GomSpace A/S

CVR No 30 89 98 49

Annual Report

January 1, 2018

-

December 31, 2018

The Annual Report was presented and adopted at the Annual General Meeting of the Company:

Chairman

Name JUKKA PERTOLA Date: 23/5 2019

Home Address: Langagervej 6, DK-9220 Aalborg East
CVR No.: 30 89 98 49

Contents

Company information

Company
GomSpace A/S
Langagervej 6
DK-9220 Aalborg East
Denmark

CVR No.	30 89 98 49
Municipality of reg. office	Aalborg
Telephone	+45 71 741 741
Website	www.gomspace.com
E-mail	info@gomspace.com

Board of Directors
Jukka Pekka Pertola, Chairman
Niels Jesper Jespersen Jensen
Steen Lorenz Johan Hansen

Executive Board
Niels Buus

Auditors
Ernst & Young Godkendt Revisionspartnerselskab

Key figures

	2018 T.DKK	2017 T.DKK	2016 T.DKK	2015 T.DKK	2014 T.DKK
5 years' key figures					
Net revenue	111.225	74.146	44.278	27.174	21.836
Gross profit	37.496	20.333	24.429	13.708	9.039
Operating profit (loss)	-59.920	-44.160	-1.210	-1.879	1.445
Net financial items	-2.674	-4.237	-896	-611	-146
Profit (loss) before tax	-62.594	-48.397	-2.106	-2.490	1.299
Profit (loss) for the year	-59.718	-38.827	-1.668	-1.889	1.004
Investments in PPE	15.660	13.865	4.660	457	433
Total assets	198.138	149.893	53.313	24.521	14.907
Equity	83.032	44.750	27.577	11.245	6.042
Total liabilities	115.106	105.143	25.736	13.276	8.865
5 years' ratios					
Gross margin	34%	27%	55%	50%	56%
Operating margin	-54%	-60%	-3%	-7%	7%
Net margin	-54%	-52%	-4%	-7%	5%
Return on invested capital (%)	-30%	-26%	-3%	-8%	7%
Return on equity (%)	-108%	-107%	-9%	-22%	18%
Equity ratio (%)	42%	30%	52%	46%	41%
Earnings per share, basic	-6,2	-8,1	-0,8	-1,9	1,7

Key figures definitions

Operating margin (operating profit * 100 / net revenue)
Gross margin (gross profit * 100 / net revenue)
Net margin (profit for the year * 100/ net revenue)
Return on invested capital (profit for the year * 100 / total assets)
Return on equity (profit for the year * 100 / average equity)
Equity ratio (equity * 100 / total assets)
Earning per share (profit for the year / number of shares)

Management's statement

The Executive Board and Board of Directors have today discussed and approved the Annual Report of GomSpace A/S for the financial year 1 January - 31 December 2018.

The Annual Report is prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and further requirements in the Danish Financial Statements Act.

In our opinion, the Financial Statements give a true and fair view of the financial position at 31 December 2018 of the Company and of the results of the Company operations and cash flows for the financial year 1 January - 31 December 2018, and state the significant risks and uncertainties facing the Company.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters and the results of the Company's operations and financial postition.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Aalborg, 14 March 2019

Executive Board

Niels Buus
CEO

Board of Directors

Jukka Pekka Pertola
Chairman

Niels Jesper Jespersen Jensen

Steen Lorenz Johan Hansen

Independent auditor's report

To the shareholders of GomSpace A/S

Opinion

We have audited the financial statements of GomSpace A/S for the financial year 1 January – 31 December 2018, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2018 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Statement on Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements, or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Independent auditor's report

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatements of the Management's review.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management 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 in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark 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 the financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

► Identify and assess the risks of material misstatement of the 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 Company's internal control.

► Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

Independent auditor's report

► Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

► Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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.

Aalborg, 14 March 2019
Ernst & Young
Godkendt Revisionspartnerselskab
CVR No. 30 70 02 28

Hans B. Vistisen
State Authorised Public Accountant
mne23254

Martin Bøgsted
State Authorised Public Accountant
mne40035

Management's review

GomSpace in brief

The overall purpose of GomSpace is to manufacture nanosatellites as well as components and turn key solutions for satellites.

Company operations

Capital increase

A capital incrase was completed by the parent company ComSpace Group AB in 2018, we refer to "Statement of changes in equity" and note 20.

Market development

A Disruptive Technology

Small satellites (smallsats) are a disruptive technology in the process of transforming the status quo when it comes to satellite-based solutions and applications.

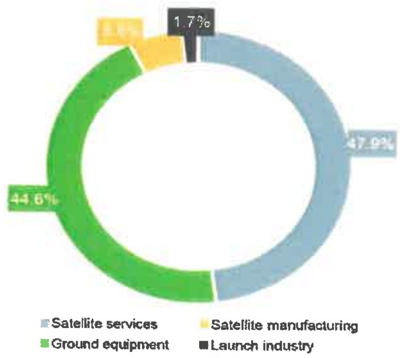
Like many other disruptive technologies; at the onset, they seem not to be a serious threat towards the established markets, but over time they will pick up capability and start eating into the main stream markets and eventually come to dominate these. This is the classical "Innovator's Dilemma" as described by Clayton Christensen and as experienced in many markets – we expect nanosatellites to become another text book example.

Indeed, the first nanosatellites launched in 2003 as university projects were not much more capable than the Sputnik satellite of 1957. Since then, however, development has moved the technology far along and nanosatellites are now without doubt making inroads in the mainstream markets – with more disruption to come.

The total revenue in the satellite market, considering the full value chain, is considered at USD 268 billion per year (SIA, 2018) and as of today only a very small fraction hereof is supported by smallsats, meaning there is a lot of room in the existing market to capture revenue with the smallsat technology. See figure below for a break down of the activity to the constituents of the value chain.

In recent years, traditional satellite communication (SATCOM) providers relying on large geostationary satellites have come under pressure as prices are dropping* due to changing consumer preferences (on demand vs. broadcast) and the rapid deployment of high bandwidth terrestrial networks. This provides an environment for the coming years that can help further accelerate smallsat technology adoption as traditional SATCOM providers will be looking for new business models and lower cost technology to adapt to the changing market dynamics.

The global satellite industry 2017

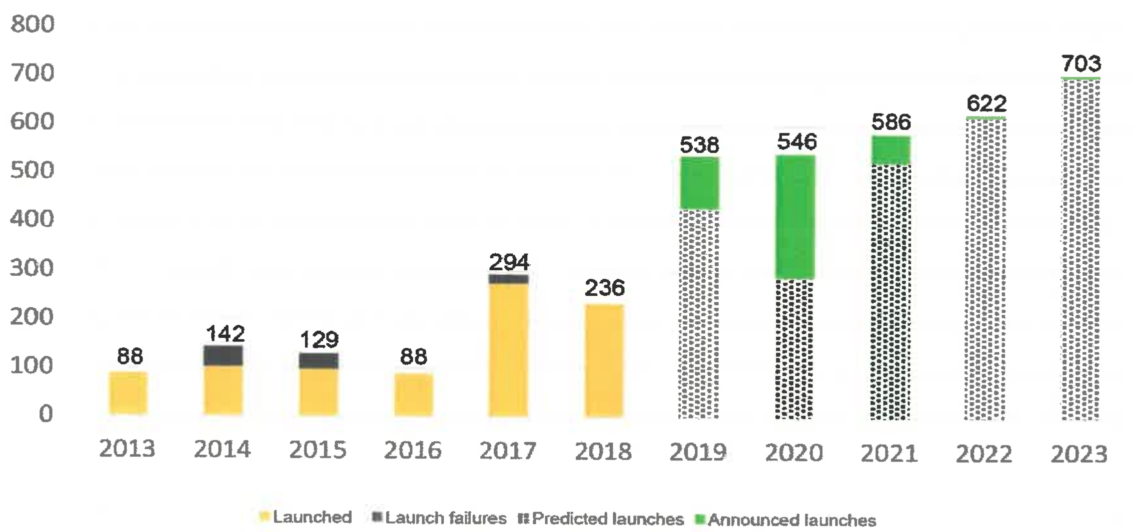


* https://spacenews.com/satellite-capacity-prices-down-60-percent-in-some-cases-and-still-dropping/

Management's review

Recent Launch Performance

Out of the 345 satellites that were launched in 2017, nanosatellites accounted for 85.2 percent. The corresponding rate for 2016 was 69.8 percent (Source: 2018 State of the Satellite Industry Report). In 2017, the commercial sector accounted for 71 percent of the nanosatellite launches in contrast to earlier years where nanosatellite missions have been more focused on education and basic technology development (Source: www.nanosats.eu).

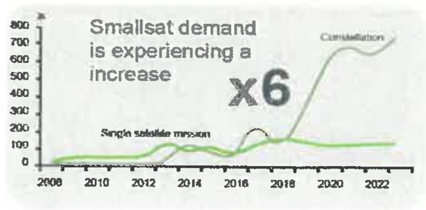


Within the commercial missions, a significant portion of the satellites relates to Planet's Earth observation constellation, but communication services are growing very rapidly with 22% of last year's satellites vs. 4% historically.

Generally, when measuring nanosatellites by launch mass, the mass is getting larger which is in line with GomSpace's development efforts as operational requirements increase the need for power generation and design margins.

Market Outlook

More than 7,000 small satellites are expected to be launched over the next 10 years, driven by anticipated roll-out of multiple constellations, mainly for commercial operators, which are expected to account for more than 70% of that total. (Source: Prospects for the small satellite market, Euroconsult 2018).



Management's review

The dominant applications for constellations will be:
· Satellite Communication should have the strongest growth with close to 3,500 satellites expected from 2018-2027.
· Information includes the constellations that provide narrowband services for AIS, ADS-B, IoT or Machine to Machine (M2M) communication. It is a growing market with 850 satellites from several companies raising capital or launching demonstrators within the next 2 years.
· Earth Observation will increase significantly, from 540 units in the past to 1,400 satellites anticipated from 2018 to 2027.

The nanosatellite and microsatellite market is expected to grow from USD 1.21 billion in 2017 to USD 3.49 billion by 2022, equivalent to a compound annual growth rate of 23.7 percent**.

The recent successful development in the launcher market of making dedicated nanosatellite launch vehicles operational will help support the growth*** and ensure that future constellations can be deployed both cost and time effectively.

Capturing the Market opportunities
As a pioneer and innovator in the market, GomSpace, through its own actions, is a significant force in driving the growth in the market as our investments in satellite platform technology, network technology and payload technology enable new opportunities for our customers. This has for instance been demonstrated in our activities related to space-based aircraft tracking – and GomSpace continues to research new instruments and applications areas to be served by our technology.

