

INTERIM REPORT

FOR 1 JANUARY – 31 MARCH 2019



GOMSPACE

1 JANUARY – 31 MARCH 2019 (2018)

- Order intake increased to T.SEK 14,788 (14,712)
- Net revenues decreased to T.SEK 29,877 (37,738), a decline of 21%. Without the partial elimination of the associated company, the decline was 21%
- Gross margin decreased to 1% (35%)
- Operating profit (loss) decreased to a negative T.SEK 27,630 (a negative 15,093)
- Earnings per share were a negative SEK 0.58 (a negative 0.52)
- Both the gross margin and the operating profit (loss) were under pressure due to overcapacity and delayed order intake
- Order book amounts to T.SEK 712,949 as at 31 March 2019. In 2019, we expect to convert between SEK 60-70 million of the order backlog into revenue
- GomSpace received payment at an amount of T.SEK 20,819 for the critical design review regarding the outstanding payment from 2018 from Sky and Space Global.

Subsequent events

- GomSpace and ESA have signed a contract to adapt and improve smallsat systems and subsystems for science missions in deep space. The contract value is EUR 3,900,000 over 18 months
- GomSpace informs that the customer Sky and Space Global Ltd. has disclosed a Supplementary Prospectus on April 16, 2019. The potential new agreement with Sky and Space Global, the "Heads of Agreement", is therefore conditional upon secured financing by Sky and Space Global Ltd.



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Message from the CEO

In the first quarter, we had an unexpected decline in the order intake. We are however already seeing an improvement in the second quarter where we till date have met our expectations.

The net revenue in the first quarter of 2019 amounted to T.SEK 29,877 compared to T.SEK 37,738 in the same period of 2018. This corresponds to a decline of 21% which is due to delayed order intake. The gross margin amounts to 1%.

The reason the revenue for the first quarter is lower than expected is that the financing of the start-ups in the new space segment has been slower than we anticipated by the end of 2018. Some of our customers have not had the next phases of their business case financed as quickly as expected and others have, in the beginning of this year, decided to slow down execution of their next phase, because they do not want to burn cash too quickly.

The margins in the first quarter are influenced by an overcapacity of resources due to the constellation project for Sky and Space Global being put on hold during the fourth quarter of 2018 but also because of the low order intake in the first quarter. In addition to that we have had execution problems with the manufacturing of a customized propulsion product. The overall situation has meant that we are still focusing on reducing cost to ensure that we are improving our margins.

The changes in the market situation for the startup service companies have created a situation where the competition has increased and prices are under pressure. This situation is expected to be temporary.

On the other hand, we see signs that the established players in the satellite service market – as well as the major satellite manufacturers – are beginning to have an interest in the nanosatellite applications. They are, however, expected to require satellites with high technical capabilities, reliability and quality of service at a purely professional level.

When the big established players start buying nanosatellites and when financing conditions change for the new players in the market, we expect that the market will continue to grow rapidly again.

The European Space Agency (ESA) also shows an increasing interest in the nanosatellite segment. We believe that it is clear for ESA that the innovation of nanosatellites is important to keep up with USA and China in this new space business segment.

We consider the collaboration with ESA to be of great importance and essential in increasing our capabilities which will allow us to move towards more capable and cost efficient second-generation nanosatellites.

GomSpace has already started that activity. It was initially done with the 8U satellite platform which is a very advanced communications satellite in which GomSpace has invested a considerable amount of money as well as customized this to a customer. It has now been followed up with ESA projects where we, in collaboration with ESA, the Danish Space agency, the Luxemburg Space agency and the Swedish National Space agency, are running a series of technology development projects in the fields of increased reliability, professional radio communications and larger platforms that will accommodate larger and more complex customer payloads.

We have made a “Heads of agreement” with Sky and Space Global, i.e. a framework for two new agreements. One new contract to fulfill their wish of introducing an intermediate constellation that will make revenue generation possible. And a second one that will renew the Pearls constellation contract on cost plus terms. These contracts will depend on a successful completion of the financing activity for SAS at the stock exchange in Sydney. Should they not succeed, we are prepared to continue the progression of GomSpace without them.

In the meantime, we will at GomSpace continue to focus on building up the portfolio of In Orbit Demonstration (IOD) projects. We are currently working on 4 IOD projects and are bidding on 10 IOD projects as well as prospects on 15 IOD projects.

With this strategy, we are now in a phase where we are strengthening GomSpace – we are prepared to capitalize on the long-term opportunities for nanosatellites.

With the best regards

A handwritten signature in blue ink, appearing to read 'Niels Buus'.

Niels Buus
CEO

Significant events during the period

GomSpace receives payment for the critical design review from Sky and Space Global

March 5, 2019 – GomSpace comments on information given in the interim report for the fourth quarter 2018 published on 28 February in which it was disclosed that a payment of T.SEK 20,819 from our customer Sky and Space Global had not been received as anticipated during the fourth quarter 2018. The full amount has been transferred to our bank account and it covers payment for the critical design review. The payment does not have an impact on our 2018 financials and the situation does not have an impact on our long-term ambitions.

2Operate and GomSpace to boost constellation management with artificial intelligence

March 4, 2019 – As the space economy is switching from single satellite infrastructures to constellations of affordable small satellites, network elements inevitably increase in complexity. 2Operate and GomSpace, together with Aarhus University, are working together within the MegaMan project, funded by Innovation Fund Denmark, to evaluate how existing telecom standards and existing artificial intelligence (AI) solutions developed for the terrestrial telecom sector can be leveraged to manage future satellite constellations robustly and efficiently. Based on the successful trials, 2Operate and GomSpace have signed a MoU to strengthen the companies' collaboration and to prepare introduction of the 2Solve AI-capabilities through GomSpace's Mega-Constellations Operations Platform (MCOP) being introduced by GomSpace's subsidiary in Luxembourg.

ESA and GomSpace sign contract for advanced nanosatellite to join the HERA mission

January 21, 2019 – GomSpace and ESA have signed a contract to develop a 6U nanosatellite, named Juventus, to join the HERA mission. The Juventus nanosatellite will perform scientific tasks and eventually land on the Didymoon asteroid. The contract value is EUR 400,000. The nanosatellite will be a so called 6U nanosatellite approximately the size of a shoebox and mass of approximately 12 kilograms. It will be part of ESA's HERA mission to a binary asteroid system, which is the first of its kind in Europe. Juventus will be the very first nanosatellite developed for deep space missions by GomSpace.

GomSpace comments on non-payment from our customer Sky and Space Global

January 4, 2019 – GomSpace is following up on information from the third quarter interim report. In the report, it was disclosed that a payment of T.SEK 20,819 from our customer Sky and Space Global was, as per agreement, expected to be received during the fourth quarter 2018. The payment is not contested by Sky and Space Global but is still outstanding due to their current cash flow situation. We have a constructive dialogue with Sky and Space Global regarding a new payment plan in order for them to be able to solve the situation and make the payment in full. We have already taken their cash flow situation into account and the situation does not have any impact on our long-term ambitions.



Significant events after the accounting period

GomSpace to design world's first stand-alone nanosatellite asteroid rendezvous mission

May 23, 2019 – GomSpace's subsidiary in Luxembourg and the European Space Agency (ESA) have signed a contract with an order value of EUR 400,000 for the Phase A design of the Miniaturized Asteroid Remote Geophysical Observer (M-ARGO) mission. Under the contract GomSpace will be in charge of the preliminary design of the mission, spacecraft and implementation planning. A "12U" CubeSat spacecraft configuration is envisioned for the mission, packing in beyond state-of-the-art advancements in miniaturized technologies, including communication, instrumentation, electric propulsion and operational autonomy to be demonstrated in the deep space environment. Expected launch of the mission is in 2023, subject to funding of the implementation phase, and it will be the first nanosatellite ever to rendezvous with an asteroid and perform close proximity operations over an extended period for identification of in-situ resources.

6U agreement between GomSpace and Sky and Space Global finalized

May 13, 2019 – As announced on 8 April 2019 by GomSpace, Sky and Space Global and GomSpace have entered into a Heads of Agreement consisting of two parts: A new agreement (6U Agreement) as well as Changes to the original agreement from 2017 (as amended) (Pearls Agreement). Entering into the Heads of Agreement, GomSpace expected the above-mentioned agreements to be finalized no later than May 2019. Today, both parties signed the definite agreement of the delivery of 6U satellites. The new agreement includes a delivery of the first batch of 8 nanosatellites by Q1 2020 - and an optional batch of 8 more nanosatellites planned for first half year 2020. The order value of the first batch of 8 nanosatellites is EUR 5.3 million, and the order value of the optional batch of additional 8 nanosatellites is up to EUR 3.8 million.

ESA and GomSpace sign contract to adapt and improve smallsat subsystems for deep space

May 10, 2019 – GomSpace and ESA have signed a contract to adapt and improve smallsat systems and subsystems for science missions in deep space. The contract value is EUR 3,900,000 over 18 months. (EUR 3,300,000 for GomSpace Denmark and EUR 600,000 for GomSpace Sweden). The contract is carried out under the Science Programme funded by ESA.

Customer update

16 April, 2019 – GomSpace informs that the customer Sky and Space Global Ltd. has disclosed a Supplementary Prospectus on April 16, 2019. As stated in the press release by GomSpace dated April 8, 2019, GomSpace and Sky and Space Global have entered into a "Heads of Agreement" for one new agreement and replacement of the original agreement entered into in 2017 (as amended), the potential new agreement is conditional upon secured financing by Sky and Space Global Ltd.

