent Company.

Consolidated Balance Sheet

KSEK	31 Dec 2018
ASSETS	
Non-current assets	
Intangible assets	
Goodwill	505 092
Capitalised expenditure for development activities	555
Total intangible assets	**505 647**
Non-current assets	
Plant and machinery	8 026
Equipment, tools, fixtures and fittings	51 665
Total non-current assets	**59 691**
Financial assets	
Other non-current receivables	-
Total financial assets	**-**
Deferred tax assets	1 948
Total non-current assets	**567 286**
Current assets	
Inventories	
Raw materials and consumables	33 318
Work-in-progress	2 978
Finished goods and goods for resale	16 102
Total inventories	**52 398**
Current receivables	
Trade receivables	80 926
Current tax asset	917
Other receivables	4 360
Prepaid costs and accrued income	2 672
Cash and cash equivalents	37 999
Total current receivables	**126 874**
Total current assets	**179 272**
TOTAL ASSETS	**746 558**

Consolidated Balance Sheet

KSEK	31 Dec 2018
EQUITY	
Equity attributable to Parent Company shareholders	
Share capital	500
Other contributed capital	325 000
Reserves	-93
Retained earnings (incl. profit(loss) for the period)	-1 112
Total equity attributable to shareholders of the Parent company shareholders	**324 295**
LIABILITIES	
Non-current liabilities	
Bond loan	342 771
Provisions for pensions and similar obligations	5 400
Deferred tax liabilities	1 985
Other provisions	950
Total non-current liabilities	**351 106**
Current liabilities	
Trade payables	31 293
Other current liabilities	21 054
Accrued costs and prepaid income	18 810
Total current liabilities	**71 157**
TOTAL EQUITY AND LIABILITIES	**746 558**

Consolidated statement of changes in Equity

Amounts in KSEK	Attributable to shareholders of the Parent Company				
	Share capital	Other contributed capital	Reserves	Retained earnings, including profit (loss) for the period	Total equity
Closing balance at 26 March 2018	500				500
Net profit for the period				-816	-816
Other comprehensive income for the period			-93	-296	-389
Total comprehensive income for the period			-93	-1 112	-1 205
Transactions with shareholders in their role as owners					
Shareholders contribution		325 000			325 000
Closing balance at 31 December 2018	500	325 000	-93	-1 112	324 295

Consolidated Cash Flow Statement

The result corresponds to the result in the period from the date of the acquisition of the Swedish Electromagnet Holding Group on the 11th of December 2018 to the end of the reporting period on the 31st of December 2018

KSEK	26 Mar-31 Dec 2018
Cash flow from operating activities	
Operating profit (loss)	299
Adjustments for non-cash items	
Depreciation of tangible and intangible assets	1 117
Exchange differences	-174
Interest received	2
Interest paid	-1 337
Income taxes paid	2 928
Cash flow from operating activities before changes in working capital	**2 835**
Cash flow before changes in working capital	
Increase/decrease of inventories	1 042
Increase/decrease of trade receivables	1 998
Increase/decrease of other current receivables	-6 171
Increase/decrease of trade payables	554
Increase/decrease of other current payables	-676
Total changes in working capital	**-3 253**
Cash flow from operating activities	**-418**
Cash flow from investing activities	
Acquisitions of subsidiaries, after adjustments for acquired cash and cash equivalents	-55 259
Investment in intangible assets	
Investment in property, plant and equipment	-3 963
Investments in other financial assets	173
Cash flow from investing activities	**-59 049**
Cash flow from financing activities	
Share Issuance	500
Issuance of bond loan	342 771
Repayment of debt	-248 064
Repayment of financial leasing debt	2 355
Cash flow from financing activities	**97 562**
Decrease/increase of cash and cash equivalents	
Opening cash and cash equivalents	0
Net cash flow during financial year	38 095
Exchange rate differences in cash and cash equivalents	-96
Closing cash and cash equivalents	**37 999**

Parent Company Income Statement

The result corresponds to the result in the period from the date of the acquisition of the Swedish Electromagnet Holding Group on the 11th of December 2018 to the end of the reporting period on the 31st of December 2018

KSEK	**26 Mar – 31 Dec 2018**
Net sales	-
Gross profit	-
Administrative expenses	-240
Other operating income	-
Other operating costs	-
Operating profit (loss)	**-240**
Profit (loss) from financial items	
Other interest income and similar items	-
Interest costs and similar items	-1 624
Total profit (loss) from financial items	**-1 624**
Profit (loss) after financial items	**-1 864**
Profit (loss) before tax	**-1 864**
Tax on profit for the period	399
Net profit for the period	**-1 465**

In the Parent Company, there are no items recognized as other comprehensive income, why total comprehensive income corresponds to profit (loss) for the period.

