



# ANNUAL REPORT 2018

**KLEOS SPACE S.A.**

(Formerly known as Kleos Space S.à r.l.)

ARBN 625 668 733 / RCS B215591

[WWW.KLEOS.SPACE](http://WWW.KLEOS.SPACE)



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# Corporate Directory

## Directors

The following persons were directors of the Company during the whole of the financial year and up to the date of this report, unless otherwise stated:

**Andrew Bowyer**

**Miles Ashcroft**

**David Christie** (appointed on 26 March 2018)

**Peter Round** (appointed on 5 April 2018)

**Erik Tyler** (appointed on 22 March 2018, resigned on 1 November 2018)

### Principal place of business:

26, rue des Gaulois  
L-1618 Luxembourg  
Luxembourg

### Registered office:

Level 7, 330 Collins Street  
Melbourne VIC 3000  
Australia

### Auditor:

Deloitte Audit S.à r.l  
Luxembourg

### Website:

[www.kleos.space](http://www.kleos.space)

## Principal activities

The principal activity of the consolidated entity during the financial year was to undertake the development of the Space enabled, activity-based intelligence, data as service products. The consolidated entity aims to guard borders, protect assets and save lives by delivering global activity-based intelligence and geolocation as a service. The first Kleos Space satellite system, known as Kleos Scouting Mission («KSM»), will deliver commercially available data and perform as a technology demonstration. KSM will be the keystone for a later global high capacity constellation. The Scouting Mission will deliver targeted daily services with the full constellation delivering near-real-time global observation.

The Company research and development personnel are involved in the development of Radio Frequency geolocation techniques, Radio Frequency signal analysis techniques, data science techniques including machine learning, satellite technologies, and data processing methodologies in order to provide a RF Geolocation Data as a Service series of products to information users in the defence and security Intelligence Surveillance and Reconnaissance market and as well to perform the necessary tests on the equipment for launching their own LEO nano-satellite Earth Observation.

## Dividends

There were no dividends paid, recommended or declared during the current or previous financial period.

## Matters subsequent to the end of the financial period

No matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

# Chairman's Statement

I write to you at the time of our annual report when things could not be more exciting for the Company.

As I write the satellites are undergoing final testing at the manufacturer's facility in Denmark and our intrepid technical team will soon transport them to New Zealand where final preparation for the launch are ongoing. Overall the hardware news is all good and we are right on the track as we described in the IPO Prospectus. Equally important is the software development which is progressing at pace and, again, we are on track to deliver the 3 layers of Guardian Activity Based Intelligence from the moment data flows after launch.

I can also report very favourably on continued support from the Luxembourg Government. The grant funding over the year has given a considerable boost to our R & D work and adds value to the whole company.

Turning now to our customer base. We have created a wide network of customers who can't wait to have the data available. Elsewhere in this Report you will see a list of the companies that we have signed MOUs of various types with. In our tech world MOUs are the path to a long-term future relationship. Each of these are companies that see our data as a value-added multiplier for their own products or they need the information directly. These MoUs are just the tip of the iceberg and I could not be more optimistic about things to come.

From an investors perspective I am in equally buoyant mood. The share price is a good reflection of how the Company has delivered exactly what it promised post IPO. We are on track technically and we can look forward to the future, delivering more satellites and a better service with great confidence.

I don't believe I know a start-up that has delivered so well in such a short period of time and this success lies with our people who have my grateful thanks.

Yours sincerely,

**Air Commodore Peter Round**

Chairman

# Review of Operations by Chief Executive Officer

Dear Fellow Shareholders,

2018 has been a strong year for Kleos Space S. A. (Kleos or the Company) which saw our Company listed on the Australian Securities Exchange. As projected in the Prospectus, we pursued global development activities and secured key commercial agreements to drive the future growth of the Company.

Kleos has made significant strides towards the fast upcoming launch of its Kleos Scouting Mission (KSM) satellites and the development of the data products in order to hit our revenue goals. GomSpace was commissioned to supply its multi-nanosatellite system, as well as providing launch support. Also we reached agreement with Rocket Lab to launch the satellites. Rocket Lab successfully completed its first commercial launch in November, reinforcing the Company's decision to select Rocket Lab as launch partner.

Kleos also initiated numerous strategic agreements to bolster its entry into target markets.

Memorandums of Understanding were signed with Airbus Defence and Space, to facilitate expansion into the market for international radio frequency monitoring and transmitter geolocation, and also with Ball Aerospace, a significant step in entering the US geospatial intelligence market.

The Company has seen growth worldwide, owing to its global development activities.

Kleos Space Asia Pacific continues to focus on capitalising on the Australian Government's A\$500 million pledge to improve its space-based intelligence.

The Company exhibited at Maritime Security events and at the International Astronautical Congress which allowed for successful engagement of various government agencies and investor groups. In the United Kingdom, Kleos established a wholly-owned subsidiary (Kleos Space Ltd) in November to target the large UK defence and security market.

The success of our strategic agreements and operational decisions over the past year have laid the foundations for the Company's success. Our team is confident that we can build upon this progress to execute our operational plan and deliver quality radio-frequency reconnaissance data.

I look forward to delivering further good news and revenues from our operations within the next year.

Following the year ended 31 December 2018, several events have occurred which further suggest a successful future for Kleos. Most notably, the KSM satellites have entered the Testing Phase in preparation for final acceptance. This is a significant milestone toward the launch of the satellites, and the commencement of initial revenues.

**Andrew Bowyer**

CEO



## Additional ASX Information

The shareholder information set out below was applicable as at 4 April 2019.

The Company has securities listed for quotation in the form of CHESS Depository Interests (CDIs) on the Australian Securities Exchange (ASX) that trade under the code "KSS". The holders of the CDIs obtain a beneficial ownership in a share. Each CDI is equivalent to one ordinary share. The Company's share capital is as follows:

Type of Security	Number of Securities
Total number of issued shares <sup>1</sup>	106,627,500
Total number of CDIs assuming all shares held as CDIs	106,627,500

<sup>1</sup> Includes Shares held by CHESS Depository Nominees Pty Limited (CDN)

### SUBSTANTIAL HOLDERS (Listing Rule 4.10.4)

The names of the substantial shareholders disclosed to the Company as substantial shareholders as at 4 April 2019 are:

Name	No of Equity Securities	% of voting power
LTL CAPITAL PTY LTD	12,110,443 CDIs	11.35%
STERLING VENTURES PTY LTD <sup>2</sup>	3,259,215 CDIs	3.05%
MAGNA PARVA LIMITED <sup>3</sup>	25,000,000 CDIs	23.45%
MILES ASHCROFT	25,125,000 CDIs	23.56%
ANDREW BOWYER	25,125,000 CDIs	23.56%

<sup>2</sup> An associate of the substantial holder LTL Capital Pty Ltd.

<sup>3</sup> Shares held by Magna Parva (a company controlled by Andrew Bowyer and Miles Ashcroft).

### VOTING RIGHTS (Listing Rule 4.10.6)

If holders of CDIs wish to attend the Company's general meeting, they will be able to do so. Under the ASX Listing Rules and the ASX Settlement Operating Rules, the Company as an issuer of CDIs must allow CDI holders to attend any meeting of the holders of Shares unless relevant Luxembourg law at the time of the meeting prevents CDI holders from attending those meetings.

In order to vote at such meetings, CDI holders have the following options:

- a) instructing CDN, as the legal owner, to vote the Shares underlying their CDIs in a particular manner. A voting instruction form will be sent to CDI holders with the notice of meeting or proxy statement for the meeting and this must be completed and returned to the Company's Share Registry prior to the meeting; or
- b) informing the Company that they wish to nominate themselves or another person to be appointed as CDN's proxy with respect to their Shares underlying the CDIs for the purposes of attending and voting at the general meeting; or
- c) converting their CDIs into a holding of Shares and voting these at the meeting (however, if thereafter the former CDI holder wishes to sell their investment on ASX it would be necessary to convert the Shares back to CDIs). In order to vote in person, the conversion must be completed prior to the record date for the meeting. See above for further information regarding the conversion process.

As holders of CDIs will not appear on the Company's share register as the legal holders of the Shares, they will not be entitled to vote at Shareholder meetings unless one of the above steps is undertaken.

As each CDI represents one Share, a CDI holder will be entitled to one vote for every one CDI they hold. Proxy forms, CDI voting instruction forms and details of these alternatives will be included in each notice of meeting sent to CDI holders by the Company.

These voting rights exist only under the ASX Settlement Operating Rules, rather than Luxembourg law of 10 August 1915 on commercial companies, as amended. Since CDN is the legal holder of applicable shares, the holders of CDIs do not have any directly enforceable rights under the Company's Articles of Association.

There are no voting rights attached to any of the options that the Company currently has on issue. Upon exercise of these options, the CDIs issued will have the same voting rights as existing CDIs.

#### **DISTRIBUTION OF EQUITY SECURITIES (Listing Rules 4.10.5, 4.10.7 and 4.10.8)**

<b>Holding Ranges</b>	<b>Quoted CDI holders</b>	<b>Unquoted CDI holders</b>	<b>Options</b>	<b>Performance Rights</b>
1 to 1,000	8	0	0	0
1,001 to 5,000	50	0	0	0
5,001 to 10,000	118	0	0	0
10,001 to 100,000	185	6	7	0
100,001 and Over	97	3	7	9
<b>Totals</b>	<b>458</b>	<b>9</b>	<b>14</b>	<b>9</b>
Holding less than a marketable parcel	0	0		



## TWENTY LARGEST SHAREHOLDERS (Listing Rule 4.10.9)

The names of the twenty largest holders of each class of quoted securities are listed below:

### CDIs

Holder Name	Holder	%IC
LTL CAPITAL PTY LTD	11,404,241	16.05
MISS BIANCA SILVER	3,152,300	4.44
BAINPRO NOMINEES PTY LIMITED	2,923,407	4.11
STERLING VENTURE HOLDINGS PTY LTD	2,684,215	3.78
JINDABYNE CAPITAL PTY LTD	2,550,000	3.59
MR JIANZHU GENG	2,000,000	2.81
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	1,992,024	2.80
FARRIS CORPORATION PTY LTD	1,637,500	2.30
CS FOURTH NOMINEES PTY LIMITED	1,588,479	2.24
MAGNA PARVA LIMITED	1,385,000	1.95
MR MICHAEL GAULE	1,155,000	1.63
TRANSCONTINENTAL ASSET MANAGEMENT PTY LTD	1,000,000	1.41
SALMON BRICK PTY LTD	1,000,000	1.41
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	978,719	1.38
CS THIRD NOMINEES PTY LIMITED	951,684	1.34
MR EVAN NEUMANN & MR RICKY NEUMANN	900,000	1.27
TRADITIONAL SECURITIES GROUP PTY LTD	850,000	1.20
FARRIS CORPORATION PTY LTD	800,000	1.13
RIVERGRADE PTY LTD	650,000	0.91
PCAS (AUSTRALIA) PTY LTD	650,000	0.91
ERIK TYLER	625,000	0.88
MR CHARLES PETER MCGUIGAN & MRS TIFFANY ELIZA FARRAR MCGUIGAN	600,000	0.84
<b>Totals: Top 20 holders of Quoted CDI's – Ordinary and Escrow</b>	<b>41,477,569</b>	<b>58.36</b>
<b>Balance of register</b>	<b>29,594,931</b>	<b>41.64</b>
<b>Grand total</b>	<b>71,072,500</b>	<b>100.00</b>

## RESTRICTED SECURITIES (Listing Rule 4.10.14)

As at 4 April 2019 the following securities are subject to escrow:

- 1,385,000 quoted CDIs escrowed until 24 August 2020
- 35,555,000 unquoted CDIs escrowed until 24 August 2020
- 4,000,000 Options expiring 17 August 2021 @ \$0.30 escrowed until 24 August 2020
- 500,000 Performance Rights vesting 29 March 2019 @ \$0.00 escrowed until 24 August 2020
- 1,000,000 Performance Rights expiring 24 August 2019 @ \$0.00 escrowed until 24 August 2020
- 18,500,000 Performance Rights expiring 24 February 2020 @ \$0.00 escrowed until 24 August 2020
- 9,500,000 Performance Rights expiring 24 August 2020 @ \$0.00 escrowed until 24 August 2020

## UNQUOTED SECURITIES (Listing Rules 4.10.5 and 4.10.16)

As at 4 April 2019, the following unquoted securities are on issue:

### ***4,000,000 Options expiring 17 August 2021 @ \$0.30 – 1 Holders***

Holder Name	Holding	% IC
LTL Capital Pty Ltd	1,320,000	33.00%

### ***500,000 Performance Rights vesting 26 March 2019 @ \$0.00 – 1 Holder***

Holder Name	Holding	% IC
Mr David Christie	500,000	100.00%

### ***1,000,000 Performance Rights expiring 29 Mayt 2019 @ \$0.00 – 1 Holder***

Holder Name	Holding	% IC
Mr Peter Round	1,000,000	100.00%

### ***18,500,000 Performance Rights expiring 29 November 2019 @ \$0.00 – 2 Holders***

Holder Name	Holding	% IC
Mr Andrew Bowyer	9,250,000	50.00%
Mr Miles Ashcroft	9,250,000	50.00%

**9,500,000 Performance Rights expiring 29 May 2020 @ \$0.00 – 2 Holders**

Holder Name	Holding	% IC
Mr Andrew Bowyer	4,250,000	44.74%
Mr Miles Ashcroft	4,250,000	44.74%

**ON-MARKET BUY BACK (4.10.18)**

There is currently no on-market buyback programme.

**ASX LISTING RULE 4.10.19**

The Company has used cash and cash equivalents held at the time of listing, in a way consistent with its business objectives.

# Corporate Governance Statement

The Board of Directors of Kleos Space S.A. (KSS or the Company) is responsible for the corporate governance of the Company and its subsidiaries. The Board guides and monitors the business and affairs of KSS on behalf of the Shareholders by whom they are elected and to whom they are accountable.

The table below summarises the Company's compliance with the ASX Corporate Governance Council's Principles and Recommendations.

## PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

		Compliance	Disclosure
1.1	A listed entity should disclose: (a) the respective roles and responsibilities of its board and management; and (b) those matters expressly reserved to the board and those delegated to management.	Complies	The respective roles and responsibilities of the Board and management are defined under the Board Charter, a copy of which is available on the Company's website at <a href="http://kleos.space/">http://kleos.space/</a> . There is a clear delineation between the Board's responsibility for the Company's strategy and activities, and the day-to-day management of operations conferred upon officers of the Company.
1.2	A listed entity should: (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and (b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.	Complies	The process for selection, appointment, and re-appointment of directors is detailed in the Remuneration and Nomination Committee Charter, a copy of which is available on the Company's website at <a href="http://kleos.space/">http://kleos.space/</a> . Under the Remuneration and Nomination Committee Charter, shareholders are required to be provided with all material information in the Committee's possession relevant to a decision on whether or not to elect or re-elect a director including, biographical details, qualifications, a statement as to whether the Board supports the nomination of the director and the degree of independence of the director and, details of any existing directorships held.
1.3	A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	Complies	The Company requires each director and senior executive to execute a written agreement setting out the terms of their appointment.
1.4	The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	Complies	The Company have engaged third party company secretary Mertons Corporate Services Pty Ltd (Mertons) to conduct their company secretarial functions and report directly to the chair of the Board, Peter Round. The role of the company secretary will be fulfilled by Mertons. The role of the company secretary is outlined in the Board Charter, a copy of which is available on the Company's website at <a href="http://kleos.space/">http://kleos.space/</a> .

1.5	<p>A listed entity should:</p> <p>(a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;</p> <p>(b) disclose that policy or a summary of it; and</p> <p>(c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them and either:</p> <p>(1) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or</p> <p>(2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.</p>	Complies in part	<p>The Company has adopted a Diversity Policy, a copy of which is available on the Company's website at <a href="http://kleos.space/">http://kleos.space/</a></p> <p>The Diversity Policy requires the Board to establish measurable objectives to assist the Company to achieve gender diversity and to assess the Company's progress in achieving these objectives.</p> <p>The Remuneration and Nomination Committee will report to the Board on the Company's progress towards achieving its measurable objectives each year.</p> <p>The Company has not yet adopted measurable objectives. The Board has considered the requirements and taking into account the Company has not been listed for the full reporting period, it intends to address these requirements at an appropriate time as the Company grows, and increases in size and activity.</p>
1.6	<p>A listed entity should:</p> <p>(a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and</p> <p>(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</p>	Complies in part	<p>Under the Board Charter, the Board is required, at least once per year, with the advice and assistance of the Remuneration and Nomination Committee, to review and evaluate the performance of the Board, its Committees and individual directors against the relevant charters, corporate governance policies, and agreed goals and objectives (as applicable).</p> <p>The Board has considered the requirements and taking into account the Company has not been listed for the full reporting period, it intends to address these requirements at an appropriate time in the future.</p>
1.7	<p>A listed entity should:</p> <p>(a) have and disclose a process for periodically evaluating the performance of its senior executives; and</p> <p>(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</p>		<p>Under the Board Charter, the Board (with the advice and assistance of the Remuneration and Nomination Committee) is responsible for reviewing and approving the performance of the members of the executive leadership team.</p> <p>The Board has considered the requirements and taking into account the Company has not been listed for the full reporting period, it intends to address these requirements so as to comply during the following full reporting period.</p>

## PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

2.1	<p>The board of a listed entity should:</p> <p>(a) have a nomination committee which:</p> <ol style="list-style-type: none"> <li>1. has at least three members, a majority of whom are independent directors; and</li> <li>2. is chaired by an independent director, and disclose:</li> <li>3. the charter of the committee,</li> <li>4. the members of the committee; and</li> <li>5. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings: OR</li> </ol> <p>(b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.</p>	Complies in part	<p>The Board has established a Remuneration and Nomination Committee to oversee the selection and appointment practices of the Company.</p> <p>The Remuneration and Nomination Committee is governed by a Remuneration and Nomination Committee Charter, which is available on the Company's website at <a href="http://kleos.space/">http://kleos.space/</a>.</p> <p>The Remuneration and Nomination Committee consists of three members, Peter Round, Andy Bowyer and David Christie. David Christie is an independent non-executive director. The Board is mindful of the recommendation that the Remuneration and Nomination Committee be comprised of a majority of independent directors. Notwithstanding this, the Board is satisfied that the current composition of the Remuneration and Nomination Committee is appropriate in the Company's circumstances.</p> <p>The Remuneration and Nomination Committee is chaired by David Christie, who is an independent director for ASX purposes.</p> <p>The Remuneration and Nomination Committee Charter prohibits a member of the Committee from being present for discussions at a Committee meeting on, or to vote on a matter regarding, his or her election, re-election, or removal.</p> <p>Given the Company has not been listed for the full reporting period, it will provide details as to the Committee meetings held and attendances in its future annual reports.</p>
2.2	<p>A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.</p>	Complies in part	<p>The Company's Remuneration and Nomination Committee is responsible for regularly reviewing the size, composition and skills of the Board to ensure that the Board is able to discharge its duties and responsibilities effectively and to identify any gaps in the skills or experience of the Board.</p> <p>Given the Company has not been listed for the full reporting period, it intends to address the board skills matrix requirements at an appropriate time in the future.</p>

2.3	<p>A listed entity should disclose:</p> <p>(a) the names of the directors considered by the board to be independent directors;</p> <p>(b) if a director has an interest, position, association or relationship of the type described in Box 2.3 of the ASX Corporate Governance Principles and Recommendations but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and</p> <p>(c) the length of service of each director.</p>	Complies	<p>The Company assesses the independence of its directors against the requirements for independence set out in the Board Charter which reflect the independence criteria set out in the ASX Corporate Governance Principles. Director independence is initially assessed upon each director's appointment and reviewed each year, or as required when a new personal interest or conflict of interest is disclosed. Directors are required to disclose all actual or potential conflicts of interest on an ongoing basis.</p> <p>David Christie is considered by the Board to be independent for ASX purposes.</p> <p>Andy Bowyer is not considered to be independent due to his executive role as CEO with the Company.</p> <p>Peter Round is not considered independent due to his role as an executive member of the board.</p> <p>Miles Ashcroft is not considered independent due to his role as an executive member of the board.</p> <p>The Company believes that their extensive experience is invaluable and outweighs any perceived lack of independence.</p> <p>The length of service of each director on the Board is as laid out in this report</p>
2.4	A majority of the board of a listed entity should be independent directors.	Does not comply	<p>The Company has four directors and one of these is considered independent for ASX purposes.</p> <p>The Board believes that the current mix of directors is appropriate for the Company's business and circumstances and is in the best interests of shareholders as a whole. Further, the Board believes that, the Board as a whole is not hindered in its ability to exercise independent view and judgement.</p> <p>The Board is mindful of the recommendation that a majority of the Board should be independent directors and will continue to take this into consideration when considering the future nomination, election or re-election of directors to the Board.</p>
2.5	The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.	Complies in part	<p>The Chairman of the Board is Peter Round. Peter Round is not considered an independent director for ASX purposes.</p> <p>The roles of Chairman and CEO are exercised by two separate individuals. The role of CEO is held by Andy Bowyer.</p>



2.6	A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.	Complies	<p>The Company's Remuneration and Nomination Committee is responsible for establishing and facilitating induction for new directors and providing new directors with all such information and advice which may be considered necessary or desirable for the director to commence their appointment to the Board.</p> <p>The Company's Remuneration and Nomination Committee is also responsible for providing directors with access to continuing education for directors for the purpose of updating and maintaining their skills and knowledge to perform their roles as directors effectively. A copy of the Nomination Committee Charter is available on the Company's website at <a href="http://kleos.space/">http://kleos.space/</a>.</p>
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### PRINCIPLE 3 – ACT ETHICALLY AND RESPONSIBLY

3.1	A listed entity should: (a) have a code of conduct for its directors, senior executives and employees; and (b) disclose that code or a summary of it.	Complies	<p>The Company has adopted a Code of Conduct which applies to all directors, officers and employees of the Company as well as a Securities Trading Policy. Each of these has been prepared having regard to the ASX Corporate Governance Principles and Recommendations and is available on the Company's website at <a href="http://kleos.space/">http://kleos.space/</a>.</p>
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### PRINCIPLE 4 – SAFEGUARD INTEGRITY IN CORPORATE REPORTING

4.1	<p>The board of a listed entity should:</p> <p>(a) have an audit committee which:</p> <ol style="list-style-type: none"> <li>has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and</li> <li>is chaired by an independent director, who is not the chair of the board; and disclose:</li> <li>the charter of the committee;</li> <li>the relevant qualifications and experience of the members of the committee; and</li> <li>in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; OR</li> </ol> <p>(b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.</p>	Complies in part	<p>The Company has established an Audit and Risk Management Committee to oversee the management of financial and internal risks.</p> <p>The Audit and Risk Management Committee consists of three members, Peter Round and Andy Bowyer who are executive directors and David Christie who is a non-executive and independent director. The Committee is chaired by Peter Round who is not an independent director.</p> <p>Whilst a majority of the members of the Audit and Risk Management Committee are not independent directors for ASX purposes, the Board believes that the composition and skills of the members of the Audit and Risk Management Committee are appropriate for the Company, and will continue to take this into consideration when considering future membership.</p> <p>The Audit and Risk Management Committee is governed by an Audit and Risk Management Committee Charter, a copy of which is available on the Company's website at <a href="http://kleos.space/">http://kleos.space/</a>.</p> <p>Given the Company has not been listed for the full reporting period, it will provide details as to the Committee meetings held and attendances in its future annual reports.</p>
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4.2	The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	Complies	Prior to the Board approving the Company's financial statements, the Board will ensure that it receives from the CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained, that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity, and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.
4.3	A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	Complies	The Company requires its external auditor to attend its AGM to answer any questions from shareholders relevant to the audit and this is specifically set out in the Company's Shareholder Communication Policy.

## PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE

5.1	A listed entity should: (a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and (b) disclose that policy or a summary of it.	Complies	The Company is committed to taking a proactive approach to continuous disclosure and creating a culture within the Company that promotes and facilitates compliance with the Company's continuous disclosure obligations.  The Company has adopted a written policy to ensure compliance with their ASX Listing Rule disclosure obligations. A copy of the Company's Continuous Disclosure Policy is available on its website at <a href="http://kleos.space/">http://kleos.space/</a> . The Company has appointed its company secretary and local agent as the reporting officer and the ASX liaison officer. However, the Board retains ultimate responsibility for compliance with the Company's continuous disclosure obligations.
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## PRINCIPLE 6 – RESPECT THE RIGHTS OF SECURITY HOLDERS

6.1	A listed entity should provide information about itself and its governance to investors via its website.	Complies	The Company provides investors with comprehensive and timely access to information about itself and its governance on its website at <a href="http://kleos.space/">http://kleos.space/</a> , including copies of the Company's Certificate of Incorporation and Bylaws, Board and committee charters and key corporate governance policies, copies of all material information lodged with ASX, copies of all announcements, briefings and speeches made to the market, analysts or the media, press releases or announcements made by the Company, financial data for the Company, the Company's annual reports and notices of shareholder meetings. Further details are set out in the Company's Shareholder Communication Policy.
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6.2	A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	Complies	The Company has adopted a Shareholder Communications Policy for shareholders wishing to communicate with the Board, a copy of which is available on the Company's website at <a href="http://kleos.space/">http://kleos.space/</a> . The Company seeks to utilise numerous modes of communication, including electronic communication to ensure that its communication with shareholders is frequent, clear and accessible.
6.3	A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	Complies	The Company has adopted a Shareholder Communications Policy to facilitate and encourage shareholder participation at meetings of security holders. All shareholders are invited to attend the Company's annual meetings either in person or by representative. Shareholders have an opportunity to submit questions to the Board or the Company's external auditor.
6.4	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	Complies	The Company encourages shareholders to submit questions or requests for information directly to the Company via the Company's website at <a href="http://kleos.space/">http://kleos.space/</a> . The Company also encourages shareholders to submit any questions related to their shareholdings in the Company to the Company's share registry with the share registry's contact details included in the Company's Shareholder Communication Policy, including details for electronic communication.

## PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

7.1	<p>The board of a listed entity should:</p> <p>(a) have a committee or committees to oversee risk, each of which:</p> <ol style="list-style-type: none"> <li>(1) has at least three members, a majority of whom are independent directors; and</li> <li>(2) is chaired by an independent director, and disclose:</li> <li>(3) the charter of the committee;</li> <li>(4) the members of the committee; and</li> <li>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; OR</li> </ol> <p>(b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.</p>	Complies in part	<p>In conjunction with the Company's other corporate governance policies, the Company has adopted a Risk Management Policy which is designed to assist the Company to identify, assess, monitor and manage its risk, including any material changes to its risk profile. The Board has delegated responsibility for the day-to-day oversight and management of the Company's risk profile to the Audit and Risk Management Committee. The Audit and Risk Management Committee is responsible for ensuring that the Company maintains effective risk management and internal control systems and processes and provides regular reports to the Board on these matters.</p> <p>The Audit and Risk Management Committee consists of three members, Peter Round, Andy Bowyer and David Christie. The Committee is comprised of executive and non-executive directors with David Christie being the only independent director. The Committee is chaired by Peter Round who is not an independent director.</p> <p>Whilst a majority of the members are not independent directors for ASX purposes, the Board believes that the composition and skills of the members of the Audit and Risk Management Committee are appropriate for the Company.</p>
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			<p>The Board has conferred responsibility on the Company's management to develop and maintain a risk management programme and internal control systems which identify material risks in light of the day to day needs of the Company.</p> <p>The Board is responsible for oversight of the overall system of internal control and provides final consideration and direction on any risk management issues.</p> <p>Given the Company has not been listed for the full reporting period, it will provide details as to the Committee meetings held and attendances in its future annual reports.</p> <p>A copy of the Company's Risk Management Policy is available on the Company's website at <a href="http://kleos.space/">http://kleos.space/</a>.</p>
7.2	<p>The board or a committee of the board should:</p> <p>(a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and</p> <p>(b) disclose, in relation to each reporting period, whether such a review has taken place.</p>	Complies	<p>The Audit and Risk Management Committee will annually review and evaluate the effectiveness of its risk management framework to ensure that its internal control systems and processes are monitored and updated on an ongoing basis.</p> <p>The division of responsibility between the Board, Audit and Risk Management Committee and management aims to ensure that specific responsibilities for risk management are clearly communicated and understood. The Risk Management Policy provides for regular reporting to the Board which supplements the Company's quality system, complaint handling processes and standard operating procedures which are all designed to address various forms of risks.</p> <p>Given the Company has not been listed for the full reporting period, the Company will provide details on whether the annual review has taken place in its future annual reports.</p>
7.3	<p>A listed entity should disclose:</p> <p>(a) if it has an internal audit function, how the function is structured and what role it performs; OR</p> <p>(b) if it does not have an internal audit function, that fact and the processes it employs for evaluation and continually improving the effectiveness of its risk management and internal control processes.</p>	Does not comply	<p>Due to the Company's current size and business circumstances, the Company does not have an internal audit function. The Company will reconsider this decision as appropriate and appoint an internal auditor if, and when, the Company considers this necessary.</p> <p>Under the Audit and Risk Management Committee Charter, the Audit and Risk Management Committee is responsible for providing an independent and objective assessment to the Board regarding the adequacy, effectiveness and efficiency of the Company's risk management and internal control process.</p>
7.4	<p>A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.</p>	Complies	<p>The Company does not consider that it has any material exposure to economic, environmental and social sustainability risks.</p> <p>If the Company determines in the future that it has any material exposure to economic, environmental and social sustainability, the Company will provide details in its future annual reports.</p>

## PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

8.1	<p>The board of a listed entity should:</p> <p>(a) have a remuneration committee which:</p> <ol style="list-style-type: none"> <li>(1) has at least three members, a majority of whom are independent directors; and</li> <li>(2) is chaired by an independent director, and disclose:</li> <li>(3) the charter of the committee;</li> <li>(4) the members of the committee; and</li> <li>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; OR</li> </ol> <p>(b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.</p>	Complies in part	<p>The Company has a Remuneration and Nomination Committee, which is governed by a Remuneration and Nomination Committee Charter. A copy of the Remuneration and Nomination Committee Charter is available on the website at <a href="http://kleos.space/">http://kleos.space/</a>.</p> <p>The Remuneration and Nomination Committee consists of three members, Peter Round, Andy Bowyer and David Christie. David Christie is an independent non-executive director.</p> <p>Further, the Remuneration and Nomination Committee Charter prohibits a member of the Committee from being present for discussions at a Committee meeting on, or vote on a matter regarding, his or her remuneration.</p> <p>The Remuneration and Nomination Committee is chaired by David Christie, who is an independent director for ASX purposes.</p> <p>Given the Company has not been listed for the full reporting period, it will provide details as to the Committee meetings held and attendances in its future annual reports.</p>
8.2	<p>A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.</p>	Complies	<p>The Remuneration and Nomination Committee is responsible for setting and reviewing the policies and practices of the Company regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives. The company's remuneration practice for executive directors considers a number of factors and is designed to have regard to the director's experience and the nature and complexity of their work in order to pay a competitive salary, in line with comparable companies, that attracts and retains directors of the highest quality and to reflect the director's personal performance.</p> <p>The remuneration of non-executive directors is a matter for the executive directors and no director is involved in any decisions as to their own remuneration.</p> <p>Each executive director has a contract with the Company. Executive directors' salaries are reviewed annually in line with the remuneration reviews for all other group employees.</p>
8.3	<p>A listed entity which has an equity-based remuneration scheme should:</p> <p>(a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and</p> <p>(b) disclose that policy or a summary of it.</p>	Complies	<p>The Company has adopted a Securities Trading Policy which provides that participants must not, without prior written approval by the relevant person specified in the Policy, engage in hedging arrangements, deal in derivatives or enter into other arrangements which vary economic risk related to the Company's securities. A copy of the Securities Trading Policy is available on the Company's website at <a href="http://kleos.space/">http://kleos.space/</a>.</p>

Unless otherwise indicated, KSS's corporate governance practices were in place for the financial year ended 31 December 2018 and to the date of signing the Directors' Report.

Various corporate governance practices are discussed within this statement. For further information on corporate governance policies adopted by the Company, refer to our website <https://kleos.space/>

## Board of Directors



### Air Cdre Peter Round

Chairman and Executive Director

RAF Air Commodore, expert in EU Defence Issues, military affairs and has lead multiple multi-million pound contracts within the Defence industry. Internationally renowned strategic executive with experience in the US, EU and NATO



### Andrew Bowyer

CEO

14 years' heritage delivering complex Space contracts, including missions to Mars and Mercury as co-founder of Magna Parva. Broad commercial and business development skills centred around major space mission providers (European Space Agency).

## Board of Directors



### **Miles Ashcroft**

Chief Technical Officer

Extensive technical experience delivering technically ground breaking and high value Space hardware to multiple international space agencies as co-founder of Magna Parva.



### **David Christie**

Non-Executive Director

Co-Founder & Chief Operating Officer for Wilson AI, an Artificial Intelligence company based in Melbourne, Australia. Prior to this he was the Chief Strategy Officer, General Counsel and Company Secretary for iSelect (ASX: ISU). Over 20 years experience at a Senior Executive level with global responsibility for all legal affairs, ASX governance, compliance, commercial / corporate, litigation and intellectual property matters.



## Review of Operations

The loss for the consolidated entity after providing for income tax amounted to €2,201,904 (31 December 2017: loss of €183,494).

The loss for the Company after providing for income tax amounted to €2,101,103 (31 December 2017: loss of €183,494).

The financial statements of the consolidated entity have been prepared for the year ended 31 December 2018. The comparative accounting period of the Company is from 6 June 2017 (date of incorporation) to 31 December 2017, therefore the results are not directly comparable.

The principal source of income for the consolidated entity during the year continued to be the government grant provided by the European Space Agency on behalf of the Government of Luxembourg. The key categories of expenditure in the consolidated entity for the year were cost of satellites, remuneration expenses, research and development costs, costs of initial public offering ('IPO') (which include transaction costs which cannot be deducted against equity) and general administrative expenses.

## Significant changes in the state of affairs

On 22 January 2018, the Company issued 4,700 convertible notes at A\$500 each issued under a pre-Initial Public Offering ('IPO') capital raising to institutional and sophisticated investors raising A\$2,350,000 (€1,492,253). The convertible notes were non-interest bearing and had a maturity date of 22 January 2019. On 24 August 2018, the notes were converted into 14,687,500 CHESS Depository Interests ('CDIs').

On 19 March 2018, the Company incorporated a wholly-owned Australian subsidiary, Kleos Space (Asia Pacific) Pty Ltd to develop and focus on the Australian and wider region opportunities.