Nanosatellites see the light – laser communication for a new age in space

10 April, 2019 – TESAT, KSAT and GomSpace have partnered up to introduce full optical communications capability for new innovative small satellite missions and space-based services. Until now, this technology has mainly been used on large and expensive satellites but is now further developed, miniaturized and ready for use on small satellites and new constellations. The new technology will be launched in the PIXL demonstration mission later in 2019.

GomSpace and Sky and Space Global have entered into a "Heads of Agreement"

8 April, 2019 – GomSpace and Sky and Space Global have entered into a "Heads of Agreement" for one new agreement and replacement of the original agreement entered into in 2017 (as amended). GomSpace and Sky and Space Global have conducted recent evaluation discussions regarding the provision and manufacturing by GomSpace of an additional constellation of nanosatellites for global services for Internet of Things (IoT) and Machine to Machine (M2M). In connection therewith, in order to reflect changes to the original project, the parties have also discussed changes to the original agreement and have now agreed on the principle terms for the provision and manufacturing by GomSpace of an additional constellation of nanosatellites under a new agreement and the principle terms for replacement of the original agreement entered into in 2017 (as amended). A replacement of the original agreement is necessary for the continued cooperation under the original project.

Financial Performance

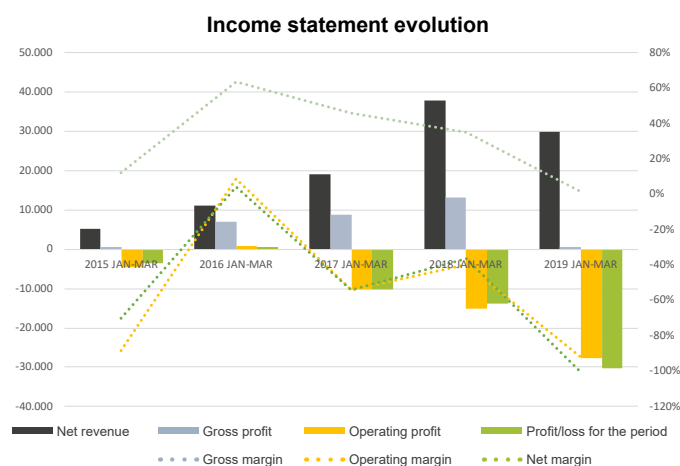
Financial Review

The Interim Report for 1 January – 31 March for GomSpace Group AB also includes the companies GomSpace A/S, GomSpace Orbital ApS, GomSpace Sweden AB, GomSpace Asia Pte Ltd, GomSpace North America LLC as well as GomSpace Luxembourg S.A.R.L. Result for the period was a net loss of T.SEK 30,184 (a loss of 13,820). At 31 March 2019, equity was T.SEK 414,521 (296,096).

	2019 Jan-Mar T.SEK	2018 Jan-Mar T.SEK	Change in pct.	2018 Jan-Dec T.SEK
INCOME STATEMENT				
Net revenue	29,877	37,738	-21%	153,384
Gross profit	446	13,171	-97%	38,549
Gross margin	1%	35%	-33 pp	25%
Operating profit (loss)	-27,630	-15,093	83%	-116,601
- As a percentage of revenues	-92.5%	-40.0%	-52 pp	-76.0%
Profit (loss) before tax	-29,585	-16,572	79%	-122,811
- As a percentage of revenues	-99.0%	-43.9%	-55 pp	-80.1%
Profit (loss) for the period	-30,184	-13,820	118%	-112,498
- As a percentage of revenues	-101.0%	-36.6%	-64 pp	-73.3%
Cost of goods sold	29,431	24,567	20%	114,835
- As a percentage of revenues	98.5%	65.1%	33 pp	74.9%
Sales and distribution costs	9,848	7,977	-23%	38,310
- As a percentage of revenues	33.0%	21.1%	12 pp	25.0%
Development costs	5,922	7,146	-17%	58,119
- As a percentage of revenues	19.8%	18.9%	1 pp	37.9%
Administrative costs	12,394	13,430	-8%	59,423
- As a percentage of revenues	41.5%	35.6%	6 pp	38.7%
Earnings per share, basic, SEK	-0.58	-0.52	12%	-3.93
Earnings per share, diluted, SEK	-0.58	-0.51	14%	-3.93
Balance sheet items				
Intangible assets	122,620	80,082	53%	118,573
Property, plant and equipment	94,924	25,048	279%	37,911
Working capital	-5,024	9,205	-155%	6,010
Cash and cash equivalents	225,113	171,677	31%	269,418
Equity	414,521	296,096	40%	441,843
Liabilities	188,591	118,245	59%	166,699

Revenue declined by 21% for the first quarter of 2019 and Gross margin is 1%. The first quarter is influenced by overcapacity of resources due to the constellation project for Sky and Space Global being put on hold during the fourth quarter of 2018 but also because of lower order intake than expected as well as a re-estimate of our projects regarding technical problems on propulsion. Our capacity thereby exceeds our activity level which results in low capacity utilization. The reduction in staff at the end of 2018 will have full effect in the second quarter of 2019. Compared to same period in 2018, gross margin has decreased from 35% to 1%.

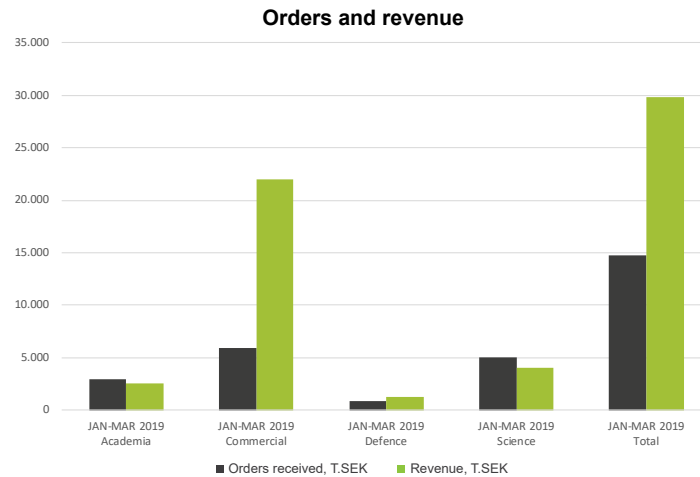
The operating loss for the first quarter was T.SEK 27,630 (a loss of 15,093).



Orders received and revenue

1 JANUARY – 31 MARCH 2019 (2018)

The orders received for the first quarter of 2019 amounted to T.SEK 14,788 (14,712), corresponding to an increase of 1%. The order backlog value at the end of the first quarter amounted to T.SEK 712,949, the most significant part of the order backlog is placed on the commercial business area. Order intake did not meet our expectations. The main reason for the low order intake is delay in funding plans for some of our existing as well as potential customers.



The orders received regarding commercial orders represent 40% (60%) of total orders for the period and orders received regarding science orders represent 34% (11%) of total orders for the period. In March, a contract was entered with ESA at a value of T.SEK 4,146 in the science segment. This is the very first nanosatellite developed for deep space missions by GomSpace.

In the first quarter of 2019, a customer in the science segment cancelled part of an order, this part of the order amounts to T.SEK 1,094. The cancellation of the order also has a negative effect on revenue in the science segment with the same amount.

In 2019, we expect to convert between SEK 60-70 million of the order backlog into revenue. Furthermore, we still have a strong sales pipeline of platforms, payloads and subsystems which we expect will contribute with 15-25% of revenues in 2019. We also expect to enter project orders in 2019 which will be converted into revenue during the year, and thereby we maintain our growth targets communicated in our long-term ambitions.

Business segments

	Academia T.SEK	Com- mercial T.SEK	Defense T.SEK	Science T.SEK	Total T.SEK
ORDER BOOK					
Order backlog 1 January 2019	3,281	685,374	1,866	24,881	715,402
Currency adjustment	1,270	9,362	28	3,070	13,730
Order intake	2,970	5,909	833	5,076	14,788
Cancelled orders	0	0	0	-1,094	-1,094
Converted to revenue from backlog	-2,583	-22,038	-1,259	-3,997	-29,877
Order backlog 31 March 2019	4,938	678,607	1,468	27,936	712,949
Low-risk customers	2,599	18,022	1,468	27,375	49,464
High-risk customers	2,339	660,585	0	561	663,485
Order backlog 31 March 2019	4,938	678,607	1,468	27,936	712,949

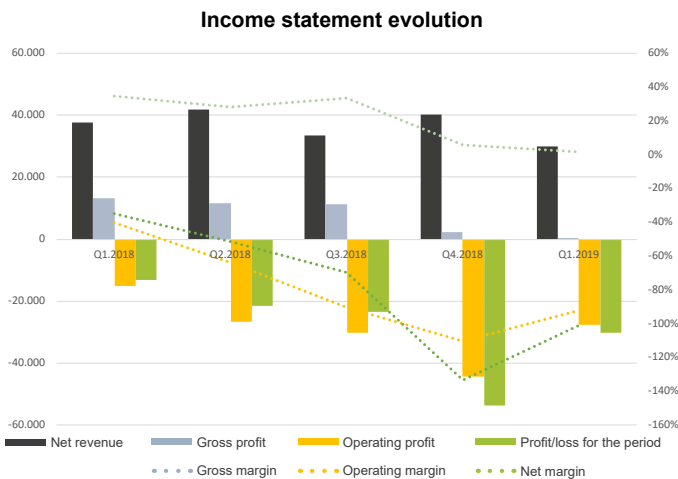
Out of the backlog as at 31 March 2019, T.SEK 663,485 are classified as backlog from high-risk customers. In the commercial segment, T.SEK 629,690 are related to our customer Sky and Space Global.

In relation to the order from Aerial & Maritime Ltd., at a total value of T.SEK 18,244, the backlog for the period includes a partial order at T.SEK 11,127.