Parent Company Balance Sheet

KSEK	31 Dec 2018
ASSETS	
Non-current assets	
Financial assets	
Participation in Group companies	420 893
Deferred tax assets	399
Total financial assets	**421 292**
Total non-current assets	**421 292**
Current assets	
Current receivables	
Receivables from Group companies	246 476
Current tax asset	-
Other current receivables	325
Total current receivables	**246 801**
Cash and bank	509
Total current assets	**247 310**
TOTAL ASSETS	**668 602**

KSEK	31 Dec 2018
EQUITY AND LIABILITIES	
Restricted equity	
Share capital	500
Non-restricted equity	
Share premium reserve	
Retained earnings or loss	325 000
Profit (loss) for the year	-1 465
Total equity	**324 035**
LIABILITIES	
Non-current liabilities	
Bond loan	342 771
Total non-current liabilities	**342 771**
Current liabilities	
Trade payables	1 719
Liabilities to Group companies	77
Current tax liabilities	-
Other liabilities	-
Accrued costs and prepaid income	-
Total current liabilities	**1 796**
Total liabilities	**344 567**
TOTAL EQUITY AND LIABILITIES	**668 602**

Notes to the consolidated statements

General

Swedish Electromagnet Invest AB (publ), corporate identity number 559153-6510, is a limited company, registered in Sweden and domiciled in Åmål. The address of the head office is: Swedish Electromagnet Invest AB (publ), c/o SEM Aktiebolag, Box 30, 662 21 Åmål, Sweden. The operations of the Parent Company and its subsidiaries comprise development, manufacturing and marketing of highly engineered mission critical powertrain components for heavy duty commercial vehicles (“HDCV”). Core product segments includes a range of ignition systems, injector stators and sensors, primarily used for natural gas (“NG”) and diesel powered HDCVs as well as ignition systems for handheld professional power tools. The group sells its products through own sales channels worldwide and customers include well known OEM’s, Tier 1 and Tier 2 suppliers to the industry.

All amounts are stated in SEK thousand (KSEK) unless stated otherwise. Amounts in brackets in this report refer to the corresponding period in the preceding year.

Summary of significant accounting policies

Included in the Note is a list of significant accounting policies applied in the preparation of these consolidated financial statements.

Basis of Preparation

These consolidated financial statements contain Swedish Electromagnet Invest AB’s first consolidated financial statements, and the accounting principles chosen for the preparation are IFRS (International Financial Reporting Standards). The consolidated financial statements have been prepared in accordance with the Swedish Annual Accounts Act, the Swedish Financial Reporting Board’s recommendation RFR 1 *Supplementary rules for groups*, and International Financial Reporting Standards (IFRS) and interpretations from IFRS Interpretations Committee (IFRS IC), as endorsed by the EU. The Parent Company was established on the 26 March 2018, which is also the initiation date for the Group. The interim report has been prepared in accordance with IAS 34 *Interim Financial Reporting* and the Swedish Annual Accounts Act. The consolidated financial statements were prepared in accordance with the cost method.

The preparation of annual accounts in accordance with IFRS requires that qualified estimates and assessments be used for accounting purposes. Furthermore, company management exercises its judgement in the application of the Group’s accounting policies.

The Parent Company applies RFR 2 *Accounting for legal entities* and the Swedish Annual Accounts Act. The application of RFR 2 implies that the Parent Company applies all IFRS endorsed by the EU, to the largest extent possible under the Swedish Annual Accounts Act, the Act respecting retirement pensions and with consideration taken to the of the connection between accounting and taxation. The Parent Company applies other accounting policies than the Group in accordance with the following:

Formats
The income statement and balance sheet are in accordance with the format of the Annual Accounts Act. Statement of changes in equity is in accordance with the Group’s format but should contain the columns stipulated in the Annual Accounts Act. Further, this entails differences in terms, mainly regarding financial income and costs and equity.

Participations in subsidiaries
Participations in subsidiaries are recognised at cost, adjusted for any impairment. In cost are included acquisition related costs and any additional purchase price.

Whenever there is an indication that participations in subsidiaries has decreased in value, a calculation of the recoverable amount is performed. If this is lower than the carrying value, an impairment is made. Impairment is recognized in the item “Performance from participation in Group companies”.

Shareholders’ contribution
The shareholders’ contribution paid is recognised in the Parent Company as an increase of carrying value of the participation, and in the receiving company as an increase of equity.

Financial instruments
IFRS 9 is not applied in the Parent Company. Instead, the Parent Company applies the points in RFR 2 (IFRS 9 *Financial instruments,* p. 3-10).

Financial instruments are valued based on cost. In subsequent periods, financial assets acquired as short-term investments will be recognized in accordance with the principle of the lowest value, to the lowest of cost and market value. Derivate instruments with negative fair values are reported at this value.

