

Leadership in Trade & Customs Management



Business report 2018

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“We are passionate about what we do and committed to delivering results that make a difference”



Facilitating trade for sustainable growth

We believe in trade. Trade between nations, businesses and individuals. History has proven trade to be a vehicle for creating wealth, for nations, businesses and individuals. We also believe in sustainability, and how trade should be developed to support sustainable growth.

Hence, in 2018 WE@KGH increased our sustainability focus by sharpening our strategy with the launch of our corporate sustainability program. Based on the role that we play in international trade, we acknowledge the challenge, but are committed to make a difference whilst supporting a selection of the UN sustainability development goals.

In addition, 2018 was a year when we continued to execute our strategy. We are constantly focusing on improving our services and values, and at the same time, expanding our geographical presence and digitalising our business model.

During the year, we also established a consulting and operations business in the UK, and in December, we acquired Hermes and Richard, a leading independent customs service provider, in Switzerland. The UK and Switzerland are strategic markets offering an opportunity to extend our customer growth, when the UK leaves the European Union.

Our Trade and Customs Management also improved, along with the consulting and education side of KGH, following the introduction of the new online Trade and Customs Academy. After years of intensive design and development work, we launched Customs Trade Digital Solutions (CTDS). CTDS is a new, modern and comprehensive suite of digital solutions. In addition to improving our operations, we will selectively offer the suite and solutions to the external markets.

Financially, we continue to deliver profitable growth in 2018. Revenues grew by 12%, EBIT margin is stable and over 12%, and the EBT result improved significantly. Delivering our targets, i.e. organic growth, profitability, operational excellence, and customer and employee engagement is and will be the ultimate evidence of our success.



Lars Börjesson
President and CEO





This is KGH

KGH has been providing customs brokerage services since 1963. Today, we offer a comprehensive range of border-related services to customers across Europe, catering their customs needs 24 hours a day, seven days a week at our operational offices, which are strategically located in key ports and border crossings.

We help our customers prosper in a responsible, sustainable way by aiding them in accessing new markets and improving their performance in existing ones. As we grow, so does our ability to

improve our services, to enable us to work together for sustainable growth.

Markets are places where goods and services are traded, but are also places where different values and beliefs meet. Not only does this drive labour productivity and investments across nationalities, contributing to stable growth in markets and economies, new jobs and innovation, it also improves our understanding of our different beliefs and world views, contributing to open discussions and even sustainable relationships.

“Facilitating trade for sustainable growth”

Key figures:



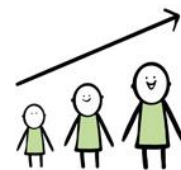
European leadership
with global reach
13 countries



Dedicated experts
750 employees



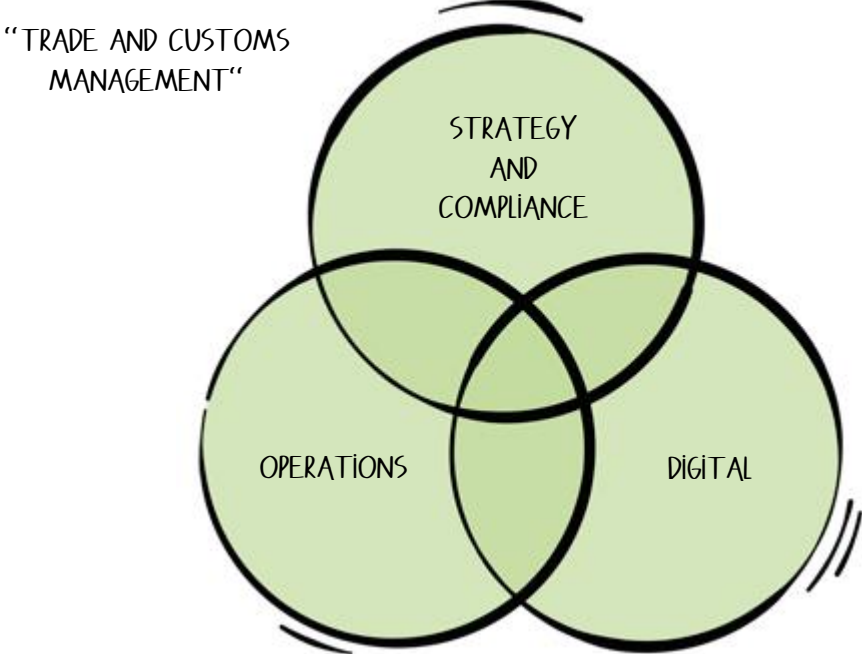
Customer portfolio
27 000
active customers



Growing company
80M € revenue
at >10% growth rate

Business concept

In KGH we offer and deliver innovative Strategy and Compliance, Operations and Digital Services, ensuring optimized Trade and Customs Management.