** "Nanosatellite and Microsatellite Market by Component (Hardware, Software & Data Processing, Services, Launch Services), Mass (1 kg-10 kg and 11 kg-100 kg), Application (Earth Observation & Remote Sensing), Vertical - Global Forecast to 2022", 2017, a market report published by MarketsAndMarkets.
*** https://www.space.com/42411-rocket-lab-launches-first-commercial-mission.html

Management's review

We expect GomSpace's growth to remain significantly above the market CAGR due to:
· Our focus on radio technology-related missions which in general scale to constellations with more satellites than other application areas.
· Our success in acquiring customers early on and helping them through in-orbit demonstrations before scaling their constellations, leading to market traction with contracts to leading constellations customers, incl. Sky and Space Global Ltd., AISTECH as well as Aerial and Maritime Ltd.
· Our continued investments in new technology and products to demonstrate and enable new applications, and our commitment with the GOMX flight program to demonstrate new capabilities in space de-risking the technology for future constellations.

Further, our announcement to establish satellite operations services out of Luxembourg over time will extend the scope of our offerings to address a larger part of the value chain. Our new products will ensure that the scalability of satellite operations will not become a bottleneck for the market development, and with integrated big data analysis and intelligence we can help our customer continuously optimize system performance and the business case over the lifetime of the satellites.

Many new applications and opportunities for nanosatellites will be developed in the coming years, both due to our investments (see Product Development section) and the estimated over 200 academic and commercial organizations worldwide doing research in this area.

We also see an emerging trend; the established space agencies are beginning to prioritize the use of small satellites in future science and exploration projects, e.g. as exemplified by NASA's recent MarCO mission to Mars. While such opportunities will not match commercial opportunities in the number of satellites or total revenue potential, this emerging market for the nanosatellite technology offers a robust revenue opportunity and higher revenue per satellite. The challenges posed by these missions will result in new developments which can subsequently be industrialized in the commercial domain.

Potential Barriers to Growth

Given the growth in space activities and the number of market participants, regulatory issues relating to spaceflight, incl. launch, satellite and frequency approvals, are becoming increasingly important, and regulatory bodies are becoming more active in overlooking activities.

As a mature player in the market, we welcome this trend as adequate and competent regulation will ensure sustainability of the market, e.g. by avoiding congestion in space by establishing "traffic rules". It will also increase market entry barriers for new market entrants, however, GomSpace has already the required expertise to work proactively in this area.

Finally, growth in the sector and utilization of the disruptive potential of the technology relies on availability of financing for our customers. The outlook for financing continues to be positive, but as competition and sector maturity increases, financiers are naturally expecting more depth from business and technology plans before committing investments****.

**** https://spacenews.com/surge-of-new-space-companies-has-impressed-even-veteran-industry-observers/

Management's review

Product development

During 2018, we have continued our progress on developing competitive nanosatellite platforms as well as developing key technologies to meet future market demands.

We have continued the development, prototyping and qualification of the 8U platform. The 8U platform is fully modular and in line with our continued effort to increase the capabilities of the satellites to accommodate a broad range of customer needs. The capabilities of the 8U platform are already part of several contracts and offers.

Regarding our processing and radio capabilities, several initiatives have been conducted to expand the capabilities with more powerful processing components, high-power antennas and support for new frequency bands beyond VHF, UHF and S band frequencies.

Our propulsion development has focused on providing necessary propulsion modules and systems for the 6U and 8U platforms.

In 2018, the development of the "Mega-Constellation Operations Platform" was initiated and will form the basis for our future satellite operations services.

Furthermore, in 2018 selected components in the 3U and 6U platforms were matured to reduce production lead-times.

For 2019, focus is to continue the above development activities as well as further consolidation of the 3U and 6U platforms. We will, as stated in previous reports, continue to make partnerships on technology development with universities and key technology providers to leverage our own competencies and funding to speed up development.

Financial highlights

Net revenue was T.DKK 111,225 in 2018, compared to T.DKK 74,146 in 2017. The Company realized a net loss of T.DKK 59,718 compared to a net loss of T.DKK 38,827 in 2017.

Growth in revenue is at 50% and gross margin is 34% in 2018 against 27% in 2017. The year 2018 is influenced by the Sky and Space Global project being put on hold and therefore resources were re-directed to other customer projects and investment projects as well as the year is influenced by the preparation of the new production area for large scale manufacturing of satellites. Our capacity thereby exceeds our activity level which results in low capacity utilization. As a consequence, we have made reductions in staff at the end of the year, this is expected to have a minor effect in the first quarter of 2019, though a full effect is expected in the second quarter of 2019.

Management's review

Orders received and revenue

The orders received for the year 2018 amounted to T.DKK 70,432. The orders received regarding commercial orders represent 79% of total orders for the period and orders received regarding science orders represent 11%. In 2018, an agreement was entered with Kleos Space S.A. at a value of T.DKK 18,033 in the commercial business segment as well as a contract was signed with AISTECH at a value of T.DKK 10,310.

Revenue

Revenue for the year amounted to T.DKK 111,225 (74,146), corresponding to an increase of 50% compared with 2017. Sky and Space Global constitutes 20% of total revenue in 2018 whereas Aerial & Maritime Ltd. constitutes 29% and Kleos Space constitutes 11% of total revenue.

Expenses

Operating expenses for the year amounted to T.DKK 193,235 (134,361), corresponding to an increase of 44%. In 2018, sales, distribution, development and administrative costs increased to T.DKK 119,506 (80,548), corresponding to an increase of 48%. During the year, a strengthening of the support functions, such as HR and Quality Assurance was performed. Our capacity exceeds our activity level which results in low capacity utilization. This overcapacity resulted in offboarding of several employees in the fourth quarter which is expected to have a marginal effect on costs at the end of the first quarter 2019 and full effect in the second quarter 2019. Employees were also offboarded in January and this is expected to have a marginal effect on costs from the end of the second quarter 2019 and full effect in the third quarter 2019. The offboarding was performed as part of a strategy to optimize the organization to our business in 2019 and ahead.

Profitability

For 2018, gross profit amounted to T.DKK 37,496 (20,333), corresponding to an increase of 84% compared with the same period in 2017. The gross margin is 34% (27%).

In the year 2018, operating loss amounted to T.DKK 59,920 (operating loss 44,160).

Tax and deferred tax

During 2018, the Company recognized a deferred tax asset at a total amount of T.DKK 9,526 (10,513) relating to tax loss carry-forward.

The Company had an effective tax rate of 4.6% (19.8%) in 2018. The low effective tax rate in 2018 is due to reconsidering the use of the tax loss carry-forward in the coming two-three years in relation to the new long-term ambitions.

Shareholder's equity

As at 31 December 2018, total shareholder's equity amounted to T.DKK 83,032 (44,750). In December, the parent company converted debt to equity at an amount of T.DKK 98,000. In the year 2018, an amount of T.DKK 4,842 (4,743) is recognized as share-based payments in relation to the warrant program established for the Company's employees.

Management's review

Investments

Investments in intangible assets in relation to in-house development amounted to T.DKK 44,142 (30,611) for 2018, excluding grants. Investments in property, plant and equipment amounted to T.DKK 15,660 (13,865). The main investment in intangible assets is related to in-house development projects for customer cases and includes work on our projects portfolio as well as work on improving management of performance and constellations. Investments in property, plant and equipment are mainly related to new production equipment for the new production facilities.

Cash and cash equivalents, financing and financial position

Cash flow from operating activities amounted to a negative T.DKK 82,377 (5,527) during the year 2018. Cash flow from investing activities amounted to a negative T.DKK 48,122 (negative 41,767). Cash flow from financing activities amounted to T.DKK 98,601 (74,723) in 2018. Cash and cash equivalents amounted to T.DKK 7,425 (40,261) at the end of the year. GomSpace's working capital totalled T.DKK 4,656 (33,156).

Working capital is negatively affected by trade receivables and inventories. Trade receivables are negatively affected by missing payment of overdue invoices at an amount of T.DKK 24,211 to our customer Sky and Space Global. The invoices cover payment for the Critical Design Review, T.DKK 14,934, and payment for Batch 1, T.DKK 9,277. The invoices were overdue and therefore trade receivables affected working capital negatively. Payment for the Critical Design Review was received at the beginning of March 2019.

Risk management

Due to its activities, the Company is exposed to various financial risks, including changes in foreign currency, interest, liquidity and credit risks. The Company manages the risks centrally and follows the policies approved by the Board of Directors. For further information, please see note 24 Financial risks.

There are a number of factors that may adversely affect the Company's business, financial position and future results. Some of the risks are related to the Company, while other risks do not have any particular connection with the Company. There may also be risks and uncertainties that the Company is currently unaware of, or assesses as immaterial, that may prove to be material. Disclosed risks are not presented in priority order or in any other special order. The risks below are deemed to include the main known risks to the Company's future development and they may all adversely affect the Company's business, financial position and profits in the future.

New and emerging market

The Company is operating in the nanosatellite market, which is a complex, relatively new and growing market. The market may stagnate, or even cease to exist. The market could also develop in a way that the Company is not able to adapt to and even if the market becomes large and wide the Company may face competition from other operators which have greater financial conditions and/or are better prepared for the requirements on the market. Such competition could lead to a situation where the Company needs to compete on other terms, such as, price. One of the major challenges is ensuring the right positioning of the Company in relation to technology and customers thereby securing orders and profitability. Failure to do so or other circumstances described above may have an adverse impact on the Company's business, financial position and profits in the future.

Management's review

Risks related to development projects
In relation to development projects there is a risk that it will not have the expected potential and that the demand fails. In addition, there are certain risks related to the technology and the useful life of the outcome of the development project.

Key personnel
The Company is largely dependent on its ability to retain and attract skilled personnel. The current members of the senior management and other key employees possess a wide expertise and knowledge within the sector in which the Company operates as well as of the Company's business operations. Should the Company lose and not be able to replace any member of its key personnel it may interrupt ongoing projects as well as other development plans laid out for the Company. Moreover, the Company is dependent on hiring and retaining certain skilled personnel to continue its growth and to reach future success. If the Company cannot maintain its ability to attract skilled personnel it may have an adverse impact on the Company's business, financial position and profits in the future.