On 28 May 2018, the Company Kleos Space S.à r.l (Société à Responsabilité Limitée - private limited liability company) changed its legal form to Kleos Space S.A. (Société Anonyme - public limited liability company). On the same date, the Company split the existing 500 ordinary shares into 23,460,000 CDIs and converted the parent entity loans of €188,000 into 1,540,000 CDIs.

On 29 May 2018, the Company raised an additional €3,470 by issuing 3,470,000 CDIs. On the same date the Company issued 4,470,000 CDIs to directors and 33,500,000 performance rights to directors.

On 30 November 2018, the Company cancelled 4,000,000 performance rights following the resignation of a consultant.

On 24 August 2018, the Company completed the process of the IPO of its securities by listing on the Australian Securities Exchange ('ASX'), with the code KSS. The Company raised A\$11,000,000 (€7.1 million) and issued 55,000,000 CDIs at an issue price of A\$0.20 each. In addition, as mentioned above, the convertible notes were converted into 14,687,500 CDIs at a 20% discount on conversion to the

A\$0.20 issue price of CDIs. The Company also granted the lead manager Hunter Capital Advisors Pty Ltd 4,000,000 options and 4,000,000 CDIs.

On 13 November 2018, the Company incorporated a wholly-owned UK subsidiary, Kleos Space Ltd to maximise UK business development opportunities.

On 12 December 2018, the Company completed its dual-listing of its securities on the Frankfurt Stock Exchange ('FRA'), with the code KS1. This dual-listing will allow the Company to broaden its European investor base.

Also, during the year the Company signed non-binding Memorandum of Understanding ('MoU') with (i) US Based Orbital Insight to develop a route to market partnership; (ii) Airbus Defence and Space to collaborate on In-Space manufacturing technology and RF Geolocation; and (iii) Ball Aerospace & Technologies Corp, a wholly-owned subsidiary of Ball Corporation (NYSE: BLL) to develop services under the Scouting Mission framework. The Company signed a Channel Partner Agreement to market and sell Scouting Mission data with IMSL of the United Kingdom.

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

### **Likely developments and expected results of operations**

In 2019 the consolidated entity expects to deliver the planned launch event of the first cluster of satellites and to use the data collected by the satellites to begin generating revenue.

Kleos Space RF reconnaissance is a form of 'passive' sensing and geolocation of transmitters (VHF for Kleos) without relying on geolocation by other means such as GPS or AIS (automatic identification system). Each of our Scouting satellites receives signals from the ground that have several measurable parameters enabling the location of the transmitter and with more satellites we collect more data more often.

Kleos Space data is a commercial, restriction free geospatial data set collected from Space to enable disruption of illegal fishing, piracy, smuggling, trafficking and help with border monitoring to deliver enhanced situational awareness for a wide variety of maritime operations.

### **Environmental regulation**

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law, Luxembourg law and any law and regulations applicable to the European Union.

The consolidated entity must obtain a licence, with specific assignments for the use of frequencies or radio channels for both transmission, and reception pursuant to the law of 30 May 2005 on the organisation and management of radio frequency spectrum. The frequency assignments are recorded by the Luxembourg Institute of Regulators, Institut Luxembourgeois de Régulation ('ILR') in a public file

called “register of frequencies”. The consolidated entity has initiated the process with the ILR to obtain the licence for the use of electronic communications networks/services. From an international regulatory perspective, a registration with the International Telecommunication Union (“ITU”) is also necessary. The consolidated entity has initiated the process of obtaining the registration with the ITU. It is considered by the consolidated entity that there is a high likelihood of obtaining these licences prior to the launch of the Scouting Mission satellites.

#### **CDIs issued on the exercise of options**

There were no CDIs of the consolidated entity issued on the exercise of options during the year ended 31 December 2018 and up to the date of this report.

#### **CDIs issued on the exercise of performance rights**

There were no CDIs of the consolidated entity issued on the exercise of performance rights during the year ended 31 December 2018 and up to the date of this report.

#### **Related party transactions**

During the year ended 31 December 2018, the Company made payments for salaries on behalf of the subsidiary, Kleos Space Ltd, amounting to €88,147 (2017: €nil). An amount of €88,032 was due from the subsidiary as at 31 December 2018 (2017: €nil).

During the year ended 31 December 2017, the Company had received a loan from its immediate parent entity, Magna Marva Limited. On 28 May 2018, the loan was converted to 1,540,000 CDIs in the Company.

#### **Indemnity and insurance of officers**

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

#### **Indemnity and insurance of auditor**

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

#### **Non-audit services**

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 9 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor’s behalf), is compatible with the general standard of independence for auditors.

The directors are of the opinion that the services as disclosed in note 9 to the financial statements do not compromise the external auditor's independence requirements for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in IESBA Code of Ethics for Professional Accountants issued by the International Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

### Director's remuneration

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is disclosed in note 25 to the financial statements.

### Auditor

Deloitte Audit S.à r.l. continues in office to perform the audit on the financial statements.

This report is made in accordance with a resolution of directors.  
On behalf of the directors



**Andy Bowyer**

Director

30<sup>th</sup> April 2019  
Luxembourg

# Responsibility Statement

We confirm to the best of our knowledge that:

1. The consolidated and standalone financial statements of Kleos Space S.A. presented in this report and established in conformity with International Financial Reporting as adopted in the European Union give a true and fair view of the assets, liabilities, financial position and results of Kleos Space S.A. and the undertakings included within the consolidated taken as a whole; and
2. The Director's report presented in this report includes a fair review of the development and performance of the business and position of Kleos Space S.A. and the undertakings included within the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.
3. The Directors report and financial statements are unchanged from the report delivered on 28th February 2019

On behalf of the directors



**Andy Bowyer**

Director

30<sup>th</sup> April 2019

Luxembourg



## Statements of Profit or Loss and Other Comprehensive Income for the period ended 31 December 2018

	Note	Consolidated		Company	
		1 Jan 2018 to 31 Dec 2018 €	6 Jun 2017 to 31 Dec 2017 €	1 Jan 2018 to 31 Dec 2018 €	6 Jun 2017 to 31 Dec 2017 €
<b>Income - Government grants</b>	5	827,709	249,191	827,709	249,191
Interest revenue calculated using the effective interest method		140	-	140	-
<b>Expenses</b>					
Operating expenses	6	(1,209,669)	(78,613)	(1,207,977)	(78,613)
Staff costs and employee benefit expenses	7	(1,680,479)	(202,909)	(1,580,930)	(202,909)
Research and development expenses		(113,932)	(148,950)	(113,932)	(148,950)
Depreciation expense	8	(6,099)	-	(6,099)	-
Other expenses		(10,570)	(2,213)	(11,010)	(2,213)
Finance costs		(9,004)	-	(9,004)	-
Total expenses		(3,029,753)	(432,685)	(2,928,952)	(432,685)
<b>Loss before income tax expense</b>		<b>(2,201,904)</b>	<b>(183,494)</b>	<b>(2,101,103)</b>	<b>(183,494)</b>
Income tax expense	10	-	-	-	-
<b>Loss after income tax expense for the period attributable to the owners of Kleos Space S.A.</b>		<b>(2,201,904)</b>	<b>(183,494)</b>	<b>(2,101,103)</b>	<b>(183,494)</b>
<b>Other comprehensive income</b>					
Items that may be reclassified subsequently to profit or loss					
Foreign currency translation		482	-	-	-
Other comprehensive income for the period, net of tax		482	-	-	-
<b>Total comprehensive loss for the period attributable to the owners of Kleos Space S.A.</b>		<b>(2,201,422)</b>	<b>(183,494)</b>	<b>(2,101,103)</b>	<b>(183,494)</b>
		<b>Cents</b>	<b>Cents</b>	<b>Cents</b>	<b>Cents</b>
Basic earnings per CDI	11	(3.440)	(0.782)	(3.283)	(0.782)
Diluted earnings per CDI	11	(3.440)	(0.782)	(3.283)	(0.782)

The above statements of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes



## Statements of Financial Position as at 31 December 2018

	Note	Consolidated		Company	
		31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
		€	€	€	€
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	12	4,263,626	456,590	4,260,974	456,590
Accrued income from government grants	5	391,600	-	391,600	-
Other current assets	13	672,237	24,672	759,930	24,672
Total current assets		5,327,463	481,262	5,412,504	481,262
<b>Non-current assets</b>					
Shares in subsidiaries	14	-	-	115	-
Property, plant and equipment	15	1,917,761	-	1,917,761	-
Total non-current assets		1,917,761	-	1,917,876	-
<b>Total assets</b>		<b>7,245,224</b>	<b>481,262</b>	<b>7,330,380</b>	<b>481,262</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade payables	16	728,710	20,590	727,910	20,590
Accrued expenses		754,189	6,866	739,826	6,866
Deferred income from government grants	5	-	436,109	-	436,109
Other current liabilities	17	717	188,691	717	188,691
Total current liabilities		1,483,616	652,256	1,468,453	652,256
<b>Total liabilities</b>		<b>1,483,616</b>	<b>652,256</b>	<b>1,468,453</b>	<b>652,256</b>
<b>Net assets/(liabilities)</b>		<b>5,761,608</b>	<b>(170,994)</b>	<b>5,861,927</b>	<b>(170,994)</b>
<b>Equity</b>					
Contributed equity	18	7,687,994	12,500	7,687,994	12,500
Reserves	19	459,012	-	458,530	-
Accumulated losses		(2,385,398)	(183,494)	(2,284,597)	(183,494)
<b>Total equity/(deficiency)</b>		<b>5,761,608</b>	<b>(170,994)</b>	<b>5,861,927</b>	<b>(170,994)</b>

The above statements of financial position should be read in conjunction with the accompanying notes





## Statements of Changes in Equity for the period ended 31 December 2018

	Contributed equity	Reserves	Accumulated losses	Total deficiency in equity
Consolidated	€	€	€	€
Balance at 6 June 2017	-	-	-	-
Loss after income tax expense for the period	-	-	(183,494)	(183,494)
Other comprehensive income for the period, net of tax	-	-	-	-
Total comprehensive income for the period	-	-	(183,494)	(183,494)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 18)	12,500	-	-	12,500
<b>Balance at 31 December 2017</b>	<b>12,500</b>	<b>-</b>	<b>(183,494)</b>	<b>(170,994)</b>

	Contributed equity	Reserves	Accumulated losses	Total equity
Consolidated	€	€	€	€
Balance at 1 January 2018	12,500	-	(183,494)	(170,994)
Loss after income tax expense for the year	-	-	(2,201,904)	(2,201,904)
Other comprehensive income for the year, net of tax	-	482	-	482
Total comprehensive income for the year	-	482	(2,201,904)	(2,201,422)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 18)	7,675,494	-	-	7,675,494
Share-based payments	-	458,530	-	458,530
<b>Balance at 31 December 2018</b>	<b>7,687,994</b>	<b>459,012</b>	<b>(2,385,398)</b>	<b>5,761,608</b>

	Contributed equity	Reserves	Accumulated losses	Total deficiency in equity
Company		€		€
Balance at 6 June 2017	-	-	-	-
Loss after income tax expense for the period	-	-	(183,494)	(183,494)
Other comprehensive income for the period, net of tax	-	-	-	-
Total comprehensive income for the period	-	-	(183,494)	(183,494)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 18)	12,500	-	-	12,500
<b>Balance at 31 December 2017</b>	<b>12,500</b>	<b>-</b>	<b>(183,494)</b>	<b>(170,994)</b>

The above statements of changes in equity should be read in conjunction with the accompanying notes