Trade Performance

Predictable, speedy and effective customs processes give customers competitive advantages – reducing working capital, ensuring delivery certainty and enabling just-in-time business processes.

Control and Risk Mitigation

Being involved in international trade means dealing with risks on a daily basis – compliance risks as well as risks with direct economic impact. These risks must be controlled and mitigated through a thorough and a structured approach.

Duty Optimization

The several hundred free trade agreements for goods in force have to be utilized in an optimized way. And for goods without FTAs, customs duties must be calculated and paid correctly according to the relevant legislation.

Operational Efficiency

Operational customs issues haven't been top of the agenda for most companies. This can result in lower quality, higher risks and costs. Today, coordination, centralization, harmonization and, ultimately, automation of the processes are the way forward.

“Our vision is to be the leading provider of Trade and Customs Management in Europe – with global reach.”

Compliance is core

At KGH, we work to achieve outstanding quality – not only in our client services and internal processes, but also in the way we conduct ourselves towards third parties. Our ambition is to deliver 100 % quality, and we aim to ensure that we are complying with all relevant laws, regulations and KGH’s policies, standards and procedures.

Some examples of what we are doing are described here:

Audits

We perform internal audits for ensuring that KGH carries out its day-to-day operations effectively, and achieves its business strategy and goals. These are particularly important when the potential risk is high to our operations, and it may be necessary to consider additional levels of controls and monitoring.

Monitoring

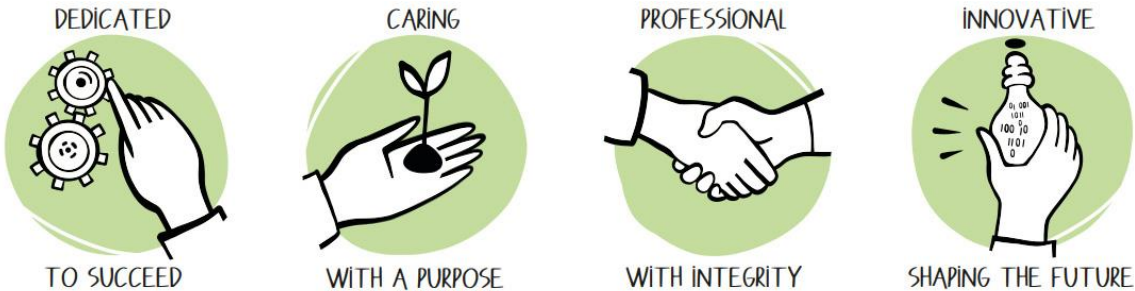
We have developed a set of key performance indicators (KPIs) to monitor and report on key sustainability areas on regular basis.

E-learning

A compliance awareness e-learning is sent out to all employees, who need to conduct and sign off that they have read, understood and will comply with our policies, standards and procedures.

Signatory to UN Global Compact

KGH Customs Services is a signatory to the United Nations Global Compact, and it supports the Ten Principles in the areas of Human Rights, Labour, Environment and Anti-Corruption. We promote equal opportunities for all employees to ensure decent and productive work under conditions of freedom, equity, security and dignity. Direct or indirect forms of discrimination are not tolerated at KGH.



Creating sustainable trade

KGH plays an important role in international trade and we are determined to continue contributing to sustainable growth – for our stakeholders, for ourselves and for the society we are a part of. Our sustainability programme expresses our focus areas, the goals we want to contribute to, and the steps taken in achieving these results.

Core values @ KGH

Core values are the fundamental beliefs of an organisation. In KGH, core values are an integrated part of our new strategy to fully support our future goals. All employees, in all parts and levels of the organisation, are expected to live our values and contribute in developing a strong and value based company culture.

Major achievements during the year

2018 was a dynamic year for KGH with several significant improvements to our service within customs and trade. Geographical expansions to important markets such as United Kingdom and Switzerland expanded our reach and the launch of the CTDS suite of digital solutions increased our digital capacity. We also strengthened our service portfolio with our online ECLAT training programme, MyCustomsDesk and several Brexit services.