At the calculation of the net sales value of receivables reported as current assets, the principles for impairment tests and provisions for bad debts in IFRS 9 should be applied. For an asset recognized at amortized cost at consolidated level, this implies that the provision for bad debts recognized in the consolidated financial statements also should be recognized in the financial statement of the Parent Company.

New and amended standards not yet applied by the Group

A number of new standards and interpretations become valid for financial years commencing on the 1 January 2019 and later, have not been applied in the preparation of this interim report. Below is a preliminary assessment of the effect from the standards that are deemed to be relevant for the Group:

IFRS 16 *Leases*. In January 2016, IASB published a new leasing standard that will replace IAS 17 Leases and the related interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires that assets and liablities attributable to all leases, with a few exceptions, are recognised in the balance sheet. This recognition is based on the view that the lessee has a right to use an asset during a specific period of time and at the same time has an obligation to pay for this right. Reporting for the lessor will, in all significant aspects, be unchanged. The standard is applicable from financial years beginning on the January 1, 2019 or later, and will be applied by the Group starting on the 1 January 2019.

The Group will apply the simplified transition method, which implies that rights of use are valued at an amount corresponding to the leasing debt of the 1 January 2019 (adjusted for prepaid and accrued leasing fees). The transition to IFRS 16 will, therefore, not have an impact of equity for the Group. As the simplified transition method will be used, comparative amounts for 2018 will not be adjusted. For leases that were previously classified as financial leases, the carrying value of the right of use asset and the leasing debt as of the 1 January 2019, will be the carrying value of the asset and the leasing debt as of the 31 December 2018.

The Group has chosen to apply the exception and not recognise short-term leases and leases for which the underlying asset is of a lower value as a portion of the right of use asset and the leasing debt in the balance sheet. Payments attributable to these leases will instead be recognised at cost at a straight-line basis over the lease term. Remaining leases consist, in all significant aspects, of premises and cars.

No other of the interpretations of IFRS or IFRIC interpretations that have yet not entered into force, are expected to have a material impact on the Group.

Consolidated financial statements

Subsidiaries

Subsidiaries are all companies in which the Group has a controlling influence. The Group has control over a company when it is exposed to or have a right to variable returns from its participation in the company, and has the possibility to influence the return through its participation in the company. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to recognise the Group's business combinations. The acquisition price is the consideration paid for a subsidiary and comprise the fair value of the assets transferred, the liabilities incurred by the Group to the previous owner of the company. The consideration also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

Inter-company transactions, balance sheet items and unrealised gains and losses on transaction between Group companies are eliminated. The accounting principles for subsidiaries have, when necessary, been revised in order to ensure a consistent application of the Group's accounting principles

Segment reporting

The operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The CEO is the chief operating decision maker and evaluates financial position and performance and makes strategic decisions. The internal reporting consists of the following-up of performance measures for the Group as a whole. When the chief operating decision maker makes decisions regarding the allocation of resources and measure results for the Group as a whole, the Group in its entirety is deemed to make up one segment.

Foreign currency translation

Functional currency and presentation currency

The entities in the Group have the local currency as their functional currency, as the local currency has been defined as the primary economic environment in which each entity operates. The consolidated accounts are presented in SEK, which is the Parent Company's functional and the Group's presentation currency.

Transactions and balance sheet items

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the transaction dates. Foreign exchange-rate profits and losses from such transactions and at the translation of monetary assets and liabilities in foreign currencies using the exchange rates prevailing at the balance sheet date, are recognised in operating profit (loss) in other comprehensive income.

Foreign exchange-rate profits and losses attributable to liabilities and cash and cash equivalents are recognised in the statement of comprehensive income as financial income and financial costs. All other foreign exchange-rate profits and losses are recognised under other operating costs and other operating income, respectively.

Translation of foreign Group companies

Profit (loss) and financial position for all companies with a functional currency other than the reporting currency are translated to the reporting currency of the Group. Assets and liabilities for each of the balance sheets are translated from the foreign operation's functional currency to the Group's reporting currency, using the exchange rates prevailing at the balance sheet date. Income and costs for each of the income statements are translated to SEK using the average exchange rate prevailing at each transaction date. Foreign exchange differences arising from the currency translation of foreign operations are recognised in other comprehensive income. Accumulated profit or loss are recognised in profit (loss) for the period when the foreign entity is disposed of, wholly or in part. Goodwill and fair value adjustments arising from the acquisition of foreign operations are treated as assets and liabilities in these operations and are translated to the exchange rate at the balance sheet date.

Revenue recognition

The Group's principles for recognition of revenue from customer contracts are presented below.