Revenue

1 JANUARY – 31 MARCH 2019 (2018)

Revenues for the first quarter of 2019 amounted to T.SEK 29,877 (37,738), corresponding to a decrease of 21% compared with the same period in 2018. AISTECH constitutes 21% of total revenue whereas ESA constitutes 15% and Kleos Space S.A. constitutes 10% of total revenue in the first quarter.



Revenues from the sale of satellite solutions constitute T.SEK 22,553 (31,305), corresponding to a decrease of 28% compared with the same period in 2018. The decrease is related to an overcapacity of resources for the Sky and Space Global constellation project which was put on hold during the fourth quarter of 2018 but it is also related to lower order intake than expected. The decline is mainly visible within the commercial segment. Compared to the first quarter of 2018, the margins declined as we re-estimated our projects, this re-estimate showed that projects were more expensive than we initially anticipated due to a technical issue regarding propulsion. In the commercial segment – where we have the highest margin – revenue declined by 34%.

Revenues from the sales of platforms, payloads and subsystems constitute T.SEK 7,189 (6,234), corresponding to an increase of 15% compared with the same period in 2018. In the first quarter of 2018, we experienced challenges in the manufacturing phase due to the construction of the production area, these challenges have been solved and have not had an effect on the result in the first quarter of 2019.

43% (71%) of the revenue in the first quarter is generated by European customers in the commercial segment. The Group operates worldwide and expects to increase sales both geographically and in the segments Academia and Defense in the coming years in order to strengthen the business.

In the first quarter, sales to new customers represented 6% of revenues compared to 1% of revenues in the first quarter of 2018.

Expenses

1 JANUARY – 31 MARCH 2019 (2018)

Operating expenses for the first quarter of 2019 amounted to T.SEK 57,595 (53,120), corresponding to an increase of 8%. Sales, distribution, development and administrative costs amounted to T.SEK 28,164 (28,553), corresponding to a decrease of 1%.

In the first quarter of 2019, there was an increase in sales and distribution costs due to provision for loss on bad debt at an amount of T.SEK 2,582. Had this provision not existed, sales and administrative costs actually decreased when comparing with the same period in 2018, however, we are still working on balancing our costs to the activity level.

Costs of goods sold and costs for development activities in percentage of revenue have increased significantly compared with the same period in 2018. The primary reason for the increase is overcapacity and re-estimation of projects.

Profitability

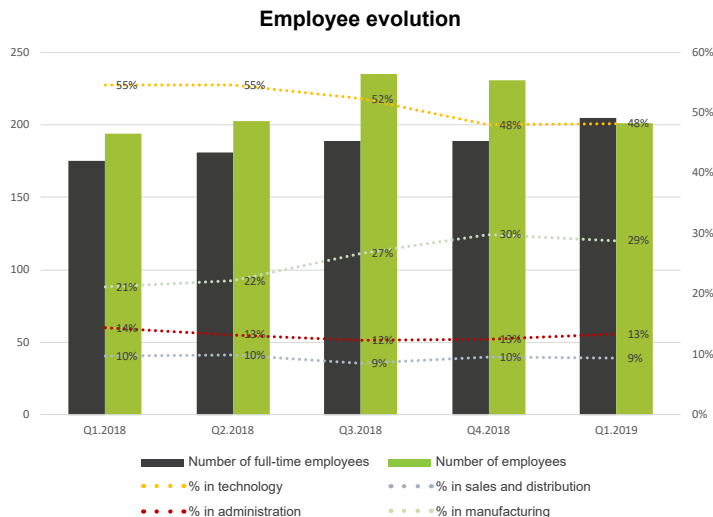
1 JANUARY – 31 MARCH 2019 (2018)

In the first quarter 2019, gross profit amounted to T.SEK 446 (13,171), corresponding to a decrease of 97% compared with the same period in 2018. In the first quarter 2019, the gross margin is 1% compared with the same period in 2018 where the gross margin was 35%.

In the first quarter 2019, operating loss amounted to T.SEK 27,630 (operating loss 15,093).

Employees

As at 31 March, GomSpace Group AB had 201 (194) employees, corresponding to 205 (175) full-time/year employees. Employees working within technology were 97 (106) and manufacturing were 58 (41), with sales and distribution 19 (19), and in administration there were 27 (28) employees. Since the fourth quarter 2018, the number of employees decreased with 30 employees, mainly within technology (14 employees) and manufacturing (11 employees) due to overcapacity. The reduction in employees in the fourth quarter 2018 will have full effect in the second quarter of 2019.



Share of profit from associates

In the first quarter 2019, the share of profit from associates amounts to a negative T.SEK 805 (a negative 111) which is a share of the result from Aerial & Maritime Ltd.

Financial income and expenses

1 JANUARY – 31 MARCH 2019 (2018)

Net financial items for the first quarter of 2019 had a negative effect on profit, mainly due to interest on debt and leasing liabilities. Net financial items amounted to a negative T.SEK 1,150 (a negative 1,368).

Tax and deferred tax

1 JANUARY – 31 MARCH 2019 (2018)

The Group recognized a deferred tax asset at a total amount of T.SEK 905 (5,908) relating to tax loss carry-forward. The parent company, GomSpace Group AB, recognized a deferred tax asset at a total amount of T.SEK 82 (537) in the first quarter of 2019 relating to tax loss carry-forward.

GomSpace Group had an effective tax rate of a negative 2.0% (16.6%) in the first quarter 2019 due to not fully recognized tax related to tax loss carry-forward.

Shareholder’s equity

As at 31 March 2019, total shareholder’s equity amounted to T.SEK 414,521 (296,096). In the first quarter of 2019, an amount of T.SEK 1,094 (1,214) is recognized as share-based payments in relation to the warrant program established for the Group’s employees.

Investments

1 JANUARY – 31 MARCH 2019 (2018)

Investments in intangible assets amounted to T.SEK 10,715 (13,811) whereas investments in property, plant and equipment amounted to T.SEK 3,304 (4,283). 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. It is a continuation of ongoing investment projects.

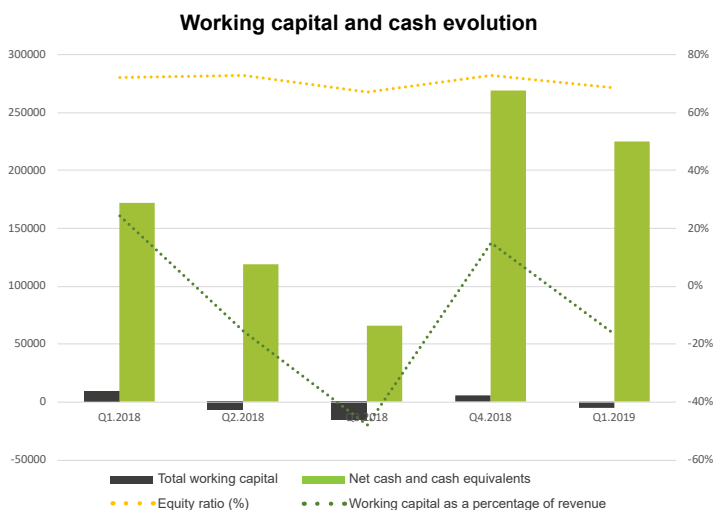
Investments in property, plant and equipment are mainly related to new production equipment.

Cash and cash equivalents, financing and financial position

1 JANUARY – 31 MARCH 2019 (2018)

Cash flow from operating activities amounted to a negative T.SEK 26,173 (a negative 27,638).

Working capital is decreasing and is negatively affected by inventories, trade payables and other liabilities. Working capital is positively affected by Contract work and trade receivables. To make use of the overcapacity of employees, products were manufactured for stock resulting in increased Inventories. Other liabilities are affected negatively by costs related



to the rights issue in December 2018 which were paid in 2019. Trade receivables are positively affected by received payment of invoice for the Critical Design Review at an amount of T.SEK 20,819 from our customer Sky and Space Global.

Cash flow from investing activities amounted to a negative T.SEK 14,311 (a negative 18,171). The main part of the investment activities is related to in-house development projects.

Cash flow from financing activities amounted to a negative T.SEK 4,104 (a positive 120,362). The financing activities are related to the repayment of borrowings and payment of lease liabilities. Payment of lease liabilities has increased due to the newly implemented IFRS 16 standard which affected financing activities with T.SEK 2,149 in the first quarter of 2019.

Cash and cash equivalents amounted to T.SEK 225,113 (171,677) at the end of the first quarter. Thereof, in the first quarter of 2019, we had tied-up capital at an amount of T.SEK 110,000 on a deposit account. GomSpace Group's working capital totalled T.SEK 5,024 (a negative 9,205).