Risks relating to the quality of the product
The Company is reliant on its ability to develop and deliver products of a certain quality. Even if the Company deems the products to be of a certain quality, the demand from the customers may deviate from what the Company is producing. The Company's operations are currently expanding in order to meet an increasing demand from the market and enable delivery of a larger quantity of products without losing quality. If the Company is unable to meet the demands of its customers in relation to quality and expectation, it may have an adverse impact on the Company's business, financial position and profits in the future. Furthermore, the demands on the market may change and cause the Company to have to develop its products. Should the Company fail in doing so by e.g. focusing on the wrong development projects or not being able to develop its products to meet market expectations, it may adversely impact the Company's business, financial position and profits in the future. Furthermore, the Company is currently planning on expanding its operations within service and maintenance of its products. If such expansion is not successful it may have an adverse impact on the Company's business, financial position and profits in the future.

Risks relating to reconstruction of the premises
When deciding to reconstruct the premises in order to accommodate an expected market demand, this is also related to uncertainty as the outcome of the reconstruction may not meet our expectations or the market demand fails.

Management's review

Risks relating to suppliers
The Company has different suppliers from which it purchases different products (e.g. circuit print boards and solar power cells) and services (e.g. assembly of products). The Company has entered into written framework agreements with two of its suppliers while relying on historic relationships with other suppliers, which is a risk should relationships change going forward. The suppliers may stop delivering to the Company due to factors related to the Company as well as other factors not related to the Company. None of the suppliers are considered material in the sense that they cannot be replaced by suppliers offering similar products or services. However, changing suppliers might be time consuming and the Company may not be able to find suitable suppliers offering the same quality on similar terms and conditions for supply. The described circumstances may adversely impact the Company's business, financial position and profits in the future.

Risks relating to customers
The Company's customers consist of both public and private enterprises and include, inter alia, universities, science Companys, national space agencies, commercial businesses as well as military and other national authorities. Customer agreements are mainly entered into for specific and isolated orders and there are in such cases no undertaking for the customer to place repeated orders, and consequently no guarantee of future sales. As of today, a material part of the Company's sales and revenue is generated from a few larger customers (mainly Sky and Space Global and Aerial & Maritime Ltd.). There is a risk that customers do not place orders or otherwise fulfil their respective undertakings due to e.g. lack of financial resources or other circumstances beyond the Company's control. Should the Company lose business from all or some of its top customers it may have an adverse impact on the Company's business, financial position and profits in the future. The Company has entered into a five-year framework agreement with AISTECH Space S.L. with a total contract value of up to EUR 12.5 million and may come to enter into additional framework agreements in the future. However, there is a risk that orders will not be placed under current or future framework agreements, either at all or to the extent expected by the Company. Further, especially when dealing with public enterprises, there is a risk that customer agreements are customer friendly in terms of liabilities and obligations. If the Company fails to reach its sales targets, or if the Company fails to enter into customer agreements on favorable terms for the Company, it may have an adverse impact on the Company's business, financial position and profits in the future.

Regulatory approvals and permits
Some of the Company's products are subject to export control as they are comprised by the European Union's control list (list of products which may be used for both civil and military purposes, so-called "dual-use products") which entails that an export permit is required in order to export such products out of the EU. No permits are required to export the Company's products within the EU. Further, the Company is dependent on regulatory permits for launching satellites owned by the Company into space, as well as for using radio frequencies. There is a risk that the Company will not be able to retain permits it currently holds, nor that the Company will gain new permits when required. Further, there is a risk that the Company will conduct business in the future that would require regulatory approvals or permits in addition to those currently required and/or that the Company's current operations will be subject to increased regulatory demands. Under such circumstances the Company might be forced to change its operations or to integrate certain positions deemed necessary to comply with any regulatory requirements. As a result thereof the operating costs may increase and shortcomings in the Company's compliance could lead to charges, fines and other sanctions which could have an adverse impact on the Company's business, financial position and profits in the future.

Management's review

Legal and political risks

The nanosatellite market is a global market and the Company has partners, suppliers and customers in many other countries around the world. Risks may arise as a result of differences in legal systems and changes to legislation and other relevant regulations relating to taxation, customs and excise duties and other conditions applying to the Company's activities on an international market (including space). Rules, regulations and legal principles may differ both relating to matters of substantive law and in respect of such matters as court procedures and enforcement. This means that the Company's ability to exercise or enforce its rights and obligations may differ between different countries and any disputes or related litigation may be costly, time consuming and the outcome may be uncertain. In addition, the Company may be affected by factors relating to political uncertainties. All of the aforementioned may have an adverse impact on the Company's business, financial position and profits in the future.

Global economic factors

The Company is exposed to the general market environment such as supply and demand, inflation and interest rate fluctuations, upswings and downturns and the will to invest, etc. All these factors are outside the Company's control. If an economic downturn occurs, or the economic activity decreases, it may have an adverse effect on the nanosatellite market and consequently a negative effect on the Company's business, financial position and profits in the future.

Uncertainty relating to recognition and measurement

Recognition and measurement regarding the carrying amount of some assets and liabilities require judgments, estimates and assumptions concerning future events, also see note 2.

Market outlook

GomSpace aims to generate sales above SEK 1.5 billion in 2023, supported by the strong underlying market. GomSpace targets a gross margin exceeding 50 percent in the medium term. GomSpace operates in a growing market and prioritizes growth. The shareholders should not expect any dividends in the short to medium term.

Unusual events

In the second half of 2018, the order from our customer Sky and Space Ltd. was slowed down and eventually put on hold. This had a negative effect on financials as there was an overcapacity which resulted in redundancies in employees in November 2018 and again in January 2019.

Subsequent events

Subsequent to the balance sheet date, we received payment of T.DKK 14,934 for the Critical Design Review from our customer Sky and Space Global.

Technology, knowledge, research and development

GomSpace has improved its technical competences and today the Company can claim to be the most advanced in the business as regards radio technology.

Management's review

GomSpace has expanded its product range, whereby the Company has highly professional solutions to all the elements that constitute a nanosatellite.

Last but not least, GomSpace has introduced processes and procedures in the organization, and the Company can produce nanosatellite subsystems and complete satellites of high quality.

GomSpace has a flawless flight heritage which is the key element for building the necessary trust among its customers.

Corporate Social Responsibility
GomSpace acknowledges the responsibility of supporting human rights and GomSpace does therefore not violate the declared human rights. GomSpace upholds the freedom of association and removes all forms of discrimination within the workspace, which thereby underlines the fact that GomSpace does not hesitate to hire employees from different nationalities. In the employee handbook, GomSpace emphasizes on the support of a healthy workspace for each of the employees. Furthermore, GomSpace is continuously accepting CSR terms in customer and development contracts. In addition to this, GomSpace's financial institute demands good CSR behaviour. As regards the environment, GomSpace will take precaution when it comes to environmental challenges that can occur along the way.

Lastly, GomSpace acknowledges the fact that the Company does not have its own CSR policy at this moment, GomSpace is however in the process of developing its own CSR policy.

Share classes and shareholders
The company's share capital is not comprised in share classes. No shares carry any special rights. The share capital is owned by GomSpace Group AB.

Income statement

	Notes	2018 T.DKK	2017 T.DKK
Net revenue	3	111.225	74.146
Cost of goods sold	4,5,6	-73.729	-53.813
Gross profit		**37.496**	**20.333**
Sales and distribution costs	4,5,6	-28.048	-24.717
Development costs	4,5,6	-43.267	-22.689
Administrative costs	4,5,6	-48.191	-33.142
Other operating income	7	22.090	16.055
Operating loss		**-59.920**	**-44.160**
Finance income	8	2.017	2.606
Finance expenses	9	-4.691	-6.843
Loss before income tax		**-62.594**	**-48.397**
Tax	10	2.876	9.570
Loss for the year		**-59.718**	**-38.827**
Loss is attributable to			
Owners of GomSpace A/S		-59.718	-38.827
		-59.718	**-38.827**

Statement of comprehensive income

Loss for the period	-59.718	-38.827
Other comprehensive income for the year, net of tax	**0**	**0**
Total comprehensive income for the year	**-59.718**	**-38.827**
Total comprehensive income for the year is attributable to:		
Owners of GomSpace A/S	-59.718	-38.827
	-59.718	**-38.827**

Statement of financial position

	Notes	2018 T.DKK	2017 T.DKK
Assets			
Completed development projects	11	14.253	4.569
In-process development projects	11	47.987	19.624
Other intangible assets, including software	11	9.231	12.568
Intangible assets		**71.471**	**36.761**
Property, plant and equipment	12	7.178	8.761
Leasehold improvements	12	17.778	6.868
Property, plant and equipment		**24.956**	**15.629**
Deferred tax	13	1.944	4.568
Other non-current assets	14	2.690	2.490
Non-current assets		**4.634**	**7.058**
Total non-current assets		**101.061**	**59.448**
Inventories	15	21.139	6.541
Inventories		**21.139**	**6.541**
Contract work	16	12.443	12.638
Trade receivables	17	44.045	21.904
Tax receivable	18	5.500	3.887
Prepayments to suppliers	19	2.375	0
Other prepayments	19	1.842	1.018
Other receivables		2.308	4.189
Receivables		**68.513**	**43.636**
Marketable securities		**0**	**7**
Cash and cash equivalents		**7.425**	**40.261**
Total current assets		**97.077**	**90.445**
Total assets		**198.138**	**149.893**

Statement of financial position

	Notes	2018 T.DKK	2017 T.DKK
Equity and liabilities			
Share capital	20	9.693	4.793
Capital reserve for development costs		48.271	15.246
Retained earnings		25.068	24.711
Total equity		**83.032**	**44.750**
Credit institutions	24	17.007	22.073
Other non-current loans	24	2.100	0
Total non-current liabilities		**19.107**	**22.073**
Current portion of non-current liabilities	24	7.191	3.624
Trade payables and other payables	24	8.820	12.971
Trade payables, intercompany		14.537	12.598
Contract work	16	33.068	27.870
Prepayments	22	9.594	4.952
Other liabilities	21,24	22.789	21.055
Total current liabilities		**95.999**	**83.070**
Total liabilities		**115.106**	**105.143**
Total equity and liabilities		**198.138**	**149.893**

Statement of changes in equity

	Share capital T.DKK	Share premium T.DKK	Capital reserve for development costs T.DKK	Retained earnings T.DKK	Total equity T.DKK
Equity 01.01.2017	1.993	0	2.693	22.891	27.577
Profit (loss) for the year	0	0	0	-38.827	-38.827
Development costs less amortization 2017	0	0	16.737	-16.737	0
Tax hereof	0	0	-4.184	4.184	0
Total comprehensive income for the year	0	0	12.553	-51.380	-38.827
Transactions with owners in their capacity as owners					
Increase in share capital	2.800	53.200	0	0	56.000
Transfer	0	-53.200	0	53.200	0
Share-based payments (capital contribution)*	0	0	0	4.743	4.743
Return of capital contribution*	0	0	0	-4.743	-4.743
Total transactions with owners in their capacity as owners	2.800	0	0	53.200	56.000
Equity 31.12.2017	**4.793**	**0**	**15.246**	**24.711**	**44.750**
Equity 01.01.2018	4.793	0	15.246	24.711	44.750
Profit (loss) for the year	0	0	0	-59.718	-59.718
Development costs less amortization 2018	0	0	41.558	-41.558	0
Tax hereof	0	0	-8.533	8.533	0
Total comprehensive income for the year	0	0	33.025	-92.743	-59.718
Transactions with owners in their capacity as owners					
Increase in share capital	4.900	93.100	0	0	98.000
Transfer	0	-93.100	0	93.100	0
Share-based payments (capital contribution)*	0	0	0	4.842	4.842
Return of capital contribution*	0	0	0	-4.842	-4.842
Total transactions with owners in their capacity as owners	4.900	0	0	93.100	98.000
Equity 31.12.2018	**9.693**	**0**	**48.271**	**25.068**	**83.032**

* See a description of the accounting policies related to the treatment of share-based payment transactions in note 1 and note 5.