KGH new software suite launched

KGH's new customs infrastructure and software suite, Customs Trade Digital Solution (CTDS) has been launched. CTDS is a suite of software products designed to help improve and streamline trade and customs management. It is easy to integrate with other systems and allows customers to handle customs declarations in-house with potential support from an experienced customs broker in KGH. The suite builds on future-proof technology and is constantly developed to match changing legislation and best practices to take full advantage of the digitalisation within customs and trade.

Geographical expansion

KGH has continuously grown its business in recent years by expanding its operations to other European countries. Expanding to United Kingdom and Switzerland is a natural progress given the countries importance in European trade, and yet another step to further strengthen KGH's position as a leading provider of trade and customs management in Europe.

Customs Control Tower

Traditionally, customs is associated with declarations and border crossing. But today, the complex supply chain increases the demands on efficient customs handling all the way from departure to the final destination. Our customs control tower is a one-interface digital solution that gives a comprehensive overview of trade and customs activities. It allows monitoring of activities in real time, analysing performance and making solid business decisions based on the insights.

Strengthening of the service portfolio

• *KGH Brexit Service Hub*

Brexit will have a major impact on the way we trade between European Union and United Kingdom. To be able to support all stakeholders, we are bringing our key Brexit resources and services together in one place. Our KGH Brexit Service Hub helps to take the necessary steps in order to reduce the risks of disruptions in trade flows and supply chains, based on implications that the new border will have on supply flows and business.

• *ECLAT*

Our flagship online program, the European Customs Law Accredited Training program – ECLAT – represents the most inclusive, innovative training program of its kind. It provides a comprehensive, unrivalled coverage of all aspects of EU customs law and procedures. The program draws on the curricula of the world's leading customs university and is part of a World Customs Organization certified education programme. ECLAT is also recognized across the EU as meeting the practical standards of competence for AEO purposes.

• *MyCustomsDesk*

To enhance the service to our customers we have started up MyCustomsDesk, who supports customers with advice and support related to customs declarations. It can be a single assignment or support agreement for ongoing questions and is a complement our operational services.



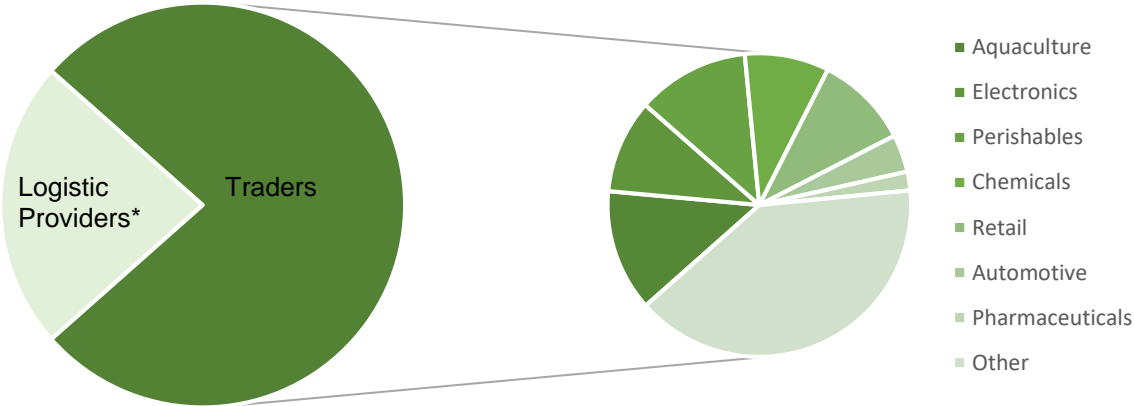


Prioritised industry segments

KGH has chosen a number of prioritised industry segments, based both on the current size of the business turnover and future potential. We have considered factors such as the size and complexity of the industry as well as our ability to compete with capability and geographical reach. A strong focus on preferred industries will support future growth and increase customer value.

As of 2018, 65 percent of our company turnover came from the prioritised industry segments.

Total revenue distribution



** In our logistic segment we are seeking long term partnerships with extensive degree of outsourcing.*



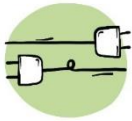
Aquaculture

An industry stronghold, with a dominant position and unique understanding of industry requirements. Decades of experience with a customer portfolio of all leading farmers and distributors. Trade performance is key in the value proposition. We expect the industry to continue to grow attractively.