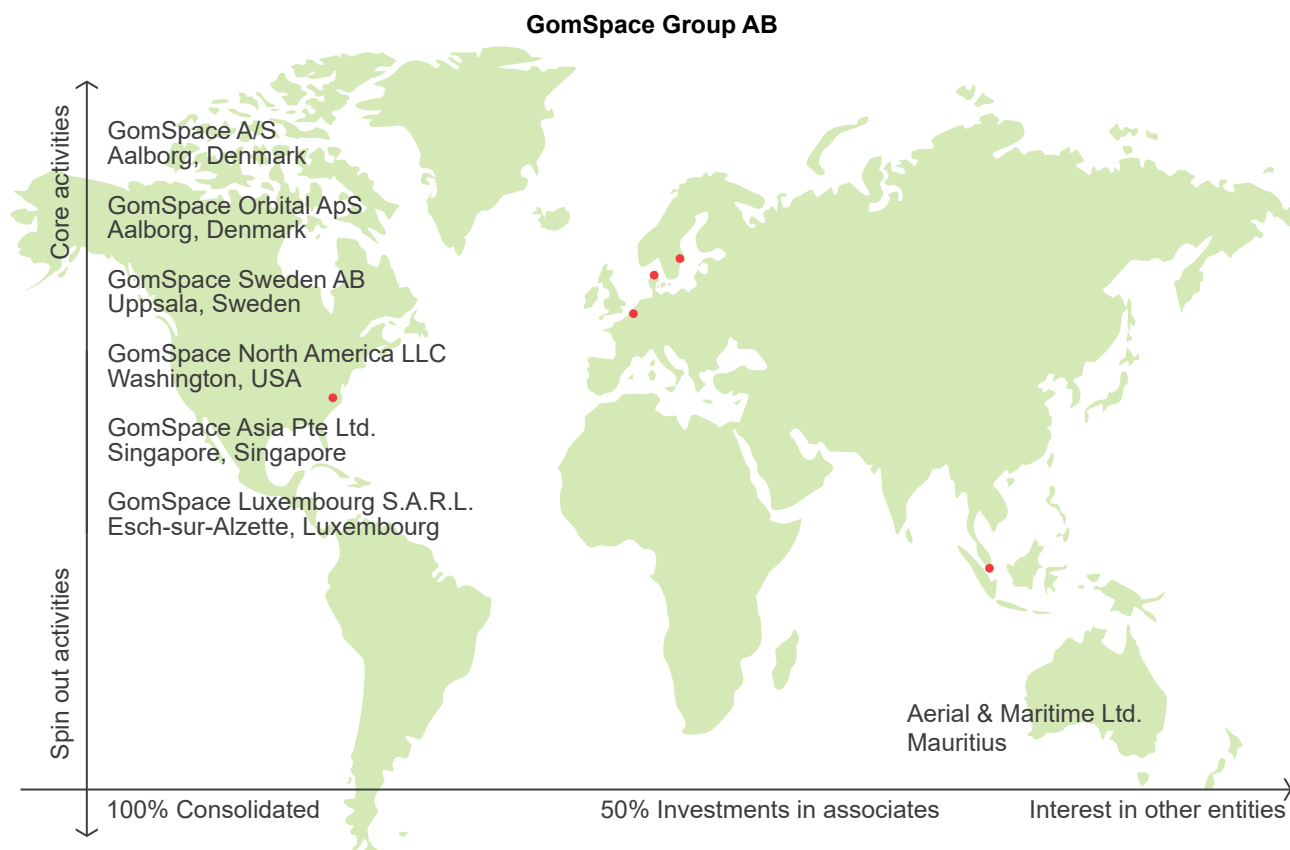
Risks

The Group is exposed to credit risks and other financial risks, such as market risks, including foreign exchange, interest and liquidity risks. These risks are described in the Annual Report and in the Consolidated Financial Statements for 2018.

Parent Company

The parent company had total revenues of T.SEK 6,600 (6,133) in the first quarter of 2019. The parent company incurred total costs of T.SEK 8,286 (12,105) in the first quarter. A total of T.SEK 53 (4,093) is attributable to the capital increases and has been deducted from the share premium. The operating result for the first quarter 2019 is a negative, T.SEK 1,633 (a negative 1,879). The net loss for the first quarter is T.SEK 1,426 (loss of 4,003).

The Group consists of GomSpace Group AB (Reg. No. 559026-1888), GomSpace A/S (Reg. No. 30899849), GomSpace Sweden AB (Reg. No. 556643-0475), GomSpace Orbital ApS (Reg. No. 38173561), GomSpace Asia Pte Ltd (Reg. No. 201707094C), GomSpace North America LLC (Reg. No. S667083-2) and GomSpace Luxembourg S.A.R.L. (No. B218666).



Market Development

A Disruptive Technology

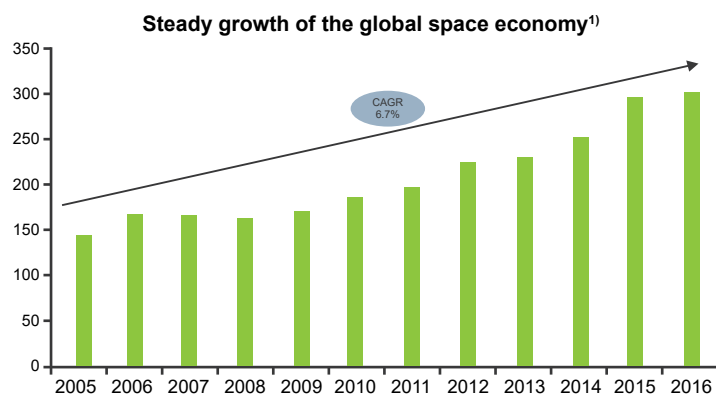
Small satellites (smallsats) are a disruptive technology in the process of transforming the status quo when it comes to satellite-based solutions and applications.

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 global space economy in 2017 was at a level of EUR 309 billion and the sectors have shown robust growth over the last 12 years at a CAGR of 6.7%. 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 through disruption of existing solutions and innovation of new ones.

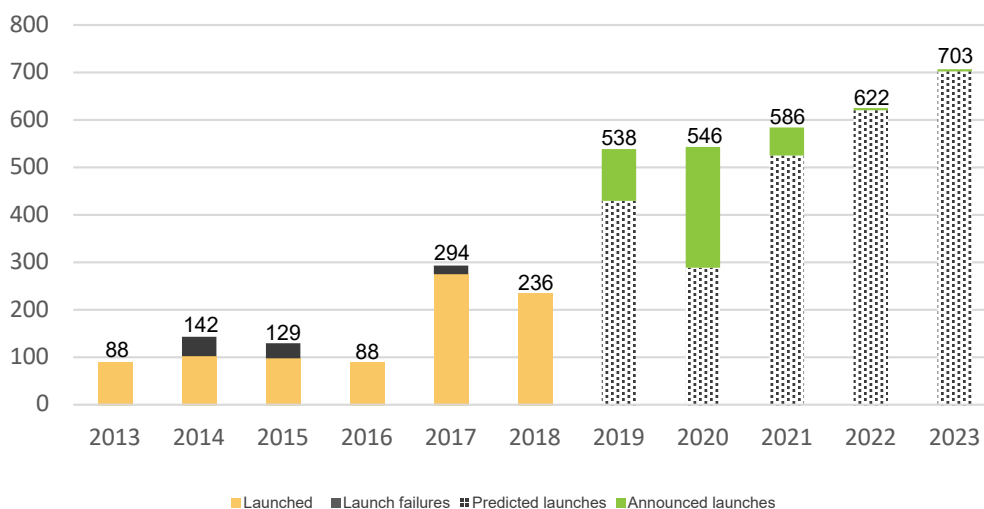
In recent years, traditional satellite communication (SATCOM) providers relying on large geostationary satellites have come under pressure as prices are dropping²⁾ due to changing consumer preferences (on demand vs. broadcast) and the rapid deployment of high bandwidth terrestrial networks. This provides 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.



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).

Number of launched nanosatellites



¹⁾ <https://www.eib.org/en/infocentre/publications/all/the-future-of-the-european-space-sector-report.htm>

²⁾ <https://spacenews.com/satellite-capacity-prices-down-60-percent-in-some-cases-and-still-dropping/>

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).

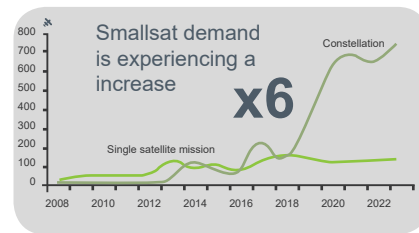


Figure: Smallsat demand 2008-2022 (Source: Prospects for the small satellite market, Euroconsult 2018)

The dominant applications for constellations will be:

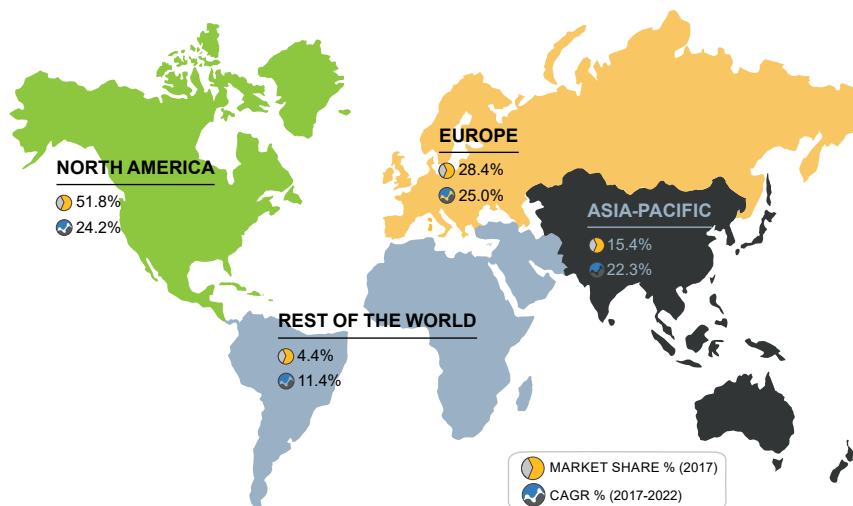
- Satellite Communication should have the strongest growth with close to 3,500 satellites expected from 2018-2027.
- Information includes the constellations that provide narrowband services for AIS, ADS-B, IoT or Machine to Machine (M2M) communication. It is a growing market with 850 satellites from 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 markets are 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 percent³⁾.

The recent successful development in the launcher market of making dedicated nanosatellite launch vehicles operational will help support the growth⁴⁾ 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.