Cash flow statement

	Notes	2018 T.DKK	2017 T.DKK
Profit (loss) before tax		-62.594	-48.397
Reversal of financial items		2.674	4.237
Depreciation and amortizations		13.185	5.427
Non-cash items	28	-7.425	53
Changes in net working capital	27	-28.500	45.895
Cash flows from primary operating activities		-82.660	7.215
Received interest		0	2.606
Paid interest		-3.604	-6.151
Tax received		3.887	1.857
Tax paid		0	0
Cash flow from operating activities		**-82.377**	**5.527**
Investments in intangible assets		-44.142	-30.611
Government grants		6.806	5.168
Investments in property, plant and equipment		-15.660	-13.865
Rent deposit		-200	-2.490
Proceeds from sale of marketable securities		7	0
Proceeds from sale of non-current assets		5.067	31
Cash flow from investing activities		**-48.122**	**-41.767**
Borrowings	26	3.000	21.000
Repayment of borrowings	26	-2.399	-5.767
Borrowings from parent company	26	98.000	59.490
Cash flow from financing activities		**98.601**	**74.723**
Net cash flow for the year		**-31.898**	**38.483**
Cash and cash equivalents, beginning of the year		40.261	2.470
Unrealized exchange rate gains and losses on cash		-938	-692
Cash and cash equivalents, end of the year		**7.425**	**40.261**

Reconciliation of cash and cash equivalents

	2018	2017
Cash and cash equivalents according to the balance sheet	7.425	40.261
Cash and cash equivalents according to the cash flow statement	**7.425**	**40.261**

The cash flow statement cannot be directly derived from the items in the financial statements.

Index of notes

Notes

1. Accounting policies

GomSpace A/S' financial statements for 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU as well as additional Danish disclosure requirements applying to entities of reporting class C (mid-size).

Further, the financial statements are prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB).

The company is included in the consolidated financial statements of GomSpace Group AB. The address of GomSpace Group AB is Stureplan 4 C, Stockholm, organisation number 559026-1888.

Basis of preparation

The financial statements have been presented in Danish kroner, rounded to the nearest DKK thousand.

The accounting policies set out below have been applied consistently in respect of the financial year and the comparative figures. For standards implemented prospectively, comparative figures are not restated.

Change in accounting policies

New and amended standards and interpretations

The Company applied IFRS 9 and IFRS 15 for the first time. The changes have no effect and the nature of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

With the exception of hedge accounting, which the Company applied prospectively, the Company has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018 and adjusting the comparative information for the period beginning 1 January 2017.

The adoption of IFRS 9 has changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Company to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

The change in method for calculation of expected loss has not effected the result or equity.

Impairment

The adoption of IFRS 9 has changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

Notes

1. Accounting policies (continued)

IFRS 9 requires the Company to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For Contract assets and Trade and other receivables, the Company has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Company has established a provision matrix that is based on the Company's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payment is 90 days past due, however, this does not necessarily mean the asset is written down when the 90 days are past due as there is still a possibility that payment will be made. In the same manner, assets may be written down before the 90 days are past due as there is a possibility that payment will not be made. The Company may consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

The adoption of the ECL requirements of IFRS 9 resulted in no changes in impairment allowances of the Company's debt financial assets.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Company adopted IFRS 15 using the modified retrospective method of adoption. The Company did not apply any of the other available optional practical expedients.

Notes

1. Accounting policies (continued)

Sales of satellite solutions, platforms, payloads, subsystems and products
The Company is in the business of providing satellite solutions and sales of platforms, payloads and subsystems for nanosatellites. Platforms, payloads and subsystems are either sold as separated components to customers or integrated together as a platform or turnkey nanosatellite. It has been assessed that satellite solutions and platforms, payloads and subsystems as well as product sales of components meet the criteria for revenue to be recognised over time, on a percentage of completion basis. This is due to the customisation of components to customer specifications (selected options) which mean that GomSpace has no alternative use for the component once customisation commences and GomSpace has a right to payment for work completed to date. The Company's contracts with customers for the sale of satellite solutions, platforms, payloads, subsystems and products generally include one performance obligation. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition.

Foreign currency translation
Functional currency and presentation currency
The functional currency of the Company is Danish kroner (DKK) and the Financial Statements are likewise presented in Danish kroner (DKK).

Transactions and balance sheet items
Transactions in foreign currencies are translated into the functional currency at the exchange rates applicable on the transaction date. Exchange gains and losses arising in the payment of such transactions and in the translation of monetary assets and liabilities in foreign currencies at the rate prevailing on the reporting date are recognised in the income statement under the item Net financials.

Income statement
Revenue
Revenue includes sales of satellite solutions, platforms, payloads and subsystems.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements who has pricing latitude and who is also exposed to inventory and credit risks.

Contract work that is subject to a high degree of individual adaptation is recognised over time as revenue by reference to the percentage-of-completion method, meaning that revenue corresponds to the selling price of work performed during the year. When the outcome of contract work cannot be estimated reliably, revenue is recognised at the costs incurred so far when they are likely to be recovered. When it is probable that the total contract costs will exceed the total contract revenue, the anticipated loss on the contract is immediately recognised as an expense and a provision.

Notes

1. Accounting policies (continued)

Cost of goods sold
Cost of goods sold comprise the cost of products and projects sold. Cost comprises the purchase price of raw materials, consumables and goods for resale, direct labour costs and a share of indirect production costs, including costs of operation and depreciation of production facilities as well as operation, administration and management of production sites.

Sales and distribution costs
Costs incurred in distributing goods sold during the year and in conducting sales campaigns, etc. during the year are recognised as distribution costs. Also, costs relating to sales staff, advertising, exhibitions as well as depreciation and impairment losses are recognised as distribution costs. Also included in this item is impairment of trade receivables under the expected loss model.

Development costs
Development costs include expenses relating to development activities not meeting the capitalisation criteria. Such expenses include staff costs, cost of material and depreciation and impairment losses.

Administrative costs
Administrative expenses comprise expenses incurred during the year for management and administration, including expenses relating to administrative staff, office premises and office expenses, and depreciation and impairment losses.

Share-based payments
Employees (including senior executives) of GomSpace A/S receive remuneration in the form of share-based payments, whereby employees render services as consideration for warrants granted by GomSpace Group AB. As GomSpace A/S does not have responsibility for settling the transaction, the arrangement is accounted for as an equity-settled share-based payment transaction.

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using the Black-Scholes option pricing valuation model, further details of which are given in Note 5. The cost is recognised in employee benefits expense together with a corresponding increase in equity (capital contribution received from GomSpace Group AB) over the period in which the service conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

A management recharge, based upon the grant date fair value of the warrants, is accrued over the vesting period of the share-based payment. As the recharge amount is directly based on the value of the underlying share-based payment, the recharge to GomSpace Group AB is charged directly to equity, provided it represents a return of the capital contribution received up to the amount of the contribution and a distribution thereafter.

Notes

1. Accounting policies (continued)

Employee benefits

Liabilities for wages and salaries are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

Variable salary

Provisions for variable salary are expensed on an ongoing basis in accordance with the economic substance of current agreements.

Pension obligations

The company only has defined contribution pension plans. The contributions are recognized as employee benefit expenses when they are due. The company has no further payment obligations once the contributions have been paid.

Termination benefits

A provision for costs in connection with termination of personnel is recognized only if the company is obligated to end employment before the normal retirement date or when benefits are provided as an incentive to encourage voluntary termination. Estimated termination benefits are recognized as a provision when a detailed plan for the measure is presented.

Other operating income

Other operating income comprise income that is not related to the principal activities. This includes management fee, rent as well as gains and losses on the disposal of intangible assets and property, plant and equipment as well as other income of a secondary nature in relation to the main activities of the Company.

Financial income and expenses

Financial income and expenses comprise interest receivable and interest payable, surcharges and refunds under Denmark's on-account tax scheme, and value adjustments of financial assets and items denominated in a foreign currency.

Income tax and deferred tax

Tax for the year comprises the year's current tax charge and deferred tax adjustments. The tax expense is recognised in profit or loss, other comprehensive income or directly in equity.

Current tax payable and receivable is recognised in the statement of financial position as tax computed on the taxable income for the year, adjusted for tax on prior year taxable income and tax paid on account.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities.

Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Notes

1. Accounting policies (continued)

Deferred tax assets, including the tax value of tax loss carry-forwards, are recognised under other non-current assets at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities.

Deferred tax assets are subject to annual impairment tests and are recognised only in so far as it is probable that the assets will be utilised.

Deferred tax assets and liabilities are offset if the Company has a legally enforceable right to set off current tax liabilities and tax assets or intends either to settle current tax liabilities and tax assets on a net basis or to realise the assets and settle the liabilities simultaneously.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. The change in deferred tax as a result of changes in tax rates is recognised in the comprehensive income for the year.

Statement of financial position

Intangible assets

Costs associated with maintaining software and products are recognised as an expense as incurred.

Development costs that are directly attributable to the design and testing of identifiable and unique development projects controlled by the company are recognised as intangible assets when the following criteria are met:
- it is technically feasible to complete the development project so that it will be available for use
- management intends to complete the development project and use or sell it
- there is an ability to use or sell the development project
- it can be demonstrated how the development project will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the development project are available, and
- the expenditure attributable to the development project during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the development project include employee costs and an appropriate portion of relevant overheads.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Amortization is based on the straight-line method over the expected useful lives of the assets:
- Development projects: 5 years
- Other intangible assets: 3-5 years

Amortization of a development project begins when the development project is at a stage where its commercial potential can be utilized in the manner intended by Management.