## Statements of Changes in Equity for the period ended 31 December 2018

	Contributed equity	Reserves	Accumulated losses	Total equity
Company	€	€	€	€
Balance at 1 January 2018	12,500	-	(183,494)	(170,994)
Loss after income tax expense for the year	-	-	(2,201,904)	(2,201,904)
Other comprehensive income for the year, net of tax	-	482	-	482
Total comprehensive income for the year	-	482	(2,201,904)	(2,201,422)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 18)	7,675,494	-	-	7,675,494
Share-based payments	-	458,530	-	458,530
<b>Balance at 31 December 2018</b>	<b>7,687,994</b>	<b>459,012</b>	<b>(2,385,398)</b>	<b>5,761,608</b>

The above statements of changes in equity should be read in conjunction with the accompanying notes



## Statements of Cash Flows for the period ended 31 December 2018

	Note	Consolidated		Company	
		1 Jan 2018 to 31 Dec 2018	6 Jun 2017 to 31 Dec 2017	1 Jan 2018 to 31 Dec 2018	6 Jun 2017 to 31 Dec 2017
<b>Cash flows from operating activities</b>		€	€	€	€
Receipts from grants		-	685,300	-	685,300
Payments to suppliers		(2,845,493)	(429,210)	(2,759,998)	(429,210)
Interest paid		(9,004)	-	(9,004)	-
Interest received		140	-	140	-
Net cash (used in)/from operating activities	27	(2,854,357)	256,090	(2,768,862)	256,090
<b>Cash flows from investing activities</b>					
Payments for investments		-	-	(115)	-
Payments for property, plant and equipment		(1,256,860)	-	(1,256,860)	-
Payments for related parties		-	-	(88,032)	-
Net cash used in investing activities		(1,256,860)	-	(1,345,007)	-
<b>Cash flows from financing activities</b>					
Net proceeds from issue of CDI's/shares	18	6,426,000	12,500	6,426,000	12,500
Proceeds from issue of convertible notes		1,492,253	-	1,492,253	-
Proceeds from immediate parent entity		-	188,000	-	188,000
Net cash from financing activities		7,918,253	200,500	7,918,253	200,500
Net increase in cash and cash equivalents		3,807,036	456,590	3,804,384	456,590
Cash and cash equivalents at the beginning of the financial period		456,590	-	456,590	-
<b>Cash and cash equivalents at the end of the financial period</b>	12	<b>4,263,626</b>	<b>456,590</b>	<b>4,260,974</b>	<b>456,590</b>

The above statements of cash flows should be read in conjunction with the accompanying notes

# Notes to the financial statements

## 31 December 2018



### Note 1. General information

The financial statements cover both Kleos Space S.A. (referred to as the «Company» or «parent entity») as an individual entity and the consolidated entity consisting of Kleos Space S.A. and the entities it controlled (referred to hereafter as the «consolidated entity») at the end of, or during, the period. The financial statements are presented in Euro, which is Kleos Space S.A.'s functional and presentation currency.

The financial statements of the consolidated entity and the Company have been prepared for the year ended 31 December 2018. The comparative accounting period of the Company is from 6 June 2017 (date of incorporation) to 31 December 2017, therefore the results are not directly comparable.

On 6 June 2017, the Company was registered in Luxembourg as an S.à r.l (Société à Responsabilité Limitée - private limited liability company). On 28 May 2018, the Company changed its legal form to Kleos Space S.A. (Société Anonyme - public limited liability company). On 24 August 2018, the Company completed the process of an Initial Public Offering («IPO») of its securities by listing on the Australian Securities Exchange («ASX») and on 12 December 2018, the Company completed its dual-listing of its securities on the Frankfurt Stock Exchange («FRA»).

Its Australian registered office and principal place of business are:

#### Registered office

Level 7, 330 Collins Street  
Melbourne VIC 3000  
Australia

#### Principal place of business

26 rue des Gaulois  
L-1618, Luxembourg  
Luxembourg

The principal activity of the consolidated entity during the financial year was to undertake research and development of Global, Intelligence, Surveillance & Reconnaissance («ISR») Data as a Service («DaaS») products that can collect, locate and track any device transmitting radio frequencies, enabling the consolidated entity to provide the ability to globally monitor activity of individuals, vehicles or assets without the reliance on active tracking systems.

The consolidated entity is a space enabled, activity-based intelligence DaaS based in Luxembourg. The consolidated entity aims to guard borders, protect assets and save lives by delivering global activity-based intelligence and geolocation as a service.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 27 February 2019. The directors have the power to amend and reissue the financial statements.

## Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

### New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

Accounting standards IFRS 9 «Financial Instruments» and IFRS 15 «Revenue from Contracts with Customers» were adopted since incorporation.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

### Going concern

The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

During the year ended 31 December 2018 the Company incurred a net loss of €2,101,103 (2017: net loss of €183,494). As at 31 December 2018 the Company had a net current assets of €3,944,051 (2017: net current liabilities of €170,994) and cash and cash equivalents of €4,260,974 (2017: €456,590).

In order to raise sufficient additional funding to meet the requirements of the consolidated entity's future operations and to manage its cash outflows, since 31 December 2018 the consolidated entity has undertaken the following initiatives:

- developed the satellites to launch in 2019 to deliver a revenue stream commencing in 2019;
- undertaken a programme to continue to monitor the consolidated entity's ongoing working capital requirements in line with Board approved budgets; and
- continued its focus on maintaining an appropriate level of corporate overheads in line with the consolidated entity's available cash resources and Board approved budgets.

Having considered the above factors, the directors are confident the consolidated entity will be able to continue as a going concern and pay its debts for at least 12 months from approval of these financial statements.

No adjustments have been made relating to the recoverability of recorded asset values and classification of assets and liabilities that might be necessary should the consolidated entity be unable to continue as a going concern.

## Basis of preparation

These general purpose financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted in the European Union.

### *Historical cost convention*

The financial statements have been prepared under the historical cost convention.

### *Critical accounting estimates*

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires the directors to exercise its judgement in the process of applying the consolidated entity's and Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

## Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Kleos Space S. A. as at 31 December 2018 and the results of all subsidiaries for the period then ended.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Interests in subsidiaries are accounted for at cost, less any impairment, in the parent entity. Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

## Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

## Foreign currency translation

Foreign currency transactions are translated into the entity's functional currency, mainly the Euro, using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

### *Foreign operations*

The assets and liabilities of foreign operations are translated into Euro using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Euro using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

## Revenue recognition

The consolidated entity recognises revenue as follows:

### *Government grant income*

Government grants are not recognised until there is reasonable assurance that the consolidated entity will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the consolidated entity recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the consolidated entity should purchase, construct or otherwise acquire non-current assets are recognised as deferred income from government grants in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.



## *Interest*

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

## **Research and development**

Research costs are expensed in the period in which they are incurred. Development costs will be capitalised, if and when, it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources; and intent to complete the development and its costs can be measured reliably.

## **Income tax**

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

## Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

## Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables including prepayments and VAT refundable are measured at amortised cost using the effective interest rate method, less any allowance for expected credit losses.

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

## Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless, an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of

ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

#### *Impairment of financial assets*

The consolidated entity recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the consolidated entity's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in profit or loss.

### **Property, plant and equipment**

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation commences when the asset is available for use as intended by management.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

Computer equipment	-----	4 years
Tools and equipment	-----	10 years
Furniture	-----	5 years
Satellite equipment (construction-in-progress)	-- Depreciation (over 3 years), to commence when the asset is available for its intended use.	

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

## Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

## Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

## Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial period and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Related party payables are recognised at amortised cost, less any provision for impairment.

## Employee benefits

### *Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

### *Share-based payments*

Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of CDIs, or options over CDIs, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the CDI price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using the Monte Carlo option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the CDI price at grant date and expected price volatility of the underlying CDI, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Equity-settled awards by the parent to employees of subsidiaries are recognised in the parent's individual financial statements as an increase in investment in the subsidiary with a corresponding credit to equity and not as a charge to profit or loss. The investment in subsidiary is reduced by any contribution by the subsidiary.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

### Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

### Issued capital

CDIs/shares are classified as equity.

Incremental costs directly attributable to the issue of new CDIs or options are deducted against equity. Costs including marketing costs which do not meet the definition of transaction costs are charged to the profit or loss.

### Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the consolidated entity, liabilities incurred by the consolidated entity to the former owners of the acquiree and the equity interests issued by the consolidated entity in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 'Income Taxes' and IAS 19 'Employee Benefits' respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Company consolidated entity entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 'Share-based Payment' at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a gain on bargain purchase.

When the consideration transferred by the consolidated entity in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognised in profit or loss.

Business combinations are governed by IFRS 3 'Business Combinations'. However, those involving entities under common control are outside the scope of this Standard. There is no other specific guidance on this topic elsewhere in IFRS. Management is therefore required to use judgement to develop an accounting policy that provides relevant and reliable information in accordance with IAS 8 'Accounting policies, Changes in Accounting Estimates and Errors. Accordingly, the most suitable accounting policy is the "a predecessor value method".

### *Predecessor value method*

The predecessor value method involves accounting for the assets and liabilities of the acquired business using existing carrying values. The detailed application sometimes differs but the general features of this approach are that:

- the acquired assets and liabilities are recorded at their existing carrying values rather than at fair value; and
- no goodwill is recorded.

During the prior period, the consolidated entity undertook a Business Combination Under Common Control ('BCUCC'), acquiring the operations of the Kleos Space Project from Magna Parva Limited ("immediate parent entity") for £1 consideration.

Management have concluded that the transfer of human resources, intellectual property, know-how, and a suite of other tangible items from its immediate parent entity to the consolidated entity constituted an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.

For the purposes of the BCUCC, management have applied the predecessor carrying value method and treated the net assets acquired at the same carrying values as reflected in the financial statements of its immediate parent entity.

The book value of all items transferred by its immediate parent entity in the BCUCC at the date of the transfer to the consolidated entity was \$nil as they did not meet the relevant recognition and measurement criteria of assets or liabilities in accordance with applicable accounting standards as per the judgement of the directors of the immediate parent entity. The directors of the consolidated entity adopted the same recognition and measurement criteria judgments for the net assets transferred in the BCUCC as its immediate parent entity. As a result, there was no financial impact of the BCUCC to be reflected in the financial statements for the comparative period ended 31 December 2017.

The consolidated entity has only included the transactions of the Kleos Space Project in its statement of cash flows and comprehensive income from the date that it obtained control of the project in line with the requirements of IFRS 10 'Consolidated Financial Statements'.

## **Earnings per CDI**

### *Basic earnings per CDI*

Basic earnings per CDI is calculated by dividing the profit attributable to the owners of Kleos Space S. A., excluding any costs of servicing equity other than CDIs, by the weighted average number of CDIs outstanding during the financial period, adjusted for bonus elements in CDIs issued during the financial period.



### *Diluted earnings per CDI*

Diluted earnings per CDI adjusts the figures used in the determination of basic earnings per CDI to take into account the after income tax effect of interest and other financing costs associated with dilutive potential CDIs and the weighted average number of CDIs assumed to have been issued for no consideration in relation to dilutive potential CDIs.

### **Value Added Tax ('VAT') and other similar taxes**

Revenues, expenses and assets are recognised net of the amount of associated VAT, unless the VAT incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of VAT receivable or payable. The net amount of VAT recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The VAT components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of VAT recoverable from, or payable to, the tax authority.