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. The roll-out of 5G networks present new opportunities greatly simplifying the integration between satellite networks and terrestrial networks.

³⁾ “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.

⁴⁾ <https://www.space.com/42411-rocket-lab-launches-first-commercial-mission.html>

- 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.

With the recent acquisition of the Juventas project, GomSpace has secured a leadership position in Europe in this area. The challenges posed by these missions will result in new developments which can subsequently be industrialized in the commercial domain.

Expected growth in nanosatellites for moon and deep space exploration. Note each project represent a ~10x revenue opportunity over typical single satellite LEO projects⁵⁾.

Potential Barriers to Growth

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

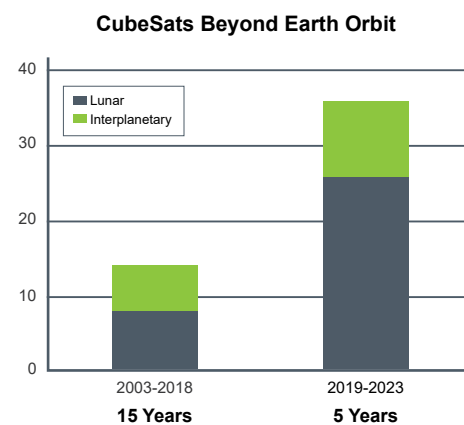
As a mature player in the market, we welcome this trend as adequate and competent regulation will ensure sustainability of the market, e.g. by avoiding congestion in space by establishing "traffic rules". It will also increase market entry barriers for new market entrants, however, GomSpace already has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

Finally, growth in the sector and utilization of the disruptive potential of the technology rely on availability of financing for our customers. The outlook for financing continues to be positive, but as competition and sector maturity increase, financiers are naturally expecting more depth from business and technology plans before committing investments⁶⁾. 2018 saw a 29% increase in venture capital (VC) investment in space technology companies totalising USD 3.25 billion⁷⁾.

The European Investment Bank (EIB) recently delivered a comprehensive report "The future of the European Space Sector - How to leverage Europe's technological leadership and boost investments for space ventures" to the European Commission.

The report points out the strategic nature of space investment and the needs for institutional backed financing mechanisms that can complement private investments in the sector and help compensate for the typical longer investment cycles associated with space projects compared to other VC driven technology investments.

Based on the conclusions of the report and the European Commission's increased focus on space as a strategic sector for Europe, we expect a number of policies and programs in the coming years that will facilitate easier access to capital for new space applications and stimulate demand further for GomSpace's satellites and services.



⁵⁾ <https://www.spaceworks.aero/wp-content/uploads/Nano-Microsatellite-Market-Forecast-9th-Edition-2019.pdf>

⁶⁾ <https://spacenews.com/surge-of-new-space-companies-has-impressed-even-veteran-industry-observers/>

⁷⁾ <https://spacenews.com/space-startup-investments-continued-to-rise-in-2018/>

Product Development

The GomSpace product platform is continuously evolved to enable our mission of helping teams across the globe achieve their goals in space. The current market (see Market Development) is still an emerging market with many different In Orbit Demonstration (IOD) mission types to serve and with an increasing demand for short lead times from business case conception to business case validation.

Thus, the GomSpace product platform will continue to be optimized for fast IOD validation across many mission types. This means our product platform will continue to be modular and flexible as well as configurable at both subsystem and spacecraft level, thereby ensuring short spacecraft design lead time and striking the right balance between design cost and manufacturing cost (for low volume IOD missions).

However, as the business cases mature, we are also seeing an increasing need to be able to scale the design with the mission. In this respect, we work closely with our customers to develop mission-optimized solutions in terms of manufacturing costs and lead time.

The current market trends affecting our product development roadmap are:

Helping customers be responsible actors in space

- De-orbit capabilities
- Orbit Awareness and Collision Avoidance

Providing advanced mission capabilities

- Formation flying
- Inter-plane and cross-plane satellite links
- More powerful radios and modems (i.e. high bandwidth and low latency requirements)
- More powerful onboard processing (i.e. enabling more in-space processing of data)
- In-space protocol and network management

Advanced platform capabilities

- Fast turnaround from idea conception to launch readiness
- Adaptable to many different payload types (size/power/interfaces)
- Enabling high duty cycle, either by high power generation or low power consumption
- Advanced ADCS capabilities
- Autonomous operations capabilities on spacecrafts

Maturing mission assurance capabilities

- Operational lifetime ≥ 5 years
- High availability of space infrastructure to ensure high availability of end-user services
- Cyber security
- Constellation Management with low OPEX (i.e. requiring a high degree of autonomous operations)

GomSpace's response to these trends is an agile approach to meet market demands and to maintain our leadership position when it comes to being able to offer turnkey solutions. So, in effect, our product roadmap is an emerging roadmap that evolves with the market.

GomSpace is continuously devoted to evolve and develop our existing platforms, i.e. our well proven 1U, 2U, 3U and 6U platforms, as well as our new 8U platform. We are now also entering the 12U and 16U form-factors as the market demands evolve.

We are still evolving our communications capabilities with new and more powerful versions of our world-leading SDR platform as well as extending our range of frequencies supported by our radios, i.e. X- and Ka/Ku band frequency ranges.

To meet the ever-increasing demands for power generation, we are constantly evolving our Modular Solar Panels and Deployable Solar Panels product ranges as well as working towards the introduction of our sun-tracking Triple Deployable Solar Panels product range. The work on our Electric Power System also includes new versions of our power supplies and battery packs.

A significant step towards serving the increasing demands (incl. regulatory requirements) for propulsion on-board nanosatellites is to enable fast and low-cost series productions of standard propulsion modules and GomSpace is well underway in this regard. Also, GomSpace will soon launch a new program to develop cost-effective hybrid propulsion systems with the potential to disrupt the propulsion industry.

On constellation management and mission assurance, we are working hard towards launching our Constellation Operations Platform. The development program recently passed CDR and is now moving fast towards the first operational release.

Finally, we are engaging in several development activities to improve our processes and products to be able to serve deep space missions. This will once again demonstrate GomSpace's ability to be at the forefront of the nanosatellite revolution. The capabilities developed for the deep space missions will naturally trickle down into the LEO missions and thereby improve the mission assurance capabilities of GomSpace to the benefit of all our customers.



Group - Key Figures and Ratios

	2019 Jan-Mar T.SEK	2018 Jan-Mar T.SEK	2018 Jan-Dec T.SEK
KEY FIGURES			
Net revenue	29,877	37,738	153,384
Gross profit	446	13,171	38,549
Operating profit (loss)	-27,630	-15,093	-116,601
Share of profit from associates	-805	-111	-2,112
Net financial items	-1,150	-1,368	-4,098
Profit (loss) before tax	-29,585	-16,572	-122,811
Profit (loss) for the period	-30,184	-13,820	-112,498
Investments in PPE	3,304	4,283	25,349
Total assets	603,112	414,341	608,542
Equity	414,521	296,096	441,843
Total liabilities	188,591	118,245	166,699
RATIOS			
Gross margin (%)	1%	35%	25%
Operating margin (%)	-92%	-40%	-76%
Net margin (%)	-101%	-37%	-73%
Return on invested capital (%)	-5%	-3%	-18%
Return on equity (%)	-8%	-6%	-36%
Equity ratio (%)	69%	71%	73%
Earnings per share, basic, SEK	-0.58	-0.52	-3.93
Earnings per share, diluted, SEK	-0.58	-0.51	-3.93
Number of outstanding shares basic, average	52,274,803	26,795,723	28,620,451
Number of outstanding shares as at 31 March 2019	52,274,803	28,340,667	52,274,803

Definition of key figures and ratios are defined in Note 1.

Consolidated Income Statement

	Note	2019 Jan-Mar T.SEK	2018 Jan-Mar T.SEK	2018 Jan-Dec T.SEK
Net revenue	4	29,877	37,738	153,384
Cost of goods sold		-29,431	-24,567	-114,835
Gross profit		446	13,171	38,549
Sales and distribution costs		-9,848	-7,977	-38,310
Development costs		-5,922	-7,146	-58,119
Administrative costs		-12,394	-13,430	-59,423
Other operating income		88	289	702
Operating profit (loss)		-27,630	-15,093	-116,601
Share of profit from associates		-805	-111	-2,112
Finance income		528	3,696	3,468
Finance expenses		-1,678	-5,064	-7,566
Profit (loss) before tax		-29,585	-16,572	-122,811
Tax		-599	2,752	10,313
Profit (loss) for the period		-30,184	-13,820	-112,498
Profit (loss) is attributable to:				
Owners of GomSpace Group AB		-30,184	-13,820	-112,498
		-30,184	-13,820	-112,498
Consolidated Statement of Comprehensive Income				
Profit (loss) for the period		-30,184	-13,820	-112,498
Items which may be reclassified to the income statement:				
Foreign exchange rate adjustments		1,821	2,480	6,026
Other comprehensive income for the period, net of tax		1,821	2,480	6,026
Total comprehensive income for the period		-28,363	-11,340	-106,472
Total comprehensive income for the period is attributable to:				
Owners of GomSpace Group AB		-28,363	-11,340	-106,472
		-28,363	-11,340	-106,472
Earnings per share, basic, SEK		-0.58	-0.52	-3.93
Earnings per share, diluted, SEK		-0.58	-0.51	-3.93
Number of outstanding shares basic, average		52,274,803	26,795,723	28,620,451
Number of outstanding shares diluted, average		52,274,803	26,916,705	28,620,451