Notes

1. Accounting policies (continued)

Intangible assets not yet available for use are not subject to amortization but are tested annually for impairment, irrespective of whether there is any indication that they may be impaired.

Property, plant and equipment
Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment charges. Property, plant and equipment also include leasehold improvements. Property, plant and equipment in progress are measured at cost. Cost comprises expenses for materials, other expenses directly related to making the asset ready for use, and reestablishment expenses, provided that a corresponding provision is made at the same time.

The useful lives of the individual groups of assets are estimated as follows:
- Plant and equipment: 2 - 5 years
- Leasehold improvements: 3 - 5 years

Depreciation is based on a straight-line basis.

Gains and losses on the disposal of property, plant and equipment are recognized in the income statement under other operating income and other operating expenses.

Impairment testing of non-current assets
The carrying amount of non-current assets are tested annually for indicators of impairment. When there is an indication that assets may be impaired, the recoverable amount of the asset is determined. The recoverable amount is the higher of an asset's fair value less expected costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset or the cash-generating unit to which the asset belongs. An impairment loss is recognised if the carrying amount of an asset or a cash-generating unit, respectively, exceeds the recoverable amount of the asset or the cash-generating unit. The impairment loss is recognised in the income statement.

Government grants
Government grants comprise grants for investments, development projects, etc. Grants are recognized when there is reasonable certainty that they will be received. Grants for investments and capitalized development projects are set off against the cost of the assets to which the grants relate. Other grants are recognized in development costs in the income statement to offset the expenses for which they compensate.

Leases
For financial reporting purposes, lease liabilities are classified as finance lease liabilities and operating lease liabilities.

A finance lease is classified as a lease which in all material respect transfers the risk and benefits associated with ownership of the leased asset to the lessee. All other leases are classified as operating leases.

The accounting treatment of assets held under finance leases and lease liabilities is described under plant and equipment and financial liabilities, respectively.

Notes

1. Accounting policies (continued)

Operating lease payments are recognised in the income statement on a straight-line basis over the lease term.

Assets held under operating leases are recognised, measured and presented in the statement of financial position as the company's other, similar assets. Lease income is recognised in the income statement on a straight-line basis over the lease term.

Inventories
Inventories are measured at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method.

The cost of goods for resale and raw materials and consumables comprises purchase price plus delivery costs.

Finished goods and work in progress are measured at cost, comprising costs incurred to bring the product to the current completion rate and location. Costs include the cost of raw materials, consumables, direct wages and salaries, and indirect production overheads. Indirect production overheads comprise indirect materials, wages and salaries, maintenance and depreciation of production machinery and equipment, as well as production administration and management.

Trade receivables
Receivables are initially recognized at fair value adjusted for any transaction costs. Subsequently, receivables are measured at amortized cost less provisions for bad debts. Impairment on expected losses on trade receivables, leasing as well as contract work is recognized immediately in the income statement at the same time as the amount receivable based on a simplified expected credit loss model. The impairment is based on historical data. This data based on expected loss over the total maturity of the amount receivable, corrected for estimates of the effect of expected changes in relevant parameters, for instance financial development, political risks etc. on the market in question.

Management applies estimates when assessing provision for bad debts upon initial recognition as well as in relation to the ongoing risk management.

Contract work
Contract work is measured at the selling price of the work performed less progress billings and anticipated losses. Contract work entails a significant degree of design customisation of produced goods. Moreover, before any work is commenced, a binding agreement must have been entered into which will imply a penalty or damages on subsequent termination of the agreement.

The selling price is measured by reference to the percentage of completion at the end of the reporting period and the total expected income from the contract. The percentage of completion is determined on the basis of an assessment of the work performed, which is usually measured as the proportion of contract costs incurred for work performed to date relative to the total estimated contract costs.

When it is probable that the total contract costs will exceed the total contract revenue, the anticipated loss on the contract is immediately recognised as an expense and a provision.

Notes

1. Accounting policies (continued)

When income and expenses on contract work cannot be determined reliably, contract revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

Where the selling price of work performed exceeds progress billings on contract work and anticipated losses, the excess is recognised under receivables. If progress billings and anticipated losses exceed the selling price of contract work, the deficit is recognised under liabilities.

Prepayments from customers are recognised under liabilities.

Prepayments under assets
Prepayments which are recognised under assets include costs incurred in respect of subsequent financial years and primarily relate to prepaid expenses and prepayments for inventories.

Reserve for capitalised development projects
GomSpace A/S has established a non-distributable reserve in equity regarding development projects capitalised in 2016 and later. This reserve will be reversed as the development projects have effect on the income statement. The amount is presented net of deferred tax.

Provisions
Provisions are recognized when, as a consequence of an event occurring on or before the balance sheet date, the Company has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation. The obligation is measured on the basis of Management's best estimate of the discounted amount at which the obligation is expected to be met.

Provisions are recognized regarding loss-making contracts when the expected advantages for the Company from a contract is less than the inevitable expenses according to the contract.

Financial assets and liabilities
Cash and cash equivalents comprise cash balances and unrestricted deposits with banks.

Marketable securities recognized as current assets are measured at fair value on the balance sheet date. Changes to fair value is recognized in the income statement.

Financial liabilities are initially measured at fair value less transaction costs incurred. Subsequently, the financial liabilities are measured at amortized cost. Amortized cost is calculated as original cost less instalments plus/less the accumulated amortization of the difference between cost and nominal value. Losses and gains on loans are thus allocated over the term so that the effective interest rate is recognized in the income statement over the loan period. Financial liabilities are derecognized when settled.

Notes

1. Accounting policies (continued)

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Prepayments under liability

Prepayments which are recognised under liabilities include payments received in respect of income in subsequent financial years and primarily relate to received government grants.

Cash flow statement

The cash flow statement has been prepared under the indirect method and shows the Company's cash flows from operating, investing and financing activities for the year.

Cash flows from operating activities comprise profit or loss before tax adjusted for non-cash operating items, changes in working capital, financial items received and paid as well as income tax paid.

Cash flows from investing activities comprise divestment of companies and activities, as well as investment, development, sale and improvements of intangible assets and property, plant and equipment.

Cash flows from financing activities comprise capital increases and costs incidental thereto as well as the arrangement of loans, the repayment of interest-bearing debt, shares and the payment of dividend to the Company's shareholders.

Cash and cash equivalents in the cash flow statement comprise cash balances and unrestricted deposits with banks.

2. Significant accounting estimates and judgments

In preparing the Financial Statements, Management makes various accounting estimates and assumptions which form the basis of presentation, recognition and measurement of the Company's assets and liabilities. The most significant accounting estimates and judgments are presented below.

In applying the Company's accounting policies, Management makes judgments which may significantly influence the amounts recognized in the Financial Statements. Determining the carrying amount of some assets and liabilities requires judgments, estimates and assumptions concerning future events.

The judgments, estimates and assumptions made are based on historical experience and other factors that Management considers to be reliable, but which by their very nature are associated with uncertainty and unpredictability. These assumptions may prove incomplete or incorrect, and unexpected events or circumstances may arise. The most critical judgments, estimates and assumptions for the individual items are described below.

Notes

2. Significant accounting estimates and judgments (continued)

The Company is also subject to risks and uncertainties that may lead to actual results differing from these estimates, both positively and negatively.

Development projects
For in-process development projects an impairment test is performed annually. The impairment test is performed on the basis of various factors, including future expected use of the outcome of the project, the fair value of the estimated future earnings or savings, interest rates and risks.

For in-process development projects, Management estimates on an ongoing basis whether each project is likely to generate future economic benefits for the Company in order to qualify for recognition. The development projects are evaluated on technical as well as commercial criteria. The carrying amount of in-process development projects is disclosed in note 11.

Contract work
Recognized revenue on contract work is based on percentage of completion which is based on cost incurred on the contract as a percentage of the total cost estimated to complete the project. Management estimates, on an ongoing basis, the cost required to complete the projects and whether the costs can be recovered through the contract. The carrying amount of contract work in progress is disclosed in note 16.

Backlog, Revenue and Trade receivables
A material part of the Company's backlog, sales and revenue as well as trade receivables is generated from a few large customers (mainly Sky and Space Global (UK) Ltd.). Since the third quarter 2018, there is an increased risk that customers do not place orders or otherwise fulfil their respective undertakings due to e.g. lack of financial resources or other circumstances beyond the Company's control, this risk is primarily related to our customer Sky and Space Global (UK) Ltd. Should the Company lose business from all or some of its top customers it may have an adverse impact on the Company's business, financial position and profits in the future.

Deferred tax asset
Regarding deferred tax there is a recognized tax asset concerning tax loss carry-forward. It is Management's opinion that the tax loss can be utilized.

Notes

3. Net revenue

Geographic distribution	Business segments 2018				
	Academia	Commercial	Defense	Science	Total
	T.DKK	T.DKK	T.DKK	T.DKK	T.DKK
Asia	3.566	7.894	1.915	2.152	15.527
Denmark	1.247	1.209	0	0	2.456
Europe	1.853	47.368	4	4.536	53.761
Rest of the world	1.045	32.799	0	40	33.884
Sweden	96	0	0	0	96
USA	0	3.381	2.119	1	5.501
	7.807	**92.651**	**4.038**	**6.729**	**111.225**

	Business segments 2017				
	Academia	Commercial	Defense	Science	Total
	T.DKK	T.DKK	T.DKK	T.DKK	T.DKK
Asia	2.377	5.097	0	69	7.543
Europe	4.855	26.477	994	5.416	37.742
Rest of the world	2.650	12.570	0	271	15.491
USA	0	11.172	1.767	431	13.370
	9.882	**55.316**	**2.761**	**6.187**	**74.146**

Major goods/service linies	Business segments 2018				
	Academia	Commercial	Defense	Science	Total
	T.DKK	T.DKK	T.DKK	T.DKK	T.DKK
Sales of satellite solutions, platforms, payloads and subsystems (over time)	2.754	73.607	4.038	6.265	86.664
Product sales (over time)	5.053	19.044	0	464	24.561
	7.807	92.651	4.038	6.729	111.225

Major goods/service linies	Business segments 2017				
	Academia	Commercial	Defense	Science	Total
	T.DKK	T.DKK	T.DKK	T.DKK	T.DKK
Sales of satellite solutions, platforms, payloads and subsystems (over time)	7.379	16.603	889	1.165	26.036
Product sales (over time)	2.503	38.712	1.873	5.022	48.110
	9.882	**55.315**	**2.762**	**6.187**	**74.146**

	31 December	
Contract balances	**2018**	**2017**
Trade receivables	44.045	21.904
Contract assets	12.443	12.638
Contract liabilities	33.068	27.870

Trade receivables are non-interest bearing and are generally on terms of 14 to 60 days. Trade receivables of T.DKK 24,211 in 2018 is related to Sky and Space Global (UK) Ltd. In 2018, T.DKK 591 (1,206) was recognized as provision for expected credit losses on trade receivables.