### **New Accounting Standards and Interpretations not yet mandatory or early adopted**

International Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 31 December 2018. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

#### *IFRS 16 Leases*

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces IAS 17 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset and lease liability are recognised at the commencement of the lease. The right-of-use asset is recognised at an amount that is equivalent to the initial measurement of the lease liability, adjusted for lease prepayments, lease incentives received, initial direct costs incurred, and an estimate of any future restoration, removal or dismantling costs. The lease liability is recognised at the present value of future lease payments comprising fixed lease payments less incentives, variable lease payments, residual guarantees payable, payment of purchase options where exercise is reasonably certain, and any anticipated termination penalties. The lease payments are discounted at the rate implicit in the lease, or where not readily determinable, the entity's incremental borrowing rate. The exceptions relate to short-term leases of 12 months or less and leases of low-value

assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under IFRS 16 will be higher when compared to lease expenses under IAS 17. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under IFRS 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 January 2019, the impact of its adoption is minimal as the consolidated entity has only one lease as per note 23.

#### *IASB revised Conceptual Framework for Financial Reporting*

The revised Conceptual Framework is applicable for annual reporting periods beginning on or after 1 January 2020 and the application of the new definition and recognition criteria may result in future amendments to several accountings standards. Furthermore, entities who rely on the conceptual framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under Accounting Standards may need to revisit such policies. The consolidated entity will apply the revised conceptual framework from 1 January 2020 and is yet to assess its impact.

### **Note 3. Critical accounting judgements, estimates and assumptions**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

#### **Share-based payment transactions**

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Monte Carlo model taking into account the terms and conditions upon which the instruments

were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

### **Impairment of non-financial assets**

The consolidated entity assesses impairment of non-financial assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

### **Income tax**

The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

### **Recovery of deferred tax assets**

Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

### **Development costs**

Development costs have not been capitalised until the technical feasibility of completing the intangible asset has been achieved and it is probable that the future economic benefits generated will flow to the consolidated entity. It is anticipated that the technical feasibility will be complete after the first satellite launch.

### **Government grant income**

The consolidated entity's only income source for the period related to funding received as part of a grant made by the European Space Agency acting on behalf of the Government of Luxembourg. To the extent that all payments are made by the Agency against milestone delivery, the consolidated entity has recognised revenue in line with expenditure, and recognised the balance as a liability.

## Note 4. Operating segments

### Identification of reportable operating segments

The consolidated entity operates in one segment (Research and Development - technology), based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

As a result, the operating segment information is as disclosed in the statements and notes to the financial statements throughout the report.

## Note 5. Income - Government grants

	Consolidated (€)		Company (€)	
	1 Jan 2018 to 31 Dec 2018	6 Jun 2017 to 31 Dec 2017	1 Jan 2018 to 31 Dec 2018	6 Jun 2017 to 31 Dec 2017
Income - Government grants	827,709	249,191	827,709	249,191

The consolidated entity's only income source related to funding received as part of a grant made by the European Space Agency acting on behalf of the Government of Luxembourg. To the extent that all payments are made by the Agency against relevant milestone delivery, the consolidated entity has recognised revenue in line with expenditure, and recognised the balance as a liability. Accrued income is recognised as an asset for amount receivable against revenue recognised on milestone delivery. The consolidated entity recognised revenue of €391,600 in line with expenditure incurred during the year ended 31 December 2018.

The reconciliation of the grant money received to revenue recognised is as follows:

	Consolidated (€)		Company (€)	
	1 Jan 2018 to 31 Dec 2018	6 Jun 2017 to 31 Dec 2017	1 Jan 2018 to 31 Dec 2018	6 Jun 2017 to 31 Dec 2017
Income recognised – conditions satisfied	436,109	249,191	436,109	249,191
Income deferred – conditions unsatisfied	-	436,109	-	436,109
Income accrued – conditions satisfied	391,600	-	391,600	-
Total grant funding received	827,709	685,300	827,709	685,300

The Company received €685,300 during the year ended 31 December 2017 and €391,600 on 21 February 2019. Total grant funding received so far is €1,076,900 against a grant commission of €1,958,000.

## Note 6. Operating expenses

	Consolidated (€)		Company (€)	
	1 Jan 2018 to 31 Dec 2018	6 Jun 2017 to 31 Dec 2017	1 Jan 2018 to 31 Dec 2018	6 Jun 2017 to 31 Dec 2017
Administration expenses	248,369	22,412	248,369	22,412
Consulting and professional fees*	740,627	23,928	738,935	23,928
Occupancy expenses	50,021	11,229	50,021	11,229
Travel expenses	170,652	21,044	170,652	21,044
	1,209,669	78,613	1,207,977	78,613

\*Consultancy and professional fees includes auditors remuneration, refer note 9.

## Note 7. Staff costs and employee benefit expenses

	Consolidated (€)		Company (€)	
	1 Jan 2018 to 31 Dec 2018	6 Jun 2017 to 31 Dec 2017	1 Jan 2018 to 31 Dec 2018	6 Jun 2017 to 31 Dec 2017
Salaries and benefits	1,217,479	164,000	1,117,930	164,000
Share-based payments	463,000	-	463,000	-
Payroll tax	-	38,909	-	38,909
	1,680,479	202,909	1,580,930	202,909

	Consolidated		Company	
	1 Jan 2018 to 31 Dec 2018	6 Jun 2017 to 31 Dec 2017	1 Jan 2018 to 31 Dec 2018	6 Jun 2017 to 31 Dec 2017
Salaries and benefits	9	6	8	6

## Note 8. Expenses

	Consolidated (€)		Company (€)	
	1 Jan 2018 to 31 Dec 2018	6 Jun 2017 to 31 Dec 2017	1 Jan 2018 to 31 Dec 2018	6 Jun 2017 to 31 Dec 2017
Loss before income tax includes the following specific expenses:				
Depreciation				
Computer equipment	1,648	-	1,648	-
Tools and equipment	4,399	-	4,399	-
Furniture	52	-	52	-
Total depreciation	6,099	-	6,099	-
<i>Net foreign exchange loss</i>				
Net foreign exchange loss	10,728	1,739	11,196	1,739
<i>Rental expense relating to operating leases</i>				
Minimum lease payments	50,021	11,229	50,021	11,229

## Note 9. Remuneration of auditors

During the financial period the following fees were paid or payable for services provided by Deloitte Audit S.à r.l, the auditor of the Company, and its network firms:

	Consolidated (€)		Company (€)	
	1 Jan 2018 to 31 Dec 2018	6 Jun 2017 to 31 Dec 2017	1 Jan 2018 to 31 Dec 2018	6 Jun 2017 to 31 Dec 2017
<i>Audit services - Deloitte Audit S.à r.l</i>				
Audit or review of the financial statements	62,060	-	62,060	-
<i>Audit services - network firms</i>				
Audit or review of the financial statements	-	48,242	-	48,242
<i>Other services - network firms</i>				
Other services	54,645	-	54,645	-
	54,645	48,242	54,645	48,242

## Note 10. Income tax

	Consolidated (€)		Company (€)	
	1 Jan 2018 to 31 Dec 2018	6 Jun 2017 to 31 Dec 2017	1 Jan 2018 to 31 Dec 2018	6 Jun 2017 to 31 Dec 2017
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>				
Loss before income tax expense	(2,201,904)	(183,494)	(2,101,103)	(183,494)
<i>Tax at the statutory tax rate of 26.01% (2017: 27.08%)</i>	(572,715)	(49,690)	(546,497)	(49,690)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:				
<i>Current period tax losses not recognised</i>	572,715	49,690	546,497	49,690
<i>Income tax expense</i>	-	-	-	-

Given the consolidated entity is in the early stages of development, it is not probable that taxable income will be generated and, therefore, no deferred tax assets in relation to temporary differences or tax losses have been included in the financial statements.

## Note 11. Earnings per CDI

	Consolidated		Company	
	1 Jan 2018 to 31 Dec 2018	6 Jun 2017 to 31 Dec 2017	1 Jan 2018 to 31 Dec 2018	6 Jun 2017 to 31 Dec 2017
	€	€	€	€
Loss after income tax attributable to the owners of Kleos Space S.A.	(2,201,904)	(183,494)	(2,101,103)	(183,494)
	number	number	number	number
Weighted average number of CDIs used in calculating basic earnings per CDI	64,006,995	23,460,000	64,006,995	23,460,000
	cents	cents	cents	cents
Basic earnings per CDI	(3.440)	(0.782)	(3.283)	(0.782)
Diluted earnings per CDI	(3.440)	(0.782)	(3.283)	(0.782)

The weighted average number of CDIs has been adjusted for the effect of the share split that occurred on 28 May 2018, in accordance with IAS 33 'Earnings per share'.

At 31 December 2018, 29,500,000 (2017: nil) performance rights and 4,000,000 options (2017: nil) over CDIs have been excluded from the calculation of the weighted average number of CDIs used in calculating diluted earnings per CDI as they are anti-dilutive.

#### Note 12. Current assets - cash and cash equivalents

	Consolidated (€)		Company (€)	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Cash on hand	88	19	88	19
Cash at bank	4,248,766	456,571	4,246,114	456,571
Cash on deposit	14,772	-	14,772	-
	<u>4,263,626</u>	<u>456,590</u>	<u>4,260,974</u>	<u>456,590</u>

The cash and cash equivalents disclosed above and in the statement of cash flows include €14,772 which represents deposits held by various landlords. These deposits are not available to the consolidated entity for general use.

#### Note 13. Current assets - other current assets

	Consolidated (€)		Company (€)	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Receivable from subsidiary	-	-	88,032	-
Prepayments	520,839	2,287	520,839	2,287
Net VAT refundable	151,398	22,223	151,059	22,223
Other current assets	-	162	-	162
	<u>672,237</u>	<u>24,672</u>	<u>759,930</u>	<u>24,672</u>

Receivable from subsidiary is repayable on demand and is non-interest bearing.

Prepayments represents payments to Rocket Lab in relation to the launch of the Satellite and also includes other prepayments for insurance.



## Note 14. Non-current assets - shares in subsidiaries

	Consolidated (€)		Company (€)	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Shares in subsidiaries	-	-	115	-

### Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		31 December 2018	31 December 2017
		%	%
Kleos Space (Asia Pacific) Pty Ltd*	Australia	100%	-
Kleos Space Ltd**	United Kingdom	100%	-

\* Dormant company, incorporated on 19 March 2018

\*\* Incorporated on 13 November 2018

## Note 15. Non-current assets - property, plant and equipment

	Consolidated (€)		Company (€)	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Computer equipment - at cost	5,149	-	5,149	-
Less: Accumulated depreciation	(1,648)	-	(1,648)	-
	3,501	-	3,501	-
Tools and equipment - at cost	67,245	-	67,245	-
Less: Accumulated depreciation	(4,399)	-	(4,399)	-
	62,846	-	62,846	-
Furniture - at cost	350	-	350	-
Less: Accumulated depreciation	(52)	-	(52)	-
	298	-	298	-
Satellite equipment (construction-in-progress)	1,851,116	-	1,851,116	-
	1,917,761	-	1,917,761	-

## Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial period are set out below:

	Computer equipment	Tools and equipment	Furniture	Satellite equipment (construction-in- progress)	Total
Consolidated	€	€	€	€	€
Balance at 6 June 2017	-	-	-	-	-
Balance at 31 December 2017	-	-	-	-	-
Additions	5,149	67,245	350	1,851,116	1,923,860
Depreciation expense	(1,648)	(4,399)	(52)	-	(6,099)
Balance at 31 December 2018	3,501	62,846	298	1,851,116	1,917,761

The reconciliation of the written down values of the consolidated entity and the Company are the same.