Sales of goods and services

Revenue from external customers mainly comprise the development and manufacturing of highly engineered mission critical powertrain components for heavy duty commercial vehicles ignition systems such as a range of ignition systems, injector stators and sensors, primarily used for natural gas ("NG") and diesel powered HDCVs as well as ignition systems for handheld professional power tools. The sales of customer specific ignition systems and components are recognised as income over time. The income is recognised as ignition systems and components are finished and delivered. The sales of customer specific tools and design services are recognised over time, as the tools do not have any alternative use for the Group. Income is recognises as the tools are finished.

Development

The agreements usually contain a number of performance obligations, such as the manufacturing of products, development services and design services. If an agreement includes more than one performance obligation, the transaction price is allocated to each separate performance obligation, based on their independent sales prices. In those cases when an independent sales price is not directly observable, the price is estimated based on expected costs plus a profit margin. The transaction price is set, but there might be variable remuneration in the shape of volume rebates, based on accumulated sales over a 12-month period. The income from the sales is recognised based on the price in the agreement, less deducted calculated rebates. Sales forecasts are used to estimate the expected values of the rebates, and income is only recognised to the extent that it is highly probable that a significant reversal will not occur. A contractual liability is recognised for expected volume rebates in relation to sales up until and including the balance sheet date. No financing component is deemed to exist at the date of sale, as there is a credit period. The Group's obligation to repair or replace defective instruments in accordance with normal guarantee regulations is recognised as a provision.

A receivable is recognised when the goods have been delivered, as this is the point in time when paying becomes unconditional.

Interest income

Interest income is recognised with the application of the effective interest method.

Leases

The Group acts in the capacity of lessee. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under the lease term (net of any incentives received from the lessor) are expensed in the statement of comprehensive income on a straight-line basis over the lease term.

Leases of property, plant and equipment in which a significant portion of the risks and rewards of ownership are transferred to the Group, are classified as financial leases. At the beginning of the lease, the Group recognizes the financial leasing in the balance sheet at the lower of the leased asset's fair value or the present value of minimum lease payments.

Currently, the Group has leases classified as operational leases, as well as classified as financial leases (machinery and equipment).

Current and deferred income tax

Tax cost for the period comprises current tax calculated based on the taxable profit (loss) for the period in accordance with valid tax rates. The cost of current tax is adjusted for changes in deferred tax assets and tax liabilities attributable to temporary differences and non-utilised loss carry-forwards.

The cost of current tax is calculated based on the tax rules that are decided, or in practice decided, in those countries in which the Parent Company and its subsidiaries have operations and generate taxable income. Management regularly assesses the claims made in in tax returns regarding situations where applicable tax rules are subject to interpretations. When deemed necessary, management will make provisions for the amounts that are likely to be payable to the tax authorities.

Deferred tax is recognised for all temporary differences that arise between the taxable value of assets and liabilities and their carrying values in the consolidated financial statements. However, a deferred tax liability is not recognised if it arises as a result of the initial recognition of goodwill. Neither is a deferred tax liability recognised if it arises as a result of a transaction that constitutes the initial recognition of an asset or a liability that is not a business combination and which, at the date of the transaction, neither impacts the carrying value nor the taxable profit (loss). Deferred income tax is calculated applying tax rates (or regulations) decided or announced as per the balance sheet date and which are expected to be valid when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that there will be future taxable surpluses against which the temporary differences can be utilised.

Deferred tax assets and tax liabilities are offset when there is a legal right of offsetting for current tax assets and tax liabilities, and when the deferred tax assets and tax liabilities are attributable to taxes charged by the same tax authorities, and are either attributable to the same tax subject or different tax subjects, where there is an intention to settle the balances through net payments.

Current and deferred tax is recognised in the statement of comprehensive income, except for tax attributable to items that are recognised in other comprehensive income or directly in equity. In such cases, tax is recognised, too, in other comprehensive income and equity, respectively.

Intangible assets

Goodwill

Goodwill arises at the acquisition of subsidiaries and consists of the amount by which the consideration, any non-controlling interest in the acquired company and fair value at the acquisition dates of previous shareholdings exceeds the fair value of identifiable net assets acquired.

In order to perform impairment tests, goodwill acquired in a business combination is allocated to cash generation units or groups of cash generating units that are expected to be benefited with synergies from the acquisition. Each unit or group of units to which goodwill has been allocated correspond to the lowest level in the Group for which the goodwill in questions is monitored in the internal governance. Goodwill is monitored based on the Group as a whole.

Capitalised expenditure for development activities

Development costs, where research results or other knowledge is applied in order to produce new or enhanced ignition systems or components, are recognised as an asset in the statement of financial position if the following criteria are met:

- it is technically feasible to complete the products so that they will be available for use;
- it is the Company's purpose to complete them so that they will be available for use or sale;
- there are prerequisites to make the products available for use or sale;
- it is possible to prove how the products are likely to generate future economic benefits;
- there are adequate technical, economic and other resources to fulfill the development and to make the products available for use or sale; and
- the costs attributable to the products during development can be reliably calculated.