Contract assets are initially recognized for revenue earned from Sales of satellite solutions, platforms, payloads and subsystems and products sales. Contract assets increased in 2018 which is mainly due to increase revenue and activity. In 2018, T.DKK 1,409 (167) was recognized as provision for expected losses on contract assets.

Contract liabilities include advances received to deliver Sales of satellite solutions, platforms, payloads and subsystems. The outstanding balances of these accounts increased in 2018 due to continuous increase in the Company's customer base.

Order book

	Academia	Commercial	Defense	Science	Total
Order backlog 1 January 2018	4.182	536.841	2.983	3.403	547.409
Currency adjustment and reclassification of orders	340	256	51	-658	-11
Order intake	5.296	55.416	2.228	7.493	70.433
Converted to revenue	-7.806	-92.651	-4.038	-6.729	-111.224
Order backlog 31 December 2018	2.012	499.862	1.224	3.509	506.607

Revenue recognised from contracts	**2018**	**2017**
Within one year	35.891	101.257
More than a year	470.716	446.152
	506.607	547.409

Notes

3. Net revenue (continued)

Out of the backlog as at 31 December 2018, T.DKK 451,506 is related to Sky Space and Global (UK) Ltd which is expected to be recognized within more than a year. See also risk description in note 2.

Revenue from Mauritius accounts for 29% of the total net revenue (16% in 2017).
Revenue from the United Kingdom accounts for 23% of the total net revenue (28% in 2017).
Revenue from Luxembourg accounts for 11% of the total net revenue (0% in 2017).
Revenue from the United States accounts for 5% of the total net revenue (18% in 2017).
Revenue from Denmark accounts for 2% of the total net revenue (3% in 2017).

4. Staff costs

	2018 T.DKK	2017 T.DKK
Wages and salaries	98.317	81.484
Share-based payments	4.842	4.743
Pension costs, defined contribution plans	8.972	4.818
Other expenses to social security	1.177	850
Other employee costs	4.769	1.766
Total staff costs	**118.077**	**93.661**
Of which:		
Wages and salaries capitalized as development projects	35.536	18.987
Total staff costs	**82.541**	**74.674**
Average number of full time employees	175	106
Staff costs are included in:		
Costs of goods sold	43.536	30.067
Sales and distribution costs	11.311	8.746
Development costs*	44.152	41.971
Administrative costs	19.078	12.877
Total staff costs	**118.077**	**93.661**
* of which:		
Wages and salaries capitalized as development projects	35.536	18.987
Total staff costs	**82.541**	**74.674**
Remuneration of Executive Board and Board of Directors		
Salaries	7.430	6.149
Pension costs, defined contribution plans	13	15
Share-based payments	441	198
	7.884	**6.362**

Executive Board and Board of Directors comprise the Company's key management personnel.

Notes

5. Share-based payment
The Board of Directors of GomSpace Group AB (parent company of GomSpace A/S) obtained approval to implement a share-based incentive program (equity-settled share-based payment transactions) in the form of a warrant scheme offered to all Danish and Swedish employees of the group. The warrants provide participants the right to purchase newly issued shares in GomSpace Group AB. A total of 328,541 warrants were approved and granted to employees of GomSpace A/S in April 2018. The warrants were granted by GomSpace Group AB. The share-based payment transaction is accounted for as an equity-settled share-based payment scheme in GomSpace A/S.

The warrants vest in four equal annual instalments commencing on the date of grant, with the final instalment vesting on 28 April 2021. The warrants can be exercised between 26 April 2021 and 26 April 2022 within certain exercise windows. Vesting of the warrants will be conditional upon continued employment of the participants.

Employees (including senior executives) of GomSpace A/S receive remuneration in the form of share-based payments, whereby employees render services as consideration for warrants granted by GomSpace Group AB. As GomSpace A/S does not have responsibility for settling the transaction, the arrangement is accounted for as an equity-settled share-based payment transaction.

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using the Black-Scholes option pricing valuation model. The cost is recognised in employee benefits expense together with a corresponding increase in equity (capital contribution received from GomSpace Group AB) over the period in which the service conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

A management recharge, based upon the grant date fair value of the warrants, is accrued over the vesting period of the share-based payment. As the recharge amount is directly based on the value of the underlying share-based payment, the recharge to GomSpace Group AB is charged directly to equity, provided it represents a return of the capital contribution received up to the amount of the contribution and a distribution thereafter

The total expense recognised in profit or loss for the year related to the warrant schemes was T.DKK 4,842.

The fair value of the warrants has been calculated using the Black-Scholes option pricing model. Key inputs in the valuation model include:

	Warrant program (27 April 2017)	**Warrant program (24 August 2017)**	**Warrant program (26 April 2018)**
Expected future dividend (SEK per share)	0	0	0
Volatility	70%	70%	58%
Risk free interest rate	0%	0%	1%
Life of warrant	48 months	48 months	48 months
Share price at grant date (SEK per share)	54.0	58.3	60,4
Exercise price (SEK per share)	45,1	45,1	54,1
Fair value at grant date (SEK per warrant)	27.6	30.9	25,4
Outstanding warrants 31 December 2018	218.877	120.043	294.025

The volatility has been determined using the volatility in GomSpace Group AB's share price, together with benchmarking against peer group companies.

Exercise price is calculated as follows:
- Warrant program 2017/20 first award is based on the volume weighted average last closing price for 20.04.2017 to 26.04.2017. On 7 December 2018 the exercise price is changed to 45.1 due to the dilution effect related to the rights issue in December 2018.
- Warrant program 2017/20 second award is based on the volume weighted average last closing price for 20.04.2017 to 26.04.2017. On 7 December 2018 the exercise price is changed to 45.1 due to the dilution effect related to the rights issue in December 2018.
- Warrant program 2018/21 is based on the volume weighted average last closing price for 19.04.2018 to 25.04.2018. On 7 December 2018 the exercise price is changed to 54.1 due to the dilution effect related to the rights issue in December 2018.

Notes

5. Share-based payment (continued)

Set out below is a summary movements in warrants during the year. All warrants granted in the year related to warrant program 2018 have an exercise price of SEK 54.1. All warrants granted related to the warrant programs in 2017 have an exercise price of SEK 45.1.

	No. warrants
Outstanding at 1 January 2018	393.647
Granted	328.540
Forfeited	-89.242
Exercised	-
Expired	-
Outstanding at 31 December 2018	632.945
Exercisable at 31 December 2018	-

The remaining contractual life of all warrants granted for first and second award in 2017 is 28 months.
The remaining contractual life of all warrants granted for the award in 2018 is 40 months.

6. Depreciation and amortizations

	2018 T.DKK	2017 T.DKK
Costs of goods sold	2.279	1.176
Sales and distribution costs	507	244
Development costs	2.659	901
Administrative costs	886	451
Total depreciation	**6.331**	**2.772**
Costs of goods sold	2.467	1.118
Sales and distribution costs	548	224
Development costs	2.879	884
Administrative costs	960	429
Total amortizations	**6.854**	**2.655**

7. Other operating income
Other operating income primarily consists of proceeds from sale of non-current assets and management fees from group companies.

8. Finance income

Interest income	0	8
Exchange rate adjustments	2.010	2.598
Fair value gains on securities	7	0
	2.017	**2.606**

9. Finance expenses

Interest expenses parent company	1.482	2.280
Interest expenses	1.861	0
Exchange rate adjustments	1.087	4.356
Fair value loss on securities	0	1
Other financial expenses, including bank fees	261	206
	4.691	**6.843**

Notes

10. Tax on profit (loss) for the year

	2018 T.DKK	2017 T.DKK
Tax on profit (loss) for the year comprises		
Current tax on profit (loss) for the year*	-5.500	-3.887
Changes in deferred tax	2.624	-5.683
Tax expense (income) for the year	**-2.876**	**-9.570**
Profit (loss) before tax	-62.594	-48.397
Danish tax rate for GomSpace A/S	22%	22%
Tax expense (income)	-13.771	-10.647
Non-taxable income	0	0
Non-deductible expenses	995	1.077
Impairment and adjustments to previous years	9.900	0
Tax expense (income) for the year	**-2.876**	**-9.570**
Effective tax rate	5%	20%
Income tax expense (income) reported in the income statement	-2.876	-9.570
	-2.876	**-9.570**

* A part of the tax loss for the year is caused by development costs. According to the Danish tax legislation the tax value (22%) of development costs up to T.DKK 25,000 can be paid out subsequent to the filing of the taxable income for the year. Accordingly, the tax loss carried forward is reduced.

	2018	2017
Tax loss carry-forward	88.302	51.996
Unrecognized as deferred tax asset	-45.000	0
Tax loss carry-forward recognized as deferred tax asset	**43.302**	**51.996**

Unrecognised tax loss carry-forward amounts to T.DKK 45,000 (T.DKK 0 in 2017) corresponding to a tax asset of T.DKK 9,900 (T.DKK 0 in 2017).

Notes

11. Intangible assets

	Completed development projects T.DKK	In-process development projects T.DKK	Other intangible assets T.DKK	Total T.DKK
Cost price at 1 January 2018	10.714	19.624	13.896	44.234
Additions during the year	0	41.485	79	41.564
Reclassification	13.122	-13.122	0	0
Cost price at 31 December 2018	23.836	47.987	13.975	85.798
Amortization at 1 January 2018	-6.145	0	-1.328	-7.473
Amortization	-3.438	0	-3.416	-6.854
Amortization at 31 December 2018	-9.583	0	-4.744	-14.327
Carrying amount 31 December 2018	**14.253**	**47.987**	**9.231**	**71.471**
Cost price at 1 January 2017	9.367	4.816	951	15.134
Additions during the year	0	16.155	12.945	29.100
Reclassification	1.347	-1.347	0	0
Cost price at 31 December 2017	10.714	19.624	13.896	44.234
Amortization at 1 January 2017	-4.679	0	-139	-4.818
Amortization	-1.466	0	-1.189	-2.655
Amortization at 31 December 2017	-6.145	0	-1.328	-7.473
Carrying amount 31 December 2017	**4.569**	**19.624**	**12.568**	**36.761**

Other intangible assets primarily consist of investments in the new ERP system and software.

In 2018, the Company received T.DKK 2,576 in government grants which are set off against additions during the year.

In general

GomSpace A/S has realised a loss of T.DKK 59,718 and a gross margin of 34%. GomSpace's expectations for the next years is aiming to generate sales above T.SEK 1,500,000 in 2023, supported by the strong underlying market. GomSpace targets a gross margin exceeding 50 percent, in the medium term.