Consolidated Statement of Financial Position

		2019	2018	2018
	Note	31 Mar	31 Mar	31 Dec
		T.SEK	T.SEK	T.SEK
ASSETS				
Goodwill		3,710	3,710	3,710
Technology		10,000	10,800	10,200
Completed development projects		19,389	11,176	20,298
In process development projects		76,555	36,478	70,415
Other intangible assets		12,966	17,918	13,950
Intangible assets	7	122,620	80,082	118,573
Property, plant and equipment		35,088	25,048	37,911
Right-of-use assets		59,836	0	0
Property, plant and equipment	8	94,924	25,048	37,911
Investments in associates		33,878	41,962	34,599
Deferred tax		11,833	12,382	12,373
Other non-current assets		4,205	3,598	3,853
Non-current assets		16,038	15,980	16,226
Total non-current assets		267,460	163,072	207,309
Raw materials and consumables		37,472	16,653	30,050
Inventories		37,472	16,653	30,050
Contract work		26,057	39,379	30,095
Trade receivables		31,404	11,778	51,811
Tax receivable		7,923	5,548	7,913
Other prepayments		4,417	1,891	7,815
Other receivables		3,266	4,333	4,131
Receivables		73,067	62,929	101,765
Marketable securities		0	10	0
Cash and cash equivalents		225,113	171,677	269,418
Total current assets		335,652	251,269	401,233
Total assets		603,112	414,341	608,542

	2019 31 Mar T.SEK	2018 31 Mar T.SEK	2018 31 Dec T.SEK
EQUITY AND LIABILITIES			
Share capital	3,660	1,985	3,660
Share premium	581,599	347,897	581,652
Translation reserve	6,065	698	4,244
Retained earnings	-176,803	-54,484	-147,713
Total equity	414,521	296,096	441,843
Credit institutions	21,936	28,866	23,403
Lease liabilities	49,240	0	2,890
Total non-current liabilities	71,176	28,866	26,293
Current portion of non-current liabilities	19,693	6,060	9,895
Trade payables and other payables	7,666	10,990	15,390
Contract work	53,487	41,586	48,988
Prepayments	9,214	7,417	14,103
Corporation tax	130	80	599
Other liabilities	27,225	23,246	51,431
Total current liabilities	117,415	89,379	140,406
Total liabilities	188,591	118,245	166,699
Total equity and liabilities	603,112	414,341	608,542

Consolidated Statement of Changes in Equity

	Share capital T.SEK	Share premium T.SEK	Translation reserve T.SEK	Retained earnings T.SEK	Total equity T.SEK
Equity 01.01.2018	1,839	227,136	-1,782	-41,878	185,315
Total comprehensive income for the period	0	0	2,480	-13,820	-11,340
Total comprehensive income for the period	0	0	2,480	-13,820	-11,340
Transactions with owners in their capacity as owners					
Increase in share capital	146	124,854	0	0	125,000
Increase in share capital, costs	0	-4,093	0	0	-4,093
Share-based payments	0	0	0	1,214	1,214
	146	120,761	0	1,214	122,121
Equity 31.03.2018	1,985	347,897	698	-54,484	296,096
Equity 01.04.2018	1,985	347,897	698	-54,484	296,096
Total comprehensive income for the period	0	0	3,546	-98,678	-95,132
Total comprehensive income for the period	0	0	3,546	-98,678	-95,132
Transactions with owners in their capacity as owners					
Increase in share capital	1,675	249,633	0	0	251,308
Increase in share capital, costs	0	-15,878	0	0	-15,878
Share-based payments	0	0	0	5,449	5,449
	1,675	233,755	0	5,449	240,879
Equity 31.12.2018	3,660	581,652	4,244	-147,713	441,843
Equity 01.01.2019	3,660	581,652	4,244	-147,713	441,843
Total comprehensive income for the period	0	0	1,821	-30,184	-28,363
Total comprehensive income for the period	0	0	1,821	-30,184	-28,363
Transactions with owners in their capacity as owners					
Increase in share capital, costs	0	-53	0	0	-53
Share-based payments	0	0	0	1,094	1,094
	0	-53	0	1,094	1,041
Equity 31.03.2019	3,660	581,599	6,065	-176,803	414,521

Consolidated Cash Flow Statement

	2019 Jan-Mar T.SEK	2018 Jan-Mar T.SEK	2018 Jan-Dec T.SEK
Profit (loss) before tax	-29,585	-16,572	-122,811
Reversal of financial items	1,150	1,368	4,098
Depreciation and amortizations	7,668	3,864	20,501
Result after tax from associates	805	111	2,112
Non-cash items	6,594	1,033	10,534
Changes in inventories	-6,992	-6,304	-24,658
Changes in trade receivables	21,588	21,154	-18,461
Changes in other receivables	8,743	-14,396	-6,780
Changes in trade and other payables	-35,020	-16,496	31,170
Cash flow from primary operating activities	-25,049	-26,238	-104,295
Received interest financials	0	3,696	2
Paid interest financials cost	-1,218	-5,201	-3,564
Tax received	149	149	5,498
Tax paid	-55	-44	-208
Cash flow from operating activities	-26,173	-27,638	-102,567
Investments in intangible assets	-10,715	-13,811	-65,477
Investments in leasehold improvement, plant and equipment	-3,304	-4,283	-25,349
Deposit paid	-292	-77	-371
Government grants	0	0	9,366
Proceeds from sale of marketable securities	0	0	10
Proceeds from sale of non-current assets	0	0	17
Cash flow from investing activities	-14,311	-18,171	-81,804
<i>Financing from debt:</i>			
Borrowings	0	0	4,128
Repayment of borrowings	-1,604	-545	-3,301
Payment of lease liabilities	-2,447	0	0
	-4,051	-545	827
<i>Financing from shareholders:</i>			
Capital increase	0	125,000	376,308
Capital increase, costs	-53	-4,093	-19,972
	-53	120,907	356,336
Cash flow from financing activities	-4,104	120,362	357,163
Net cash flow for the period	-44,588	74,553	172,792
Cash and cash equivalents, beginning of the period	248,754	84,170	84,170
Unrealized exchange rate gains and losses on cash	283	1,450	1,059
Change in bank deposit for security	-110,242	-3,343	-9,267
Cash and cash equivalents, end of the period	94,207	156,830	248,754
Reconciliation of cash and cash equivalents			
Cash and cash equivalents according to the balance sheet	225,113	171,677	269,418
Bank deposit for security	-130,906	-14,847	-20,664
Cash and cash equivalents according to the cash flow statement	94,207	156,830	248,754

Parent Company Income Statement

	2019 Jan-Mar T.SEK	2018 Jan-Mar T.SEK	2018 Jan-Dec T.SEK
Net revenue	6,600	6,133	24,893
Gross profit	6,600	6,133	24,893
Administrative costs	-8,233	-8,012	-31,463
Operating profit (loss)	-1,633	-1,879	-6,570
Finance income	219	0	2,115
Finance expenses	-94	-2,661	-2,513
Profit (loss) before tax	-1,508	-4,540	-6,968
Tax	82	537	1,265
Profit (loss) for the period	-1,426	-4,003	-5,703
Profit (loss) is attributable to:			
Owners of GomSpace Group AB	-1,426	-4,003	-5,703
	-1,426	-4,003	-5,703
Statement of Comprehensive Income			
Profit (loss) for the period	-1,426	-4,003	-5,703
Items which may be reclassified to the income statement:			
Other comprehensive income for the period, net of tax	0	0	0
Total comprehensive income for the period	-1,426	-4,003	-5,703

Parent Company Statement of Financial Position

	2019 31 Mar T.SEK	2018 31 Mar T.SEK	2018 31 Dec T.SEK
ASSETS			
GomSpace A/S	245,846	110,971	245,846
GomSpace Sweden AB	45,056	34,056	45,056
GomSpace Orbital ApS	65	65	65
GomSpace Luxembourg S.A.R.L.	10,478	115	115
GomSpace Asia Pte. Ltd.	2,142	2,142	2,142
GomSpace North America LLC	1,105	1,105	1,105
Investments in subsidiaries	304,692	148,454	294,329
Aerial & Maritime Ltd.	24,115	24,115	24,115
Investments in associates	24,115	24,115	24,115
Fixed asset investments	328,807	172,569	318,444
Deferred tax	3,602	2,792	3,520
Other non-current assets	3,602	2,792	3,520
Total non-current assets	332,409	175,361	321,964
Trade receivables from subsidiaries	44,911	27,632	29,212
Trade receivables from associates	241	56	421
Other prepayments	310	69	9
Other receivables	728	0	138
Receivables	46,190	27,757	29,780
Cash and cash equivalents	202,609	139,444	254,966
Total current assets	248,799	167,201	284,746
Total assets	581,208	342,562	606,710
EQUITY AND LIABILITIES			
Share capital	3,660	1,985	3,660
Share premium	578,311	344,609	578,364
Retained earnings	-1,710	-5,127	-1,378
Total equity	580,261	341,467	580,646
Payables to subsidiaries	0	0	10,382
Trade payables and other payables	561	800	105
Other liabilities	386	295	15,577
Total current liabilities	947	1,095	26,064
Total liabilities	947	1,095	26,064
Total equity and liabilities	581,208	342,562	606,710

Parent Company Statement of Changes in Equity

	Share capital T.SEK	Share premium T.SEK	Retained earnings T.SEK	Total equity T.SEK
Equity 01.01.2018	1,839	223,848	-2,338	223,349
Total comprehensive income for the period	0	0	-4,003	-4,003
Increase in share capital	146	124,854	0	125,000
Increase in share capital, costs	0	-4,093	0	-4,093
Share-based payments	0	0	1,214	1,214
Total comprehensive income for the period	146	120,761	-2,789	118,118
Equity 31.03.2018	1,985	344,609	-5,127	341,467
Equity 01.04.2018	1,985	344,609	-5,127	341,467
Total comprehensive income for the period	0	0	-1,700	-1,700
Increase in share capital	1,675	249,633	0	251,308
Increase in share capital, costs	0	-15,878	0	-15,878
Share-based payments	0	0	5,449	5,449
Total comprehensive income for the period	1,675	233,755	3,749	239,179
Equity 31.12.2018	3,660	578,364	-1,378	580,646
Equity 01.01.2019	3,660	578,364	-1,378	580,646
Total comprehensive income for the period	0	0	-1,426	-1,426
Increase in share capital, costs	0	-53	0	-53
Share-based payments	0	0	1,094	1,094
Total comprehensive income for the period	0	-53	-332	-385
Equity 31.03.2019	3,660	578,311	-1,710	580,261



Notes to the Interim Consolidated Financial Statements

1. Accounting policies

Basis of preparation

The interim consolidated financial statements for the first quarter of 2019 have been prepared in accordance with IAS 34 Interim Financial Reporting and the Swedish Annual Accounts Act. The parent company applies the Swedish Annual Accounts Act and RFR 2 Reporting for legal entities.