The carrying value includes costs of material and direct costs for salaries. Other development costs are recognised in the statement of comprehensive income as a cost as incurred. In the statement of financial position capitalised development costs are reported at cost less accumulated depreciation and any impairment. Capitalised development expenditure is recognised as intangible assets and is depreciated from the date when the asset is ready for use. The estimated useful life is 3-5 years, which corresponds to the estimated period of time during which these assets will generate cash flows. Development costs, that do not meet these criteria, are expensed as incurred. Development expenditure previously carried at cost is not recognized as an asset in a subsequent period.

Property, plant and equipment

Property, plant and equipment mainly comprise machinery and other technical equipment, tools, fixtures and fittings. Property, plant and equipment are recognised at cost less depreciation. In cost is included expenditure directly attributable to the acquisition of the asset.

Additional costs are added to the asset's carrying value or are recognised as a separate asset, depending on which is most suitable, only when it is probable that the future economic benefits attributable to the asset will flow to the Group and the cost of the asset can be reliably measured. The carrying value of the replaced component is derecognised from the statement of financial position. All other kinds of reparations and maintenance are recognized at cost in the statement of comprehensive income in the period in which they occur.

Depreciation of assets, in order to allocate their cost to their estimated residual value over their estimated useful lives, is done on a straight-line basis according to the following:

- Tools tied to the production 3-5 years
- Machinery and equipment 5-10 years
- Cars and computers 3-5 years

The assets' residual values and useful lives are assessed at the end of each reporting period and adjusted, if needed.

The carrying value is immediately written down to its residual value if the asset's carrying value exceeds its estimated residual value.

Profit or loss from disposals is established through a comparison of the profit from the sales and the carrying value, and is recognised in "Other operating income" and "Other operating costs", respectively, in the statement of comprehensive income.

Impairment of non-financial assets

Goodwill with an indefinite useful life or intangible assets not ready for use are not depreciated, but are tested annually or, at an indication of an impairment, tested for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment is made in the amount to which the asset's carrying amount exceeds the recoverable amount. The recoverable amount is the greater of an asset's fair value, less cost to sell and the asset's value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separate, identifiable cash flows (CGUs). For assets (other than goodwill) that have previously been impaired, a test of impairment is performed on each balance sheet date if a reversal ought to be done.

Financial instruments

Initial recognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual terms and conditions of the instrument. Purchases and sales of financial assets and liabilities are reported on the trade date, that is, the date on which the Group commits itself to purchase or sell the asset.

Financial instruments are initially valued at fair value plus, for an asset or liability which is not recognised at fair value through profit or loss, transaction costs directly attributable to the acquisition or issuance of a financial asset or a financial liability, e.g., fees and commission fees.

Financial assets - Classification and measurement

The Group classifies and measures its financial assets in the category *financial assets recognised at amortized cost*

Financial assets at amortised cost

The classification of investments in debt instruments is dependent on the Group's business model or managing financial assets and the contractual terms and conditions for the assets' cash flows. The Group only reclassifies debt instruments in case the Group's business model for the instruments is changed.

Assets held with the sole purpose of collecting contractual cash flows, and where these cash flows comprise only principal and interest, are carried at amortised cost. Interest income from such financial assets are recognised as financial income with application of the effective interest method.

The Group's financial assets valued at amortized cost comprise the items other financial assets, trade receivables, other receivables, accrued income and cash and cash equivalents.

Derecognition of financial assets

Purchases and sales of financial instruments are reported on the trade date, that is, the date on which the Group commits itself to purchase or sell the asset. Financial assets are derecognised from the statement of financial position when the right to receive cash flows from the instrument has expired or been transferred, and the Group has, in all significant aspects, transferred all risk and benefits associated with the ownership.

Profits and losses arising from derecognition from the balance sheet are recognised directly in profit and loss.

Financial liabilities - Classification and measurement
After initial recognition, the Group's financial liabilities are valued at amortised cost applying the effective interest method.

The Group's financial liabilities measured at amortised cost comprise the items bond loans, other non-current liabilities, trade payables, other liabilities and accrued costs.

Derecognition of financial liabilities
Financial liabilities are derecognised from the statement of financial position when the obligations are settled, cancelled or has expired in any other way. The difference between the carrying value of a financial liability that has been extinguished or transferred to another party and the fee paid, including assets transferred, assets that are not cash and cash equivalents or assumed liabilities, are reported in the statement of comprehensive income.

When the terms and conditions of a financial liability are re-negotiated and are not derecognised from the statement of financial position, a profit or loss is reported in the statement of comprehensive income. The profit or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate.