The group's activities are primarily carried out in GomSpace A/S and in a smaller scale in GomSpace Sweden AB. The parent company GomSpace Group AB's sole activity is holding of shares in subsidiaries and associates as well as the stock listing on NASDAQ First North Premier.

Based on the market value of GomSpace Group AB on NASDAQ First North Premier in Stockholm during the period since the initial public offering in 2016, including the market value of the new shares issued in December 2018, management assesses there is significant headroom between the recoverable amount and the carrying amount intangible assets as at 31 December 2018.

In-process development projects

In-process development projects are subject to an annual impairment test. In-process development projects consist of nanosatellite platforms as well as expanding our processing and radio capabilities with more powerful processing components, high-power antennas and support for new frequency bands beyond VHF, UHF and S band frequencies. Please refer to management's review on pages 7-10 "Market development" and page 11 "Product development".

The carrying amount for in-process development projects as at 31 December 2018 amounts to T.DKK 47,987 (T.DKK 19,624 at 31 December 2017).

The main parts of the in-process development projects are expected to continue during 2019. Management expects the development projects to increase revenue for the company in 2019 and the following years. Please refer to the expectations described above.

The in-process development projects are tested for impairment as at 31 December 2018. The recoverable amount of the in-process development projects were set based on computations of value in use. The value in use is based on business plans approved by management for the individual in-process development projects, including projected cash inflows from budgeted and estimated revenue and budgeted and estimated cash outflows from completing the projects and cash flows related to the sale of the developed products. The business plans are among other things based on market reports on future growth and technology trends.

Based on the impairment tests management assesses there is significant headroom between the recoverable amount and the carrying amount of in-process development projects as at 31 December 2018.

Notes

11. Intangible assets (continued)

Other intangible assets, including completed development projects
With reference to the expectations described above, management has not identified any factors indicating the need to carry out impairment tests for other intangible assets, including completed development costs in 2018.

Development costs recognized in the income statement
Development costs recognised in the income statement in 2018 amount to T.DKK 43,267 (T.DKK 22,689 in 2017).

12. Property, plant and equipment

	Property, plant and equipment T.DKK	Leasehold improvements T.DKK	Total T.DKK
Cost price at 1 January 2018	11.711	7.512	19.223
Additions during the year	3.246	12.414	15.660
Disposals during the year	-147	0	-147
Cost price at 31 December 2018	14.810	19.926	34.736
Depreciation at 1 January 2018	-2.950	-644	-3.594
Depreciation	-4.827	-1.504	-6.331
Disposals during the year	145	0	145
Depreciation at 31 December 2018	-7.632	-2.148	-9.780
Carrying amount at 31 December 2018	**7.178**	**17.778**	**24.956**
Cost price at 1 January 2017	4.019	1.792	5.811
Additions during the year	7.997	5.868	13.865
Disposals during the year	-305	-148	-453
Cost price at 31 December 2017	11.711	7.512	19.223
Depreciation at 1 January 2017	-934	-257	-1.191
Depreciation	-2.275	-497	-2.772
Disposals during the year	259	110	369
Depreciation at 31 December 2017	-2.950	-644	-3.594
Carrying amount at 31 December 2017	**8.761**	**6.868**	**15.629**

Finance leases
The carrying value of plant and equipment held under finance leases at 31 December 2018 was T.DKK 2,978 (2017: T.DKK 0). Additions during the year include T.DKK 3,000 (2017: T.DKK 0) of plant and machinery under finance leases. Leased assets are pledged as security for the related finance lease liabilities.

Notes

13. Deferred tax

	2018 T.DKK	2017 T.DKK
Deferred tax at 1 January	4.568	-1.115
Deferred tax recognized in the income statement	-2.624	5.683
Deferred tax at 31 December	**1.944**	**4.568**
Deferred tax relates to:		
Intangible assets	-14.506	-7.997
Property, plant and equipment	4.287	1.300
Short-term assets	0	-224
Short-term liabilities	2.637	976
Tax loss carry-forwards	9.526	10.513
	1.944	**4.568**
Deferred tax assets	16.450	12.789
Deferred tax liabilities	-14.506	-8.221
Deferred tax, net	**1.944**	**4.568**

In 2018 deferred tax asset related to tax-loss carry-forwards is written down by T.DKK 9,900.
Management assesses that the remaining deferred tax asset can be utilized in 2-3 years based on expectations for the future. GomSpace's expectations for the next years is aiming to generate sales above T.SEK 1,500,000 in 2023, supported by the strong underlying market. GomSpace targets a gross margin exceeding 50 percent in the medium term.

14. Other non-current assets

Other non-current assets consist of rent deposits.

15. Inventories

	2018 T.DKK	2017 T.DKK
Finished goods	0	411
Work in progress	2.157	0
Raw materials and consumables	18.982	6.130
	21.139	**6.541**

T.DKK 25,432 of inventories were recognized in cost of sales during 2018 (T.DKK 11,862 in 2017). Write-downs of inventories in 2018 amounted to T.DKK 265 (T.DKK 0 in 2017).

Notes

16. Contract work

	2018 T.DKK	2017 T.DKK
Revenue from contract work in progress	166.470	75.100
Less progress billings	-187.095	-90.332
	-20.625	**-15.232**
Recognized in the balance sheet as:		
Amounts due from customers for contract work	12.443	12.638
Amounts due to customers for contract work	-33.068	-27.870
	-20.625	**-15.232**

17. Trade receivables

Trade receivables, others	34.764	11.858
Trade receivables, intercompany	9.193	437
Trade receivables, associates	88	9.609
	44.045	**21.904**

Ageing of receivables

Not due	2.534	1.193
0 - 30 days overdue	6.678	16.625
31 - 90 days overdue	29.348	2.803
>90 days overdue	5.485	1.283
	44.045	**21.904**

Movement in allowance for doubtful trade receivables

Carrying amount at the beginning of the year	1.206	0
Allowances for losses during the year	757	1.206
Confirmed losses	-1.372	0
	591	**1.206**

As at 31 December 2018, trade receivables at an amount of T.DKK 40,920 (T.DKK 19,505 in 2017) were past due but not impaired. Except from receivables at an amount of T.DKK 24,211 from Sky and Space Global, the remaining amounts relate to a number of independent customers where there is no recent history of non-payment. We have received payments of T.DKK 14,934 from Sky and Space Global in March 2019 related to the Critical Design Review. The outstanding amount of T.DKK 9,277 relates to Batch 1.

The remaining trade and other receivables do not contain impaired assets as these are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due. The Company does not hold any collateral in relation to these receivables.

Notes

18. Tax receivable

Tax receivable consists of tax receivable related to the tax credit scheme concerning development projects.

19. Prepayments

	2018 T.DKK	2017 T.DKK
Prepayments for inventories	2.375	0
Prepaid insurance	854	790
Prepayments to suppliers	197	0
Other prepayments	791	228
	4.217	**1.018**

20. Share capital

The share capital comprises 9,693,381 shares at a nominal value of DKK 1 each. No shares carry any special rights.

	Number of shares
Changes in share capital:	
Share capital at 1 January 2016	993.381
Capital increase 2016	1.000.000
Capital increase 2017	2.800.000
Capital increase 2018	4.900.000
Share capital at 31 December 2018, fully paid	**9.693.381**

In 2018, a capital increase was completed by the parent company GomSpace Group AB.

Capital management

The Company is primarily financed through equity, but will use debt financing when this can be achieved at attractive conditions. Management evaluates the need for capital on an ongoing basis. The objectives when maintaining capital are to maintain sufficient capital in order to meet short-term obligations and at the same time preserve investor's confidence required to sustain future development of the business.

The Company is not exposed to any externally imposed capital requirements.

	2018 T.DKK	2017 T.DKK
21. Other liabilities		
Accrued costs, including project related costs	2.713	10.578
Accrued holiday pay	14.182	7.643
Payroll liabilities	4.485	2.667
Contract work, loss	1.409	167
	22.789	**21.055**

22. Prepayments

	2018 T.DKK	2017 T.DKK
Accrued income from grants received for development projects	8.865	4.416
Prepayments from customers	0	320
Accrued rental rebate	729	216
	9.594	**4.952**

Notes

23. Contractual commitments and contingent liabilities

Operating leases	**2018 T.DKK**	**2017 T.DKK**
Operating lease commitments:		
Due within 1 year	5.152	4.194
Due between 1 and 5 years	16.311	18.728
Due after 5 years	0	1.642
	21.463	**24.564**
Lease payments recognised as an expense amount to	5.483	4.138

Lease commitments primarily relate to office rental.

There are no pending court and arbitration cases.

Guarantees
GomSpace has provided the following guarantees as at 31 December 2018:
- Guarantees of T.DKK 10,049 to unrelated parties for the performance in contracts. No liability is expected to arise.

Regarding debt to credit institutions, the Company has provided security in the Company's assets representing a nominal value of T.DKK 32,500 (T.DKK 32,500 in 2017). The carrying amount of the Company's assets amounts to T.DKK 163,986 (T.DKK 80,835 in 2017). This security comprises the below assets:

- Intangible assets
- Property, plant and equipment
- Inventories
- Trade receivables

The Company leases properties and cars under operating leases. Tenancy agreement was entered with a leasing period of 6 years whereas the leasing period for cars is typically 3 years. The above amount only contains non-terminable operating lease payments.

Notes

24. Financial risks

General risk management

Due to its activities, the Company is exposed to various financial risks, including changes in foreign currency, interest, liquidity and credit risks. The Company manages the risks centrally and follows the policies approved by the Board of Directors. The Company does not actively engage in speculation of financial risks.

Credit risks

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities which mainly relate to contract work in progress, trade receivables and other receivables, and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. Maximum exposure corresponds to the carrying amount. For sale of products, an advance payment is received from the customer.

Until 1 January 2018, impairment was performed to cover losses, this was done based on an assessment of whether an objective indication had been made for the individual amount receivable or whether a portfolio had decreased in value. Objective indicators were based on historical experience on losses.

On 1 January 2018, the Company implemented IFRS 9 which allows for an assessment of impairment needs regarding impairment of financial assets measured at amortized cost, including trade receivables and contract work, according to the simplified expected credit loss model. The model entails that the expected loss over the asset's useful life is recognized immediately in the income statement and monitored on an ongoing basis according to the Company's risk management until realization. Impairment is computed based on expected loss rates which are stated individually, distributed by geographical location. Loss rates are computed on the basis of historical data. This data is based on expected loss over the total maturity of the amount receivable, corrected for estimates of the effect of expected changes in relevant parameters, for instance financial development, political risks etc. on the market in question.