Automotive and Industrial equipment

Given our geographical heritage, we have a local and long lasting relationship to the industry. We are working closely with a number of OEM's and gradually supporting them more and more internationally. Given the size of the industry, and despite lower growth rate, we expect to continue to grow our business in the segment and support the industry's transformational change in trade and customs.



Electronics

A high tech industry with high degree of innovation, complexity and high value goods with high content of software embedded. The industry is characterised by complex and comprehensive classification, global supply chains and advanced customs procedures. We are serving a number of selected leading OEM's with international solutions leveraging also our global partner network.



Chemicals

Chemicals has been a targeted segment for a long period. In this industry, we developed our first customs control tower solutions. The industry has specific requirements, i.e. excise duties, specific regulations, and short and predictable lead times. The industry requirements fit our value proposition, and in particular our digital solutions. Hence, the Chemicals industry continues to be a source of growth.



Perishables

Sensitive products by definition, where speed and predictability matters. It is a highly regulated industry with specific health and safety requirements, requiring specialised skills. Efficient border crossings with combined export/import handling is differentiating. Our position in the Netherlands, the European industry distribution centre, is strong.



Pharma

An emerging industry segment with attractive growth and profitability opportunity for all our business segments. The industry is highly regulated, and demands for customs traceability on article level. The goods are high value goods and trade performance is obviously instrumental. Our emerging relationship with a leading OEM, will support further growth.



Retail

Retail is a fast moving industry with high duties and hence need for duty optimisation. Often comprehensive product ranges, with a need for automated and integrated solutions. eCommerce, as part of the industry, is accelerating requiring new customs solutions, e.g. in the return goods area. Demand for customs warehouse solutions.



Financial overview 2014-2018

In the financial year 2018, the business continued to grow increasing by 12% from the previous year. The business regions and business areas showed a performance in line with expectations, and both the Nordic and European declaration business as well as the business area Global Consulting and business area Digital showed positive development.

The growth of the business could also be seen in the development of the number of employees which increased from approx. 730 to above 750 in the end of the year.

KGH's international footprint is truly reflected in both the turnover and number of employees with a coverage in all major countries in the Nordics and Europe. In addition to this, KGH is operating with a strong partner network, which enables a global service coverage for the customer base

Item	2014	2015	2016	2017	2018
Revenues, SEK m	543,7	596,1	623,4	700,0	782,0
Change in revenues (%)	9%	10%	5%	12%	12%
Earnings before financial items ("EBIT"), SEK m	70,8	68,9	76,9	87,4	96,1
EBIT Margin (%)	13,0%	11,6%	12,3%	12,5%	12,3%
Earnings before tax, SEK m	14,1	10,1	7,7	9,7	43,6
Average no of employees	620	650	700	730	750

Financial statements from statutory accounts

	2018 SEK m	2017 SEK m
Net Sales	782,0	700,0
Personnel costs	-494,6	-434,6
Depreciation and write-downs of tangible and intangible assets	-34,2	-33,3
Other external costs	-157,1	-144,7
Operating Profit	96,1	87,4
Interest expense	-49,1	-60,3
Interest income and other financial items	-3,4	-17,4
Result before tax	43,6	9,7

	31 Dec 18 SEK m	31 Dec 17 SEK m
Assets		
Fixed Assets		
Goodwill and intangible assets	894,4	839,2
Tangible assets	42,7	38,2
Deferred tax asset	27,7	29,6
Fixed assets	964,8	907,0
Current Assets		
Current assets	371,3	339,5
Current assets	371,3	339,5
Total Assets	1 336,1	1 246,5
Equity		
Total Equity	15,5	15,7
Liabilities		
Long-term loans	843,2	796,8
Tax liabilities and other	52,0	61,5
Long-term liabilities	895,2	858,3
Current Liabilities		
Current liabilities	425,4	372,5
Current liabilities	425,4	372,5
Total Equity and Liabilities	1 336,1	1 246,5

“Trade has always been a way to connect the world’s people and create wealth. It’s based on cooperation, communication and an exchange of ideas, and the economic value of trade is spread to the people, businesses and nations involved. Overall, these new ideas will challenge old ways of doing business and creating change for the benefit of the future.

I am very proud to have the opportunity to lead KGH during an era of transformational change, while at the same time deliver sound financial performance.

Looking forward to 2019 and beyond.”

Lars Börjesson, CEO





www.kghcustoms.com