## Note 16. Current liabilities - trade payables

	Consolidated (€)		Company (€)	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Trade payables	728,710	20,590	727,910	20,590

Refer to note 21 for further information on financial instruments

## Note 17. Current liabilities - other current liabilities

	Consolidated (€)		Company (€)	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Loan with immediate parent entity	-	188,000	-	188,000
Other current liabilities	717	691	717	691
	717	188,691	717	188,691

On 28 May 2018, the loan with the immediate parent entity was converted to 1,540,000 CDIs in the Company

## Note 18. Equity - contributed equity

	Consolidated			
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
	CDIs	CDIs	€	€
CHESS Depository Interests (2017: Ordinary shares) - fully paid	106,627,500	500	7,687,994	12,500

	Company			
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
	CDIs	CDIs	€	€
CHESS Depository Interests (2017: Ordinary shares) - fully paid	106,627,500	500	7,687,994	12,500

### Movements in CDI/shares

Details	Date	Shares/CDIs	Issue price	€
Balance	6 June 2017	-	-	-
Shares issued		500	€25.0000	12,500
Balance	31 December 2017	500		12,500
Cancellation of ordinary shares	28 May 2018	(500)	€0.0000	-
Ordinary shares split into CDIs	28 May 2018	23,460,000	€0.0000	-
Issue of CDIs - Debt to equity swap	28 May 2018	1,540,000	€0.0000	188,000
Issue of CDIs	29 May 2018	3,470,000	€0.0010	3,470
Issue of CDIs	29 May 2018	3,470,000	€0.0010	3,470
Issue of CDIs	29 May 2018	1,000,000	€0.0010	1,000
Issue of CDIs	23 August 2018	55,000,000	€0.1286	7,070,338
Issue of CDIs on conversion of convertible notes	23 August 2018	14,687,500	€0.1021	1,499,681
Issue of CDIs to Hunter Capital Advisors Pty Ltd	23 August 2018	4,000,000	€0.0010	4,000
Transactions costs		-	€0.0000	(1,094,465)
<b>Balance</b>	31 December 2018	<b>106,627,500</b>		<b>7,687,994</b>

CHESS Depository Interests ('CDI') entitles the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the CDIs held.

All CDIs carry one vote per CDI.

The Company does not have a limited amount of authorised capital.

### CDI buy-back

There is no current on-market CDI buy-back.

### Capital risk management

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new CDIs or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company is seen as value adding relative to the current company's CDI price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The capital risk management policy remains unchanged from the 2017 Annual Report.

## Note 19. Equity - reserves

	Consolidated (€)		Company (€)	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Foreign currency reserve	482	-	-	20,590
Share-based payments reserve	458,530	-	458,530	-
	459,012	-	458,530	-

### Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Euro.

### Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

## Movements in reserves

Movements in each class of reserve during the current and previous financial period are set out below:

	Foreign currency €	Share-based payments €	Total €
<b>Consolidated</b>			
Balance at 6 June 2017	-	-	-
Balance at 31 December 2017	-	-	-
Foreign currency translation	482	-	482
Share-based payments	-	458,530	458,530
Balance at 31 December 2018	482	458,530	459,012
	Foreign currency €	Share-based payments €	Total €
<b>Company</b>			
Balance at 6 June 2017	-	-	-
Balance at 31 December 2017	-	-	-
Foreign currency translation	-	-	-
Share-based payments	-	458,530	458,530
Balance at 31 December 2018	-	458,530	458,530

## Note 20. Equity - dividends

There were no dividends paid, recommended or declared during the current or previous financial period.

## Note 21. Financial instruments

### Financial risk management objectives

The consolidated entity's activities expose it to minimal financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program seeks to minimise potential adverse effects on the financial performance of the consolidated entity.

Risk management is carried out by the Board of Directors ('the Board'). The Board uses different methods to measure different types of risks to which the consolidated entity is exposed. These methods include ageing analysis for credit risk and sensitivity analysis in the case of interest rate risk.

## Market risk

### Foreign currency risk

The consolidated entity undertakes transactions denominated primarily in Euro, post IPO the capital raised was converted from Australian dollars to Euro minimising any present foreign currency risk.

The carrying amount of the consolidated entity's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

Consolidated	Assets (€)		Liabilities (€)	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Pound Sterling	2,991	-	(16,041)	-

No sensitivity analysis has been performed on the consolidated entity's net foreign currency liabilities €13,050 as the exposure to foreign currency risk is not significant.

The Company did not carry any foreign currency denominated financial assets and financial liabilities at the reporting date.

### Price risk

The consolidated entity is not exposed to any significant price risk.

### Interest rate risk

At the reporting date, the consolidated entity had no variable rate borrowings.

Cash at bank earns interest at floating rates based on daily bank deposit rates.

As at the reporting date, the consolidated entity and the Company had the following variable rate cash and cash equivalents:

Consolidated	31 December 2018		31 December 2017	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	%	€	%	€
Cash at bank	-	4,248,766	-	456,571
Cash on deposit	-	14,772	-	-
Net exposure to cash flow interest rate risk		<u>4,263,538</u>		<u>456,571</u>

	31 December 2018		31 December 2017	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
Company	%	€	%	€
Cash at bank	-	4,246,114	-	456,571
Cash on deposit	-	14,772	-	-
Net exposure to cash flow interest rate risk		<u>4,260,886</u>		<u>456,571</u>

No sensitivity analysis has been performed for the exposure to interest rate risk on the consolidated entity's and the Company's bank balance as the exposure is not significant.

### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity.

The consolidated entity monitors the receivables on an ongoing basis and its exposure to bad debts is not significant.

The consolidated entity's bank balance is deposited with creditworthy a bank with no recent history of default.

The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any allowance for expected credit losses of those assets, as disclosed in the statement of financial position and notes to the financial statements.

### Liquidity risk

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

### Remaining contractual maturities

The following table details the consolidated entity's and Company's remaining contractual maturity for its financial instrument liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid.

	Weighted average interest rate	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
Consolidated 31 December 2018	%	€	€	€	€	€
<i>Non-derivatives</i>						
<i>Non-interest bearing</i>						
Trade payables	-	728,710	-	-	-	728,710
Other current liabilities	-	717	-	-	-	717
Total non-derivatives		729,427	-	-	-	729,427

	Weighted average interest rate	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
Consolidated 31 December 2017	%	€	€	€	€	€
<i>Non-derivatives</i>						
<i>Non-interest bearing</i>						
Trade payables	-	20,590	-	-	-	20,590
Loan with immediate parent entity	-	188,000	-	-	-	188,000
Other current liabilities		691	-	-	-	691
Total non-derivatives		209,281				209,281

	Weighted average interest rate	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
Company 31 December 2018	%	€	€	€	€	€
<i>Non-derivatives</i>						
<i>Non-interest bearing</i>						
Trade payables	-	727,910	-	-	-	727,910
Other current liabilities	-	717	-	-	-	717
Total non-derivatives		728,627	-	-	-	728,627



	Weighted average interest rate	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
Company	%	€	€	€	€	€
<b>31 December 2017</b>						
<i>Non-derivatives</i>						
<i>Non-interest bearing</i>						
Trade payables	-	20,590	-	-	-	20,590
Loan with immediate parent entity	-	188,000	-	-	-	188,000
Other current liabilities		691	-	-	-	691
Total non-derivatives		209,281				209,281

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

### Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

## Note 22. Contingent liabilities

The consolidated entity had no contingent liabilities as at 31 December 2018 and 31 December 2017.

## Note 23. Commitments

	Consolidated (€)		Company (€)	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
<b>Capital commitments*</b>				
Committed at the reporting date but not recognised as liabilities, payable:				
Property, plant and equipment (satellite and launch)	2,159,000	-	2,159,000	-
<b>Lease commitments - operating**</b>				
Committed at the reporting date but not recognised as liabilities, payable:				
Within one year	59,100	26,400	59,100	26,400
One to five years	39,400	39,600	39,400	39,600
	98,500	66,000	98,500	66,000

\* The capital expenditure in relation to property, plant and equipment represents the consolidated entity's contract for the Satellite procurement.

\*\* Operating lease relates to lease of premises with a lease term of 2 years (2017: 3 years).

## Note 24. Related party transactions

### Parent entity

Magna Parva Limited is a company incorporated in the United Kingdom, is the immediate parent entity of the Company.

### Subsidiaries

Interests in subsidiaries are set out in note 14.

### Key management personnel

Disclosures relating to key management personnel are set out in note 25.

### Transactions with related parties

During the period ended 31 December 2017, the Company undertook a Business Combination Under Common Control ('BCUCC'), acquiring the 'carve-out' operations of the Kleos Space Project from its immediate parent entity. Please refer to note 26 for the details of the transaction.

The following transactions occurred with related parties:

	Consolidated (€)		Company (€)	
	1 Jan 2018 to 31 Dec 2018	6 Jun 2017 to 31 Dec 2017	1 Jan 2018 to 31 Dec 2018	6 Jun 2017 to 31 Dec 2017
Payment for goods and services:				
Payments for salaries on behalf of subsidiary	-	-	88,147	-

### Receivable from and payable to related parties

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated (€)		Company (€)	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Current receivables:				
Receivable from subsidiary	-	-	88,032	-

All transactions were made on normal commercial terms and conditions, at market rates and settled in cash.

### Loans to/from related parties

The following balances are outstanding at the reporting date in relation to loans with related parties:

	Consolidated (€)		Company (€)	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Current payables:				
Loan with immediate parent entity	-	188,000	-	188,000

On 28 May 2018, the loan with the immediate parent entity was converted to 1,540,000 CDIs in the Company.

## Note 25. Key management personnel disclosures

### Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated (€)		Company (€)	
	1 Jan 2018 to 31 Dec 2018	6 Jun 2017 to 31 Dec 2017	1 Jan 2018 to 31 Dec 2018	6 Jun 2017 to 31 Dec 2017
Short-term employee benefits	467,888	132,479	467,888	132,479

## Note 26. Business combinations

During the period ended 31 December 2017, the Company undertook a Business Combination Under Common Control ('BCUCC'), acquiring the operations of the Kleos Space Project from its then 100% shareholder, Magna Parva Limited for £1 consideration.

The directors of the Company had concluded that the transfer of human resources, intellectual property, know-how, and a suite of other tangible items from Magna Parva Limited to the Company constituted an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.

For the purposes of the BCUCC, the directors of the Company had applied the predecessor carrying value method and treated the net assets acquired at the same carrying values as reflected in the financial statements of its shareholder, Magna Parva Limited.

The book value of all items transferred by Magna Parva Limited in the BCUCC at the date of the transfer to the Company was \$nil as they did not meet the relevant recognition and measurement criteria of assets or liabilities in accordance with applicable accounting standards as per the judgement of the directors of Magna Parva Limited. The directors of the Company had adopted the same recognition and measurement criteria judgments for the net assets transferred in the BCUCC as its parent, Magna Parva Limited. As a result, there was no financial impact of the BCUCC to be reflected in the comparative financial statements for the period ended 31 December 2017.

The consolidated entity has only included the transactions of the Kleos Space Project in its statement of cash flows and comprehensive income from the date that it obtained control of the project in line with the requirements of IFRS 10 'Consolidated Financial Statements'.