The Company assesses the risks of losses on an ongoing basis and, if necessary, write-downs are made according to the Company's policies. Excess cash is placed with banks with ratings A or above. As of today, a material part of the Company's sales and revenue is generated from a few larger customers (mainly Sky and Space Global (UK) Ltd ("Sky and Space Global") and Aerial & Maritime Ltd.). There is a risk that customers do not place orders or otherwise fulfil their respective undertakings due to e.g. lack of financial resources or other circumstances beyond the Company's control. Should the Company lose business from all or some of its top customers it may have an adverse impact on the Company's business, financial position and profits in the future. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored and any deliveries to major customers are generally covered by letters of credit or other forms of credit insurance. Customer agreements are mainly entered into for specific and isolated orders and there are no framework agreements or the like that would ensure repeated orders and future sales.

Notes

24. Financial risks (continued)

The Company's customers are both public and private enterprises. Total trade receivables amount to T.DKK 44,045 (T.DKK 21,904) as at 31 December 2018 of which 11% (24%) are public customers and 89% (76%) are industry customers.

An impairment analysis is performed at each reporting date. The management assesses credit risk in relation to the individual customer, taking into account whether they are public customers who are deemed to have a lower credit risk than industry customers. Except from the increased risks mentioned in note 2, the Company evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in several jurisdictions. The Company's activities take place in the global market for nanosatellites and management does not distinguish between customers' geographical affiliations in the credit risk assessment. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 25.

Foreign exchange risks

The Company's sales, cost of goods sold and expenses are mainly incurred in EUR, USD and SEK. The Company has transactions in other currencies, but exposure in those currencies is not significant.

There is no foreign currency hedging regarding transactions in foreign currency.

A change in foreign exchange rates of +/- 1% concerning assets and liabilities in EUR will have an effect on result and equity before tax with T.DKK 348.

A change in foreign exchange rates of +/- 10% concerning assets and liabilities in USD will have an effect on result and equity before tax with T.DKK 46.

A change in foreign exchange rates of +/- 10% concerning assets and liabilities in SEK will have an effect on result and equity before tax with T.DKK 566.

Interest rate risk

The Company's loans are carried at variable interest rates. A change in the interest level will have limited effect on the result or equity.

A change in the interest rates of +/- 1% will have an effect on result and equity before tax with T.DKK 18.

Liquidity risk

Funding and adequate liquidity are fundamental factors in driving an expanding business, and management of both is an integrated part of the Company's continuous budget and forecasting process. To ensure focus on managing the risks related to funding and liquidity, the Company manages and monitors funding and liquidity and ensures the availability of required liquidity through cash management and borrowing facilities.

Notes

24. Financial risks (continued)

The Company's long-term financing consists of a loan from Vækstfonden under EU's InnovFin SMV Programme in 2015. The loan bears a floating rate, 6.3%, 7.4% and 7.5% p.a. as at 31 December 2018. The loan can be redeemed by GomSpace at par value at any time and is subject to change of control and transfer of assets clauses.

	0-1 year T.DKK	1-5 years T.DKK	>5 years T.DKK	Total T.DKK	Carrying amount T.DKK
31 December 2018					
Borrowings from credit institutions	7.923	17.337	3.231	28.491	23.333
Other non-current loans	968	2.195	0	3.163	2.965
Trade and other payables	31.609	0	0	31.609	31.609
	40.500	**19.532**	**3.231**	**63.263**	**57.907**
31 December 2017					
Borrowings from credit institutions	4.229	22.551	5.660	32.440	25.697
Trade and other payables	34.026	0	0	34.026	34.026
	38.255	**22.551**	**5.660**	**66.466**	**59.723**

Fair value of the loan from Vækstfonden is determined to be equal to its carrying amount due to the issuance of the loan (level 2 in the fair value hierarchy). Fair value of short-term liabilities is determined to equal their carrying amount.

The analysis is based on all undiscounted cash flows, including estimated interest payments and expected instalments on loans. The estimates on interest are based on current market conditions.

The payment obligations are expected to be settled through cash inflows from operating activities and through cash inflows and cash from the parent company.

Notes

25. Classification of financial assets and liabilities

31 December 2018	Financial instru-ments carried at fair value through profit or loss T.DKK	Loans and receiv-ables T.DKK	Other financial liabilities T.DKK	Total T.DKK	Carrying amount T.DKK	Fair Value Level 1 T.DKK
Assets						
Trade and other receivables	0	46.353	0	46.353	46.353	0
Marketable securities	0	0	0	0	0	0
Cash and cash equivalents	0	7.425	0	7.425	7.425	0
Total assets	0	53.778	0	53.778	53.778	0
Liabilities						
Credit institutions	0	0	17.007	17.007	17.007	0
Other non-current loans	0	0	2.100	2.100	2.100	0
Current portion of non-current liabilities	0	0	7.191	7.191	7.191	0
Trade payables	0	0	23.357	23.357	23.357	0
Other payables	0	0	22.789	22.789	22.789	0
Prepayments	0	0	9.594	9.594	9.594	0
Total liabilities	0	0	82.038	82.038	82.038	0
31 December 2017						
Assets						
Trade and other receivables	0	26.093	0	26.093	26.093	0
Marketable securities	7	0	0	7	0	7
Cash and cash equivalents	0	40.261	0	40.261	40.261	0
Total assets	7	66.354	0	66.361	66.354	7
Liabilities						
Credit institutions	0	0	22.073	22.073	22.073	0
Trade payables and other payables	0	0	50.248	50.248	50.248	0
Prepayments	0	0	4.952	4.952	4.952	0
Total liabilities	0	0	77.273	77.273	77.273	0

Notes

25. Classification of financial assets and liabilities (continued)

Fair value of credit institutions and other non-current loans are deemed to be equal to the total carrying amount, as these items are based on market rate.

The fair values of financial instruments which are not traded in an active market are determined with the help of valuation techniques. Market data is used as far as possible when such data is available. If all significant inputs required for the fair value measurement of an instrument are observable, the instrument belongs to Level 2.

In cases where one or several significant inputs are not based on observable market information, the instrument is classified as Level 3.

The above table shows financial instruments carried at fair value based on their classification in the fair value hierarchy. The different levels are defined as follows:

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

In 2018, no transfers between levels were made.

Notes

26. Liabilities from financing activities

31 December 2018

			Non-cash alterations	
	At the beginning of the year T.DKK	Cash flow T.DKK	Convertion of debt to equity T.DKK	At the end of the year T.DKK
Loan from Vækstfonden	25.697	-1.499	0	24.198
Other non-current loans	0	2.100	0	2.100
Borrowings, parent company	-1.866	98.000	-98.000	-1.866
Total liabilities from financing activities	**23.831**	**98.601**	**-98.000**	**24.432**

31 December 2017

			Non-cash alterations	
	At the beginning of the year T.DKK	Cash flow T.DKK	Convertion of debt to equity T.DKK	At the end of the year T.DKK
Loan from Vækstfonden	5.994	19.703	0	25.697
Credit institutions	4.470	-4.470	0	0
Borrowings, parent company	1.624	3.490	56.000	-1.866
Total liabilities from financing activities	**12.088**	**18.723**	**56.000**	**23.831**

27. Changes in net working capital

	2018 T.DKK	2017 T.DKK
Changes in inventories	-14.598	-3.378
Changes in trade receivables	-22.141	-11.805
Changes in other receivables	-1.123	2.935
Changes in trade and other payables	9.362	58.143
	-28.500	**45.895**

28. Non-cash items

	2018 T.DKK	2017 T.DKK
Exchange rate adjustments	1.867	2.199
Grants deducted in fixed assets	-4.230	-2.146
Profit (loss) on fixed assets	-5.064	0
	-7.427	**53**

Notes

29. Government grants

During 2018, the Company received T.DKK 6,806 in public grants for investments (T.DKK 3,657 in 2017) which are set off against the cost of the assets to which the grants relate. Hereof T.DKK 4,230 (T.DKK 2,146 in 2017) are presented as prepayments.

30. Related parties

GomSpace A/S' related parties comprise GomSpace Group AB as shareholder with an ownership of 100%, as well as affiliated companies, the Board of Directors and the management team. Further, related parties comprise companies in which the above-mentioned persons have significant interest.

The Company had expenses for contract work, office rental, accounting and legal assistance, management fee and interest of loans to shareholders (with significant influence over the Company) at an amount of T.DKK 18,249 (T.DKK 18,919 in 2017), apart from management costs in note 4. Hereof T.DKK 2,577 are booked as intanglibe asset on in process development projects.

The Company had income of mangement fee, accounting and legal assistance to shareholders (with significant influence over the Company) at an amount of T.DKK 16,510 (T.DKK 15,465 in 2017). Receivables from related parties amount to T.DKK 9,281 at 31 December 2018 (T.DKK 10,046 at 31 December 2017).

The Company had sale of goods and services to associates at a total amount of T.DKK 33,517 (T.DKK 13,857 in 2017).

Payables to related parties amount to T.DKK 14,537 at 31 December 2018 (T.DKK 12,598 at 31 December 2017).

The Danish companies participate in joint taxation. GomSpace A/S, as the administrator of the joint taxation, bears unlimited liability for Danish corporation tax and tax at source on dividends, interest and royalties within the joint taxation scheme.

31. Events after the balance sheet date

Subsequent to the balance sheet date, we received payment of T.DKK 14,934 for the Critical Design Review from our customer Sky and Space Global.

Notes

32. New accounting standards

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt the new and amended standar and interpretations, if applicable, when it become effective.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will also be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The Company plans to implement IFRS 16 by applying the modified retrospective transition method, subsequent to which the transition is recognized in the opening equity capital as at 1 January 2019 without adjustment of comparative figures.

Notes

32. New accounting standards (continued)

The Company will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

During 2018, the Company has performed a detailed impact assessment of IFRS 16. In summary the impact of IFRS 16 adoption is expected to be, as follows:
Impact on the statement of financial position (increase/(decrease)) as at 31 December 2018:

Assets	T.DKK
Property, plant and equipment	30.900
Lease liabilities	
Lease liabilities	30.900
Net impact on equity	**0**

Impact on the statement of profit or loss for 2019:

Operating lease expense	-5.300
Depreciation expense	4.900
Impact on operating profit / EBIT	400
Finance costs leases / interests	-800
Income tax expense	100
Profit (loss) for the year	**-300**

Due to the adoption of IFRS 16, Comspace A/S operating profit will improve by T.DKK 400, while its interest expense will increase by T.DKK 800. This is due to the change in the accounting for expenses of leases that were classified as operating leases under IAS 17.