Offsetting of financial instruments
Financial assets and liabilities are offset and recognised with a net amount in the statement of financial position only when there is a legal right to offset the recognized amounts and an intention to balance the items with a net amount, or to simultaneously realise the asset and settle the liability. The legal right must not be dependent on future events and it must be legally binding for the Company and the counterparty, both in the normal course of business and in case of suspension of payments, insolvency or bankruptcy.

Impairment of financial assets recognised at amortised cost
The Group assesses future credit losses associated with assets recognized at amortized cost. The Group recognises a credit reserve for such expected credit losses on each reporting date.

For trade receivables, the Group applies the simplified approach, i.e., the reserve will correspond to the expected loss over the lifetime of the trade receivable. In order to measure the expected credit losses, trade receivable have been grouped based on shared credit risk characteristics and the days past due. The Group applies forward-looking variables for expected credit losses. Expected credit losses are recognized in the consolidated statement of comprehensive income, in the items other external costs.

Inventories
Inventories are recognised at the lower of cost and net realisable value. Cost comprises direct cost of goods, direct salaries and attributable direct manufacturing costs (based on normal manufacturing capacity). Borrowing costs are not included. The cost of individual items in inventories are allocated based on weighted average costs. The cost of gods for resale is established after deduction of rebates. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Trade receivables
Trade receivables are amounts attributable to customers regarding goods or services sold in the ordinary course of business. Trade receivables are initially recognised at fair value (transaction price). The Group hold the trade receivables in order to collect contractual cash flows and they are, therefore, recognised at the subsequent reporting date at amortised cost using the effective interest method, less loss allowance provisions.

Cash and cash equivalents
In cash and cash equivalents are included, both in the statement of financial position and the statement of cash flow, bank balances.

Share capital
Ordinary shares are classified as equity.

Borrowings
Borrowings are initially recognized at fair value, net of transaction costs. Borrowings are subsequently recognised at amortized cost and any difference between the amount received (net of transaction costs), and the amount to be repaid is recognized in the statement of comprehensive income, distributed over the term of the loan, using the effective interest method.

Borrowings are derecognised from the statement of financial position when the obligations are settled, cancelled or has expired in any other way. The difference between the carrying value of a financial liability (or a portion of a financial liability) that has been extinguished or transferred to another party and the fee paid, including assets transferred, assets that are not cash and cash equivalents or assumed liabilities, are reported in the statement of comprehensive income.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer payment of the liability for at least 12 months after the end of the reporting period.

Provisions
Provisions for restructurings, legal claims, guarantee commitments and restoration measures are recognised when the Group has a present obligation (legal or constructive) as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. No provisions are made for future operating losses.

Should there be a number of similar obligations, an assessment is made of the probability that an outflow of recourses will be needed at settlement for the whole group of obligations. A provision is recognised even though the probability for an outflow attributable to a certain item in this group is insignificant.

Provisions are measured at the present value of the expenditure required to settle the present obligation. For this purpose, a discount rate is used reflecting a current market evaluation of the time value of money and the risks associated with the provision. The increase of the provision due to the passing of time is recognised as interest costs.

At sales, the Group offers a warranty time. Provisions for these obligations are made based on historical information of accrued costs for settling claims in accordance with the guarantee terms.

Employee benefits

Short-term benefits to employees
Liabilities for salaries and remuneration, including non-monetary benefits and paid sick leave, that are expected to be settled within 12 montshs after the end of the financial year, are recognized as current liabilities at the non-discounted amount expected to be paid when the liabilities are settled. The cost is recognised in the statement of comprehensive income as the services are rendered by the employees. The liability is recognized as a liability regarding employee benefits in the consolidated statement of financial position.

Pension obligations
Within the Group, there are both defined-contribution plans and defined-benefit plans. A defined-contribution plan is a pension plan according to which the Group pays a fixed amount to a separate legal entity. The Group has no legal or constructive obligation to pay additional premiums of this legal entity does not have adequate means to pay all benefits to employees, attributable to their service in current or previous periods. The premiums are reported as personnel costs in the statement of comprehensive income when they fall due.

The Group has pension obligations secured through a capital insurance. The employee carries the actuarial risk and the investment risk, and the Group carries no risk. Therefore, pension obligations are classified as defined contribution plans, and for that reason neither the asset (the capital insurance) or the obligation (the pension obligation) is recorded in the statement of financial position.

Pension obligations for Swedish white-collar employees, which is secured through an insurance with Alecta, are reported as a defined contribution plan. According to a statement from the Swedish Financial Reporting Board, UFR 10 *Accounting for the pension plan ITP 2 financed through an insurance in Alecta*, this is a defined benefit multi-employer plan. For the financial year 2018, the Group has not had access to information in order to be able to report its proportional share of the obligations of the plan, plan assets and costs and, therefore, it has not been possible to recognize the plan as a defined benefit plan. The ITP 2 pension plan, secured through an insurance with Alecta, is therefore reported as a defined contribution plan. The premium of the defined contributions plan for retirement pensions and survivor's pension is calculated individually, and is, among other factors, based on salary, previously earned pension and expected remaining years of service. Expected premiums for the next reporting period for ITP 2 insurances signed with Alecta is KSEK 2 760.