## Note 27. Reconciliation of loss after income tax to net cash (used in)/from operating activities

	Consolidated (€)		Company (€)	
	1 Jan 2018 to 31 Dec 2018	6 Jun 2017 to 31 Dec 2017	1 Jan 2018 to 31 Dec 2018	6 Jun 2017 to 31 Dec 2017
Loss after income tax expense for the period	(2,201,904)	(183,494)	(2,101,103)	(183,494)
Adjustments for:				
Share-based payments	463,000	-	463,000	-
Foreign exchange differences	482	-	-	-
Depreciation	6,099	-	6,099	-
Change in operating assets and liabilities:				
Increase in other current assets	(647,565)	(24,672)	(647,226)	(24,672)
Increase in accrued income from government grants	(391,600)	-	(391,600)	-
Increase/(decrease) in trade payables	(206,109)	20,590	(206,909)	20,590
Increase in accrued expenses	-	6,866	-	6,866
Increase in other operating liabilities	123,240	436,800	108,877	436,800
Net cash (used in)/from operating activities	(2,854,357)	256,090	(2,768,862)	256,090

## Note 28. Non-cash investing and financing activities

	Consolidated (€)		Company (€)	
	1 Jan 2018 to 31 Dec 2018	6 Jun 2017 to 31 Dec 2017	1 Jan 2018 to 31 Dec 2018	6 Jun 2017 to 31 Dec 2017
CDIs issued on conversion of loan with immediate parent entity	188,000	-	188,000	-
CDIs issued on conversion of convertible notes	1,499,681	-	1,499,681	-
	1,687,681	-	1,687,681	-

## Note 29. Changes in liabilities arising from financing activities

### Consolidated

	Convertible notes payable	Loan with immediate parent entity	Total
	€	€	€
Balance at 6 June 2017	-	-	-
Loan received	-	188,000	188,000
Balance at 31 December 2017	-	188,000	188,000
Proceeds from convertible notes	1,492,253	-	1,492,253
Conversion to CDIs	(1,499,681)	(188,000)	(1,687,681)
Exchange differences	7,428	-	7,428
Balance at 31 December 2018	-	-	-

### Company

	Convertible notes payable	Loan with immediate parent entity	Total
	€	€	€
Balance at 6 June 2017	-	-	-
Loan received	-	188,000	188,000
Balance at 31 December 2017	-	188,000	188,000
Proceeds from convertible notes	1,492,253	-	1,492,253
Conversion to CDIs	(1,499,681)	(188,000)	(1,687,681)
Exchange differences	7,428	-	7,428
Balance at 31 December 2018	-	-	-

## Note 30. Share-based payments

Set out below are summaries of options granted to suppliers for goods and services:

### 31 December 2018

Grant date	Expiry date	Exercise price	Balance at the start of the period	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the period
24/08/2018	17/08/2021	A\$0.3000	-	4,000,000	-	-	4,000,000
			-	4,000,000	-	-	4,000,000

There were no options granted during 2017.

The weighted average remaining contractual life of options outstanding at the end of the financial period was 3 years (2017: N/A years).

The share-based payment expense recognised for employee services received during the year ended 31 December 2018 was €463,000 (2017: €nil).

Set out below are summaries of performance rights granted:

### 31 December 2018

Grant date	Expiry date	Exercise price	Balance at the start of the period	Granted	Exercised	Expired/ forfeited/ other*	Balance at the end of the period
29/05/2018	26/03/2019	€0.0000	-	500,000	-	-	500,000
29/05/2018	29/05/2019	€0.0000	-	1,000,000	-	-	1,000,000
29/05/2018	29/11/2019	€0.0000	-	18,500,000	-	-	18,500,000
29/05/2018	29/05/2019	€0.0000	-	4,000,000	-	(4,000,000)	-
29/05/2018	29/05/2020	€0.0000	-	9,500,000	-	-	9,500,000
			-	33,500,000	-	(4,000,000)	29,500,000

\* Other relates to the performance rights cancelled on the resignation of a consultant.

There were no performance shares granted during 2017.

The weighted average remaining contractual life of performance rights outstanding at the end of the financial period was 1.55 years (2017: N/A years).

Fair value determined at the grant date is recorded as an expense using the straight line method over the vesting period and adjusted for the effect of non-market based vesting conditions. Where the fair value calculation requires modelling of the Company's performance against other market index, fair value is measured using the Monte Carlo pricing model to estimate the forecasted target performance goal for the Company. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, and behavioural considerations. In addition, the expected annualized volatility has been set by reference to the implied volatility of options available on Kleos Space S.A. shares in the open market, as well as, historical patterns of volatility.

### **Note 31. Events after the reporting period**

No matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.



To the Shareholders of  
Kleos Space S.A. (formerly known as Kleos Space S.à r.l.)  
26, rue des Gaulois,  
L-1618 Luxembourg

## REPORT OF THE REVISEUR D'ENTREPRISES AGREE

### Report on the audit of the consolidated and standalone financial statements

#### Opinion

In our opinion, the accompanying consolidated and standalone financial statements give a true and fair view of the consolidated and standalone financial position of Kleos Space S.A. (formerly known as Kleos Space S.à r.l.) (the "Company") and its subsidiaries (together the "Group") as at December 31, 2018 and of its consolidated and standalone financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted in the European Union.

Our opinion is consistent with our additional report to the Audit and Risk Management Committee.

#### What we have audited

The consolidated and standalone financial statements comprise:

- The consolidated and standalone statement of financial position as at December 31, 2018;
- The consolidated and standalone statement of income for the year then ended;
- The consolidated and standalone statement of comprehensive income for the year then ended;
- The consolidated and standalone statement of cash flows for the year then ended;
- The consolidated and standalone statement changes in equity for the year then ended; and
- The notes to the financial statements, which include a summary of significant accounting policies

#### Basis for Opinion

We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of July 23, 2016 on the audit profession (Law of July 23, 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under those Regulation, Law and standards are further described in the "Responsibilities of "Réviseur d'Entreprises Agréé" for the Audit of the consolidated and standalone financial statements" section of our report.

We are also independent of the Company in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated and standalone financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements.

To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of the Regulation.

## Other matter

The financial statements of Kleos Space S.A. (former Kleos Space S.à r.l.) for the year ended December 31, 2017 were audited by another auditor who expressed an unmodified opinion on those annual accounts on May 22, 2018.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and standalone financial statements of the current year and include the most significant assessed risks of material misstatements (whether or not due to fraud). These matters were addressed in the context of the audit of the consolidated and standalone financial statements as whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Recognition of Research and development costs

### a) *Why the matter was considered to be one of the most significant in the audit*

As disclosed in the consolidated statement of income and consolidated statement of comprehensive income the Group has expensed all research and development expenditures for the year ended December 31, 2018: EUR 113,932 (EUR 148,950 for the year ended December 31, 2017) in the statement of income.

The Group research and development personnel are involved in the development of Radio Frequency geolocation techniques, Radio Frequency signal analysis techniques, data science techniques including machine learning, satellite technologies, and data processing methodologies in order to provide a RF Geolocation Data as a Service series of products to information users in the defence and security Intelligence Surveillance and Reconnaissance market and as well to perform the necessary tests on the equipment for launching their own LEO Earth Observation nano-satellite.

Given the judgments involved in assessing whether the requirements detailed in the IAS 38 "Intangible assets" accounting standard for expensing or capitalizing the research and development costs have been met, we have focused our analysis on these judgments.

Significant judgements relevant to the Group and as well for the parent entity for capitalization of research and development include determining if the research and development cost has met:

- Technical feasibility criteria;
- Economic feasibility criteria

*b) How our audit addressed the matter*

In responding to the significant judgement involved in determining, whether research and development costs have been recognized in accordance with the relevant accounting standard IAS 38 "Intangible assets", our audit procedures included:

- Obtaining an understanding of Company's process for assessing whether any research and development cost has met all of the IAS 38 "Intangible assets" recognition criteria;
- Reviewing the analysis prepared by management of the Company related to research and development cost for the year;
- Meeting with management and discussed the nature of the work being completed and their assessment on the stage of technical development and economic feasibility;
- Considering other information obtained during the audit (performing test of details), including products and solutions being developed in relation to potential customer contracts, the stage of related sales prospects, to determine whether the status of these contracts corroborated management's assertions over the technical feasibility and the ability to generate future economic benefits.

## Valuation of shared based payments

*a) Why the matter was considered to be one of the most significant in the audit*

As described in the Note 30, in the current period the Company awarded share-based payments in the form of shares. The awards vest subject to the achievement of certain vesting conditions. These share-based payments transactions are classified by the Company as an equity settled share base payment transaction.

The Company used the Monte Carlo pricing model to estimate the forecasted target performance goal for the company. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, and behavioural considerations. In addition, the expected annualized volatility has been set by reference to the implied volatility of options available in the open market, as well, as historical patterns of volatility.

The Company has performed calculations to record the related share based payment expense of EUR 463,000 in the consolidated statement of comprehensive income.

Due to the complexity of the estimates and its judgmental characteristics, we consider the Company's calculation of the valuation of the share based payment expense to be a key audit matter.

*b) How our audit addressed the matter*

For the share option awards granted, our audit procedures included assessing:

- Compared terms and conditions for the options issued during the financial year included in the expense calculations with appropriate Board minutes and letter of advice to the employees;
- Obtaining an understanding of Company's process for estimating the share-based awards expense for the year;
- Compared the option grant date used in the expense calculation to publicly available information;
- Obtained the Group's options valuation report and assessed the reasonableness of selected inputs used in valuation of the share options using available supporting data;
- Assessed the assumptions used in the Group's calculation being the share price of the underlying equity, interest rate, volatility, dividend yield, time to maturity (expected life) and grant date. We involved our valuation specialists in assessing these assumptions; and
- We also assessed the accuracy of the calculation of the share based payments expense and the accuracy of the disclosure included in the consolidated financial statements.

**Other information**

The Board of Directors is responsible for the other information. The other information comprises the information included in the Director's Report, Remuneration Report and Corporate Governance Report but does not include the consolidated and standalone financial statements and our report of the "Réviseur d'Entreprises Agréé" thereon.

Remuneration Report and Corporate Governance Report are expected to be made available to us after the date of this "Réviseur d'Entreprises Agréé"'s report.

Our opinion on the consolidated and standalone 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 and standalone financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated and standalone financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the Remuneration Report and Corporate Governance Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.



## **Responsibilities of the Board of Directors and Those Charged with Governance for the consolidated and standalone financial statements**

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

In preparing the consolidated and standalone financial statements, the Board of Directors is responsible for assessing the Company'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 Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

In preparing the consolidated and standalone financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matter related to going concern and using the going concern basis of accounting unless the Board of Directors 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 and standalone financial statements**

The objectives of our audit are to obtain a reasonable assurance about whether the consolidated and standalone financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of "Réviseur d'Entreprises Agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N°537/2014, the Law of July 23, 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 and standalone financial statements.

As part of an audit in accordance with the EU Regulation N° 537/2014, the Law of July 23, 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and standalone 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 Directors.
- Conclude on the appropriateness of the Board of Directors' 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 "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 "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 and standalone 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and standalone financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on Other Legal and Regulatory Requirements

We have been appointed as "Réviseur d'Entreprises Agréé" by the General Meeting of Directors and the duration of our uninterrupted engagement, including previous renewals and reappointments is 1 year.

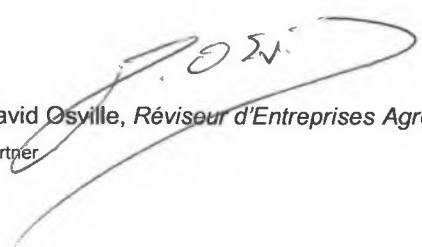
The Director's Report, which is the responsibility of the Board of Directors, is consistent with the consolidated and standalone financial statements and has been prepared in accordance with applicable legal requirements.

The accompanying Corporate Governance Statement, as included in the Corporate's directory is the responsibility of the Board of Directors. The information required by Article 68ter paragraph (1) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

We confirm that the audit opinion is consistent with the additional report to the audit committee or equivalent.

We confirm that the prohibited non-audit services referred to in the EU Regulation N° 537/2014, on the audit profession were not provided and that we remain independent of the Company in conducting the audit.

For Deloitte Audit, *Cabinet de Révision Agréé*

  
David Osyille, Réviseur d'Entreprises Agréé  
Partner

February 28, 2019



**KLEOS SPACE S.A.**

(Formerly known as Kleos Space S.à r.l.)

ARBN 625 668 733 / RCS B215591

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