The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2018.

Key ratios definitions

$$\text{Gross margin} = \frac{\text{gross profit}}{\text{net revenue}}$$

$$\text{Operating margin} = \frac{\text{operating profit}}{\text{net revenue}}$$

$$\text{Net margin} = \frac{\text{profit}}{\text{net revenue}}$$

$$\text{Return on invested capital} = \frac{\text{profit}}{\text{total assets}}$$

$$\text{Return on equity} = \frac{\text{profit}}{\text{average equity}}$$

$$\text{Equity ratio} = \frac{\text{equity}}{\text{total assets}}$$

$$\text{Earnings per share, basic} = \frac{\text{profit}}{\text{number of shares basic, average}}$$

$$\text{Earnings per share, diluted} = \frac{\text{profit}}{\text{number of shares diluted, average}}$$

$$\text{Working capital} = \text{Inventory} + \text{Contract work} + \text{Trade receivables} + \text{Other prepayments} + \text{Other receivables} \\ - \text{Trade payables and other payables} - \text{Contract work} - \text{Prepayments} - \text{Other liabilities}$$

2. New standards adopted by the Group

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 16 Leases that requires restatement of previous financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim consolidated financial statements of the Group.

IFRS 16 Leases

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

Nature of the effect of adopting IFRS 16

The Group has lease contracts for various items of plant, machinery, vehicles and other equipment. Before the adoption of IFRS 16, the Group classified each of its leases at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Prepayments and Trade and other payables, respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Group recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

When assessing the expected lease period, the Group has identified the non-cancellable term of the lease, together with periods covered by an option to extend the lease, which management with reasonable probability expects to exercise, and together with periods covered by an option to terminate the lease which management with reasonable probability expects not to exercise.

Regarding leasing of operating equipment, the Group has assessed that the expected lease period constitutes the non-cancellable term of the lease as the Group has not previously made use of an option to extend the lease in similar agreements.

When discounting lease payments to current value, the Group has applied its alternative loan interest which comprises the costs of raising external financing for a similar asset in the currency used for the lease payments. The Group has documented the alternative loan interest for each portfolio of leases with uniform characteristics.

When assessing the Group's alternative loan interest, the Group has stated its alternative loan interest for each of the property leases based on an interest from a property bond in the same currency used for the lease payments. Interest on financing of the share for which the mortgage loan cannot be used is estimated based on the benchmark rate deduced from the Group's existing credit facilities. The Group has applied a weighted average alternative loan interest for discounting future lease payments at 2.7% for property and 3.75% for operating equipment, respectively.

2. New standards adopted by the Group (continued)

T.SEK

The effect of adopting IFRS 16 as at 1 January 2019 is as follows:

Assets

Right-of-use assets	61,646
Property, plant and equipment	-4,097
Total assets	57,549

Liabilities

Interest-bearing loans and borrowings	57,549
Total liabilities	57,549

No effect on equity.

Impact on the income statement (increase/(decrease))
for the three months ended 31 March 2019:

Depreciation expense (included in Cost of goods sold, Sales and distribution costs, Development costs and Administrative costs)	-2,334
Rent expense (included in Cost of goods sold, Sales and distribution costs, Development costs and Administrative costs)	2,534
Operating profit	200
Finance costs	-385
Income tax expense	40
Profit (loss) for the period	-145

Impact on the statement of cash flows (increase/(decrease))
for the three months ended 31 March 2019:

Net cash flows from operating activities	2,149
Net cash flows from financing activities	-2,149
	0

There is no material impact on other comprehensive income and the basic and diluted EPS.

Lease assets primarily consist of property and operating equipment. On the transition date, the total lease asset amounts to T.SEK 57,549 (previously operating leases) and finance leases which are transferred from property, plant and equipment amount to T.SEK 4,097, equivalent to a total of T.SEK 61,646.

3. Significant accounting estimates and judgments

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

In applying the Group's accounting policies, Management makes judgments which may significantly influence the amounts recognized in the Interim Report. 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.

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

The Group has established a warrant program from 27 April 2017 to 27 April 2021. 100% of the warrants in the first grant is vested and the management expects that 50% of the warrants will be vested in the fourth grant. The Group has also established a warrant program from 26 April 2018 to 26 April 2022. 100% of the warrants in the first grant is vested and the management expects that 70% of the warrants will be vested in the fourth grant.

Development

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 Group 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 7.

Lease term

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms of three to five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Alternative loan interest

The Group applies its alternative loan interest when measuring future lease payments at current value. When assessing the alternative loan interest, the Group has categorized its portfolio of lease assets into two categories where the Group assesses that the leases and the underlying assets of each category have the same characteristics and risk profile. The categories are as follows:

- Properties
- Operating equipment

The Group determines the alternative loan interest for the above categories of leases in relation to initial recognition of a lease. Moreover, it is determined in relation to subsequent changes in the underlying contractual cash flows from changes in the Group's estimate of a residual value guarantee, in case the Group alters its assessment of whether an option to acquire, prolong or terminate with reasonable probability is expected to be exercised or in case the lease is to be modified.

Properties

When assessing the Group's alternative loan interest, the Group has stated its alternative loan interest for each of the property leases based on an interest from a property bond in the same currency used for the lease payments. Interest on financing of the share for which the mortgage loan cannot be used is estimated based on the benchmark rate deduced from the Group's existing credit facilities.

Operating equipment

The Group has stated its alternative loan interest for leases of operating equipment based on a benchmark rate deduced from the Group's existing credit facilities.

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 the consolidated statement of financial position.

Backlog, Revenue and Trade receivables

A material part of the Group'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 fourth 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 Group lose business from all or some of its top customers it may have an adverse impact on the Group's business, financial position and profits in the future.

Deferred tax

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.

4. Revenue

Business segments

	Academia T.SEK	Com- mercial T.SEK	Defense T.SEK	Science T.SEK	Total T.SEK
Jan-Mar 2019					
Geographical					
Sweden	-78	1,191	0	298	1,411
Denmark	569	801	0	0	1,370
Europe (excluding Sweden and Denmark)	448	12,817	0	3,573	16,838
USA	0	2,924	501	0	3,425
Asia	544	2,589	631	126	3,890
Rest of the world	1,100	1,176	127	0	2,943
	2,583	22,038	1,259	3,997	29,877

Jan-Mar 2018

Geographical

Sweden	0	0	0	-327	-327
Denmark	1,451	0	0	0	1,451
Europe (excluding Sweden and Denmark)	345	26,736	1	2,215	29,297
USA	230	1,837	1,043	0	3,110
Asia	1,617	973	0	8	2,598
Rest of the world	0	1,542	0	67	1,609
	3,643	31,088	1,044	1,963	37,738

Jan-Mar 2019

Major goods/service lines

Sales of satellite solutions	448	17,120	1,132	3,853	22,553
Sales of platforms, payloads and subsystems	2,135	4,783	127	144	7,189
Other sales	0	135	0	0	135
	2,583	22,038	1,259	3,997	29,877

Jan-Mar 2018

Major goods/service lines

Sales of satellite solutions	2,307	26,058	1,044	1,896	31,305
Sales of platforms, payloads and subsystems	1,336	4,831	0	67	6,234
Other sales	0	199	0	0	199
	3,643	31,088	1,044	1,963	37,738

Jan-Mar 2019

Order book

Order backlog 1 January	3,281	685,374	1,866	24,881	715,402
Currency adjustment and reclassification of orders	1,270	9,362	28	3,070	13,730
Order intake	2,970	5,909	833	5,076	14,788
Cancelled orders	0	0	0	-1,094	-1,094
Converted to revenue from backlog	-2,583	-22,038	-1,259	-3,997	-29,877
Order backlog 31 March	4,938	678,607	1,468	27,936	712,949

Low-risk customers	2,599	18,022	1,468	27,375	49,464
High-risk customers	2,339	660,585	0	561	663,485
Order backlog 31 March	4,938	678,607	1,468	27,936	712,949

Jan-Mar 2018

Order book

Order backlog 1 January	5,597	720,131	3,992	16,739	746,459
Order intake	1,278	8,874	2,982	1,578	14,712
Converted to revenue from backlog	-3,643	-31,088	-1,044	-1,963	-37,738
Order backlog 31 March	3,232	697,917	5,930	16,354	723,433

5. Income tax and deferred tax

The Group had a recognized deferred tax loss carry-forward at a total amount of T.SEK 22,125 (T.SEK 26,158). The parent company, GomSpace Group AB, had a non-recognized deferred tax loss carry-forward at a total amount of T.SEK 9,125 (T.SEK 6,236). This amount can only be used by the Swedish entities and no tax profit is expected to be generated within a foreseeable future. Once the non-recognized deferred tax loss carry-forward in the parent company is recognized, this is done over equity as it regards deferred tax concerning expenses booked on equity.