The collective consolidation level comprises the market value of Alecta's assets as a percentage of the insurance obligations in accordance with Alecta's actuarial methods and assessments, which do not comply with IAS 19. The collective consolidation level should normally be allowed to vary between 125% and 155%. If Alecta's collective consolidation level falls below 125% or exceeds 155%, measure should be taken in order for the consolidation level to return to the normal interval. At a low consolidation, one measure might be to increase the price when signing new insurance agreements and an expansion of existing benefits. At a high level of consolidation, one measure might be to introduce lower premiums. At the end of the financial year 2018, Alecta's surplus of the collective consolidation level was preliminary, 142%.

The Group has defined benefit plans in the PRI system. The liability recognised in the statement of financial position regarding the defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period. Independent actuaries with the application of the projected unit credit method calculate the defined benefit obligation annually. The present value of the defined benefit obligation is established through discounting of estimated future cash flows using the interest rate for first class corporate bonds/mortgage bonds issues in the same currency as that, in which the remuneration will be paid with terms comparable with the pension obligation in question.

Revaluation profits and losses resulting from experience-based adjustments and changes in actuarial assumptions are recognised in other comprehensive income in the period in which they are incurred. They are included in retained earnings in the statement of changes in equity and in the statement of financial position.

Cost for services rendered during previous periods are recognised directly in the statement of comprehensive income.

Trade payables

Trade payables are financial instruments and refer to the obligation to pay for goods and services acquired in the normal course of business from suppliers. Trade payables are classified as current liabilities if they fall due within one year. In other cases, they are recognized as non-current liabilities.

Trade payables are initially recognised at fair value, and subsequently at amortised cost, applying the effective interest method.

Cash Flow Statement
Cash flow statements are prepared in accordance with the direct method. The cash flow recognized comprise only transactions that have given rise to payments to or from the Company.

Significant accounting estimates and judgements

The Group makes estimates and judgements concerning the future. The accounting estimates that result from these, will as per definition, seldom correspond to the real performance. The estimates and judgements that imply a significant risk of adjustments of carrying values for assets and liabilities for the next financial year are summarized below.

Test of impairment of goodwill
The Group performs tests annually to determine whether there is a need for impairment of goodwill, in accordance with the accounting principle. Residual values for cash generating units are established through the calculation of the value in use. For the purpose of these calculations, certain assumptions must be made, of which the most significant assumptions are profitability, discount rate and long-term growth rate. The recognised value of goodwill is KSEK 505 092 at the 31 December 2018. The residual value exceeds the carrying value of goodwill with a satisfactory margin.

Valuation of loss carry-forwards
The Group has recognised deferred tax assets regarding tax loss carry-forwards. The tax loss carry-forwards have no final date for utilisation. A deferred tax asset is only recognised for loss carry-forwards, for which it is probable that they can be utilized against future tax surpluses and against taxable temporary differences. As of the 31 December 2018, the Group recognises deferred tax assets amounting to 1 948 KSEK that can be utilised against future taxable profits.

Acquisitions under common control
On the 11 December 2018, the Parent Company, Swedish Electromagnet Invest AB, acquire Swedish Electromagnet Holding AB Group. The transaction is a "transaction between companies under common control." IFRS 3 *Business combinations* exclude transactions that include companies under common control.

As the transaction was, partly, performed with a cash consideration, and as external loans in the shape of an issued bond have been added, management makes the assessment that they can argue that both the acquisition methods in accordance with IFRS 3 (fair value) and historically reported values can be used for transactions between companies under common control. Management has chosen to apply the acquisition method in accordance with IFRS 3. And will accordingly use the chosen accounting principle consequently.

Net sales

The Group has recognized the following amounts, attributable to revenue, in the statement of comprehensive income:

	Oct-Dec 2018	**26 Mar-31 Dec 2018**
Revenue from contracts with customers	15 449	15 449
Other income:	0	0
Total revenue	15 449	15 449

Division of revenue from contracts with customers

The Groups has revenue in accordance with the specification below from the sales of goods and services. Revenue from external customers mainly comprise the development and manufacturing of ignition systems and components. The majority of the Group's revenue is recognised over time.

Revenue from customer contracts per goods item and service	**Oct-Dec 2018**	**26 Mar-31 Dec 2018**
Ignition systems and components	15 449	15 449
Tools	0	0
Design services	0	0
Development	0	0
Total	**15 449**	**15 449**

Borrowings

Non-current	31 Dec 2018 Carrying value	31 Dec 2018 Fair value
Bond loan	342 771	342 771
Other liabilities (leasing debt)		
Total	**342 771**	**342 771**
Current		
Other liabilities (leasing debt)	16 502	16 502
Total	**16 502**	**16 502**
Total borrowings	**359 273**	**359 273**

Bond loan
The Group has issued a senior secured bonds with ISIN SE0011167600 (the "Bonds"). The Bonds mature on 10 December 2022 and have a floating interest rate of Stibor 3 months plus 7.50 per cent.
According to the terms and conditions of the Bonds, certain financial covenants must be met upon the incurrence of new financial indebtedness or upon a distribution being made. The terms and conditions of the Bonds also include several undertakings such as restrictions on financial indebtedness, loans out, negative pledge, working capital facility clean-down period, restrictions on disposals and cash transfer restrictions. The Bonds are denominated in SEK.

Pledged assets have been submitted for the Bonds, comprising of certain intercompany loans and share pledges.

The fair value of short-term borrowings is equal to the carrying amount, as the discount effect is insignificant. The fair value of financial assets, which in their entirety are current, are deemed to correspond to its carrying value, as the discount effect is insignificant.

Business combinations

Business combination during the financial year 26 March – 31 December 2018
On the 11 December, 100% of the shares in Swedish Electromagnet Holding AB and its subsidiaries were acquired. The group has operations in Sweden (SEM AB and Senfusion AB (dormant)), in USA (SEM Technology Inc.) and in China (SEM Technology Suzhou Co.,Ltd.). The acquisition was the starting-point for the Group. A purchase price allocation is pending for the acquisition of the entire business. Information about the consideration, acquired net assets and goodwill is disclosed below:

In the table below is a summary of consideration paid for the Swedish Electromagnet Holding AB Group and fair value of assets acquired and liabilities assumed recognised at the acquisition date.

Purchase consideration per the 11 December 2018

In the table below is a summary of consideration paid for the Swedish Electromagnet Holding AB Group and fair value of assets acquired and liabilities assumed recognised at the acquisition date.

Purchase consideration per the 11 December 2018
Cash and cash equivalents (in total, paid to shareholders) SEK 95,824,000
Promissory note (in total, all shareholders) SEK 420,824,000 (unconditional shareholders' contributions, in total, all shareholders: SEK 325,000,000)
Total consideration SEK 420,824,000 (purchase price)

Recognised amounts of identifiable assets acquired and liabilities assumed

Cash and cash equivalents	40 634
Intangible assets (including customer relations, brands and order backlog)	840
Property, plant and equipment	56 559
Inventory	53 439
Financial assets	77
Deferred tax asset	3 198
Trade and other current receivables	83 785
Non-current liabilities	-253 387
Deferred tax liabilities	-422
Trade payables and other current liabilities	-68 922
Total identifiable net assets	***-84 199***
Purchase price	***-420 893***
Goodwill	***505 092***

The acquisition analysis is preliminary, as the final measurement of intangible assets identified separated from goodwill is not yet established.

Goodwill

The goodwill of KSEK 505 092 arising from the acquisition is mainly attributable to valuation of future business. No part of the recognised goodwill is expected to be deductible for income tax purposes.

Revenue and profit in acquired operations

The revenue from the acquisition included in the consolidated statement of comprehensive income from the 11 December 2018 amounts to KSEK 15 449, and the EBITDA to KSEK 1 179.

Acquisition related costs

Acquisition related costs of KSEK 69 are included in other operating cost in the consolidated statement of comprehensive income and in the cash flow from operating activities.

Purchase consideration - cash flow

	-31 Dec 2018
Cash flow for acquiring the Swedish Electromagnet Holding AB Group, after adjustments for acquired cash	
Cash consideration	95 824
Acquisition cost	69
Less: Acquired cash and cash equivalents	-40 634
Net outflow of cash and cash equivalents – investment activities	**55 259**

Financial calendar 2019

- The Annual Report 2018 is published on the 30th of April 2019
- Interim Report Q1 2019 is published on the 29th of May 2019
- Interim Report Q2 2019 is published on the 30th of August 2019
- Interim Report Q3 2019 is published on the 29th of November 2019

Declaration of the Board of Directors

The Board of Directors and the CEO hereby warrant and declare that this year-end report, for the period 26 March – 31 December 2018 gives a true and fair view of the Parent Company's and the Group's operations, financial position and results, and that it describes significant risks and uncertainties faced by the Parent Company and the companies included in the Group.

Åmål the 28th of February 2019,

Tom Gustavsson Chief Executive Officer	Halvar Jonzon Chairman of the Board
Tomas Therén Board Member	Christina Hallin Board Member
Yana Augustsson Board Member	Hasse Johansson Board Member

This interim report has not been audited by the company's auditor.

For more information please contact:

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