	2019 31 Mar T.SEK	2018 31 Mar T.SEK
Deferred tax asset relates:		
Intangible assets	-11,893	-15,611
Property, plant and equipment	-16,016	2,118
Short-term assets	4,496	-283
Lease liabilities	13,121	0
Tax loss carry-forward	22,125	26,158
	11,833	12,382
Tax loss carry-forward	52,021	32,394
Unrecognized as deferred tax asset	-29,896	-6,236
Tax loss carry-forward recognized as deferred tax asset	22,125	26,158

6. Share-based payment

GomSpace Group AB (publ) established warrant programs as an incentive for all the Group's employees. Board members of the Group will not be allowed to participate. The warrant activity for the year is outlined below.

	2019 Jan-Mar T.SEK	2018 Jan-Mar T.SEK	2018 Jan-Dec T.SEK
Outstanding warrants as at 1 January	632,945	10,709	393,647
Granted	0	-2,895	328,540
Forfeited	1,448	0	-89,242
Exercised	0	0	0
Outstanding warrants	634,393	7,814	632,945

A detailed description of the warrant program for 2017/20 and 2018/21 can be found in the annual report for 2018, note 5.

	<u>First award</u>	<u>Second award</u>	
	Warrant program 2017/20	Warrant program 2017/20	Warrant program 2018/21
Volatility	70%	70%	58%
Risk-free interest rate	0%	0%	1%
Dividend yield	0%	0%	0%
Early-exercise date	27.04.2020	27.04.2020	26.04.2021
Expiration date	27.04.2021	27.04.2021	26.04.2022
Share price (SEK per share)	54	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 March 2019	218,235	119,691	296,467

The costs of this program will be recognized as cost in the consolidated income statement over the service period.

7. Intangible assets

	Goodwill T.SEK	Technology T.SEK	In proces development projects T.SEK	Completed development projects T.SEK	Other intangible assets T.SEK	Total T.SEK
Group						
Cost price at 1 January 2019	3,710	12,000	70,421	33,615	21,695	141,441
Additions during the year	0	0	5,169	0	0	5,169
Reclassification	0	0	-16	16	0	0
Exchange rate adjustment	0	0	981	583	280	1,844
Cost price at 31 March 2019	3,710	12,000	76,555	34,214	21,975	148,454
Amortization at 1 January 2019	0	-1,800	0	-13,319	-7,743	-22,862
Amortization	0	-200	0	-1,312	-1,170	-2,682
Exchange rate adjustment	0	0	0	-194	-96	-290
Amortization at 31 March 2019	0	-2,000	0	-14,825	-9,009	-25,834
Carrying amount at 31 March 2019	3,710	10,000	76,555	19,389	12,966	122,620
Cost price at 1 January 2018	3,710	12,000	26,576	14,509	20,843	77,638
Additions during the year	0	0	13,704	0	107	13,811
Reclassification	0	0	-5,206	5,206	0	0
Exchange rate adjustment	0	0	1,404	788	811	3,003
Cost price at 31 March 2018	3,710	12,000	36,478	20,503	21,761	94,452
Amortization at 1 January 2018	0	-1,000	0	-8,146	-2,418	-11,564
Amortization	0	-200	0	-799	-1,310	-2,309
Exchange rate adjustment	0	0	0	-382	-115	-497
Amortization at 31 March 2018	0	-1,200	0	-9,327	-3,843	-14,370
Carrying amount at 31 March 2018	3,710	10,800	36,478	11,176	17,918	80,082

Impairment test

The annual impairment test for goodwill is performed as at 31 December after completion of budgets and strategy plans for the next 5 years. As at 31 March 2019, management assesses that there is no indication of impairment regarding the net asset values for goodwill and intangible assets with an indefinite useful life.

8. Property, plant and equipment

	Right-of-use assets T.SEK	Leasehold improve- ments T.SEK	Other fixtures fittings, tool and equipment T.SEK	Total property, plant and equipment T.SEK
Group				
Cost price at 1 January 2019	61,678	27,419	20,955	110,052
Additions during the year	0	2,674	630	3,304
Exchange rate adjustment	711	401	235	1,347
Cost price at 31 March 2019	62,389	30,494	21,820	114,703
Depreciation at 1 January 2019	-30	-2,956	-11,605	-14,591
Depreciation	-2,522	-1,345	-1,122	-4,989
Exchange rate adjustment	-1	-44	-154	-199
Depreciation at 31 March 2019	-2,553	-4,345	-12,881	-19,779
Carrying amount at 31 March 2019	59,836	26,149	8,939	94,924
Cost price at 1 January 2018	0	9,963	16,372	26,335
Additions during the year	0	3,666	617	4,283
Exchange rate adjustment	0	529	708	1,237
Cost price at 31 March 2018	0	14,158	17,697	31,855
Depreciation at 1 January 2018	0	-852	-4,149	-5,001
Depreciation	0	-246	-1,306	-1,552
Exchange rate adjustment	0	-45	-209	-254
Depreciation at 31 March 2018	0	-1,143	-5,664	-6,807
Carrying amount at 31 March 2018	0	13,015	12,033	25,048

9. Classification of financial assets and liabilities

	Financial instruments carried at fair value through profit or loss held for trading T.SEK	Loans and receiv- ables T.SEK	Other financial liabilities T.SEK	Total T.SEK	Carrying amount T.SEK	Fair Value Level 1 T.SEK
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31 March 2019

Assets

Trade and other receivables	0	60,727	0	60,727	60,727	0
Cash and cash equivalents	0	225,113	0	225,113	225,113	0
Total assets	0	285,840	0	285,840	285,840	0

Liabilities

Credit institutions and non-current loans	0	0	90,869	90,869	90,869	0
Trade payables and other payables	0	0	34,891	34,891	34,891	0
Prepayments	0	0	62,701	62,701	62,701	0
Total liabilities	0	0	188,461	188,461	188,461	0

31 March 2018

Assets

Trade and other receivables	0	55,490	0	55,490	55,490	0
Marketable securities	10	0	0	10	0	10
Cash and cash equivalents	0	171,677	0	171,677	171,677	0
Total assets	10	227,167	0	227,177	227,167	10

Liabilities

Credit institutions	0	0	34,926	34,926	34,926	0
Trade payables and other payables	0	0	34,236	34,236	34,236	0
Prepayments	0	0	49,003	49,003	49,003	0
Total liabilities	0	0	118,165	118,165	118,165	0

Fair value of credit institutions and other non-current loans are deemed to be the equal to the total carrying amount, as these items are of a short-term nature.

The fair values of financial instruments traded in an active market (such as financial instruments held for trading and available-for-sale financial instruments) are based on quoted market prices as at the balance sheet date. A market is regarded as active if quoted prices from an exchange, broker, industry group, pricing service or regulatory authority are easily and regularly available, and provided these prices represent actual and regularly occurring arm's length market transactions. The quoted market price used for the Group's financial assets is the current bid price. These instruments belong to Level 1.

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 or the asset or liability which are not based on observable market data (non-observable inputs) (Level 3)

In the first quarter of 2019, no transfers between levels were made.

10. Related parties

Related parties comprise the associated companies, the Board of Directors and the management team. Furthermore, related parties comprise companies in which the above-mentioned persons have significant interests.

The Group has the following transactions with related parties:

	2019 Jan-Mar T.SEK	2018 Jan-Mar T.SEK	2018 Jan-Dec T.SEK
Transactions with related parties			
Sale of goods and services to associates	1,263	1,124	6,687
Administration costs from Board of Directors and management team	57	30	3,278
Receivables from associates on the balance sheet date	451	933	850

Financial Calendar

Interim report, April - June 2019

31 August 2019

COMPANY INFORMATION

GomSpace Group AB
Ulls Väg 29A
SE-756 51 Uppsala

Org.nr.
Municipality of reg. office

559026-1888
Stockholm

Telephone
Website
E-mail

+45 71 741 741
www.gomspace.com
info@gomspace.com

Subsidiaries

GomSpace A/S, 100%
Langagervej 6
9220 Aalborg East
Denmark

GomSpace Orbital ApS, 100%
Langagervej 6
9220 Aalborg East
Denmark

GomSpace Sweden AB, 100%
Ulls Väg 29A
756 51 Uppsala
Sweden

GomSpace North America LLC, 100%
7295 Jones Branch Drive, Suite 2100
McLean, VA 22102
USA

GomSpace ASIA Pte Ltd, 100%
60 Paya Lebar Road #06-01
Paya Lebar Square
Singapore 409051
Singapore

GomSpace Luxembourg S.A.R.L., 100%
9, avenue des Hauts-Fourneaux
L-4362 Esch-sur-Alzette
Luxembourg

AUDITORS

Ernst & Young AB

CERTIFIED ADVISOR

FNCA Sweden AB

Telephone
E-mail

+46(0)8-528 00 399
info@fnca.se

MANAGEMENT'S STATEMENT

The CEO certifies that this Interim Report presents a true and fair view of the Group's and the parent company's assets, liabilities and financial position at 31 March 2019, and of the results of the Group's and the parent company's operations and cash flow. The Interim Report also describes the significant risks and uncertainties facing the Parent Company and other companies in the Group.

Stockholm, 29 May 2019

Executive Board

Niels Buus
CEO

This Interim Report has not been reviewed by the company's auditors.



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