

1. Company details

Name of entity:	Kleos Space S.A.
ARBN:	625 668 733
RCS:	B215591
Reporting period:	For the year ended 31 December 2019
Previous period:	For the year ended 31 December 2018

2. Results for announcement to the market

The consolidated entity has adopted International Financial Reporting Standard ('IFRS') 16 'Leases' during the year ended 31 December 2019 using the modified retrospective approach and as such comparatives have not been restated. Refer to note 2 to the financial statements for further information.

			€
Revenues from ordinary activities	down	27% to	600,616
Loss from ordinary activities after tax attributable to the owners of Kleos Space S.A.	up	59% to	(3,503,298)
Loss for the year attributable to the owners of Kleos Space S.A.	up	59% to	(3,503,298)

Dividends

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

Comments

The loss for the consolidated entity after providing for income tax amounted to €3,503,298 (31 December 2018: loss of €2,201,904).

The loss for the Company after providing for income tax amounted to €2,849,375 (31 December 2018: loss of €2,101,103).

Further information on the 'Review of operations' is detailed in the Directors' report which is part of this Report.

3. Net tangible assets

	31 Dec 2019 Cents	31 Dec 2018 Cents
Net tangible assets per CHESS Depository Interests ('CDI')	<u>2.81</u>	<u>5.40</u>

4. Control gained over entities

Name of entities	Date control gained
Kleos Space (Asia Pacific) Pty Ltd	19 March 2018
Kleos Space Ltd	13 November 2018
Kleos Space Inc.	7 October 2019

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

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

Previous period

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

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

Kleos Space S.A. is incorporated in Luxembourg. The accounting standards used are International Financial Reporting Standards as adopted in the European Union.

10. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements have been audited and an unqualified opinion has been issued.

11. Attachments

Details of attachments (if any):

The Directors' report, financial statements and report of the réviseur d'entreprises agréé for the year ended of Kleos Space S.A. for the year ended 31 December 2019 is attached.

12. Signed

Signed 

Andy Bowyer
Director
Luxembourg

Date: 28 February 2020

Kleos Space S.A.

ARBN 625 668 733 / RCS B215591

Directors' Report, Financial Statements as at and for the year ended 31 December 2019 and report of the Réviseur d'Entreprises Agréé

Principal place of business:

26 rue des Gaulois
L-1618 Luxembourg
Luxembourg

Registered office:

Level 7, 330 Collins Street
Melbourne VIC 3000
Australia

Capital:

CHES Depository Interests – Number of CDIs on issue at reporting date 106,627,500

Corporate directory	2
Directors' report	3
Responsibility statement	8
Statements of profit or loss and other comprehensive income	9
Statements of financial position	10
Statements of changes in equity	11
Statements of cash flows	13
Notes to the financial statements	14
Report of the Réviseur d'Entreprises Agréé	44

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Directors	Peter Round (Chairman and Executive Chairman) Andrew Bowyer (Chief Executive Officer and Managing Director) Miles Ashcroft (Chief Technical Officer and Executive Director) David Christie (Non-Executive Director)
Company secretary	Mertons Corporate Services
Australian postal address	Level 9, Nishi Building 2 Phillip Law Street New Acton Canberra ACT 2601 Australia
Australian registered office	Level 7, 330 Collins Street Melbourne VIC 3000 Australia
Principal place of business	26 rue des Gaulois L-1618 Luxembourg Luxembourg
Share register	Link Market Services Limited Level 12, 680 George Street Sydney NSW 2000 Australia
Auditor	Deloitte Audit S.à r.l. 20 Boulevard de Kockelscheuer L-1821 Luxembourg Luxembourg
Stock exchange listing	Kleos Space S.A. CDIs are listed on the Australian Securities Exchange (ASX code: KSS) and on the Frankfurt Stock Exchange (FRA code: KS1)
Website	www.kleos.space
Use of cash and cash equivalents	The Company has used cash and cash equivalents held at the time of listing, in a way consistent with its stated business objectives.
Corporate Governance Statement	<p>The directors and management are committed to conducting the business of Kleos Space S.A. in an ethical manner and in accordance with the highest standards of corporate governance. Kleos Space S.A. has adopted and has substantially complied with the ASX Corporate Governance Principles and Recommendations (Third Edition) ('Recommendations') to the extent appropriate to the size and nature of the consolidated entity's operations.</p> <p>The Corporate Governance Statement, which sets out the corporate governance practices that were in operation during the financial year and identifies and explains any Recommendations that have not been followed, which was approved at the same time as this report can be found at: https://kleos.space/investors/.</p>

The directors present their report, together with the financial statements, on Kleos Space S.A. (referred to as the 'Company' or 'parent entity') as an individual entity and the consolidated entity consisting of Kleos Space S.A. and the entities it controlled (referred to hereafter as the 'consolidated entity') at the end of, or during, the year ended 31 December 2019.

Directors

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

Peter Round
Andrew Bowyer
Miles Ashcroft
David Christie

Principal activities

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

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

Dividends

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

Review of operations

The loss for the consolidated entity after providing for income tax amounted to €3,503,298 (31 December 2018: loss of €2,201,904).

The loss for the Company after providing for income tax amounted to €2,849,375 (31 December 2018: loss of €2,101,103).

The key categories of expenditure in the consolidated entity and the Company for the financial year were remuneration expenses, consulting and professional fees, research and development costs, and general administrative expenses.

The principal source of income for the consolidated entity during the year continued to be the European Space Agency contract. The categories of expenditure in the consolidated entity for the year were remuneration expenses, consulting and professional fees, research and development costs, and general administrative expenses.

Significant changes in the state of affairs

On 6 September 2019 the Company entered into a convertible note deed poll under which it issued secured convertible notes. The Company issued notes with an aggregate face value of A\$2,200,000. The notes bear interest at a 20% annual rate and had a maturity date of 28 February 2020. The holders of the convertible notes received 1,000,000 options and the lead manager received an additional 1,900,000 options. All options issued expire 6 September 2022 with an exercise price of A\$0.40.

On 7 October 2019, the Company incorporated a wholly-owned USA subsidiary, Kleos Space LLC to develop business development opportunities.

On 19 December 2019 the Company elected to subscribe for an additional aggregate face value of A\$550,000 under the convertible note deed poll entered into 12 September 2019. The notes bear interest at a 20% annual rate and had a maturity date of 13 May 2020. The holders of the convertible notes received 250,000 options and the lead manager received an additional 475,000 options. All options issued expire 19 December 2022 with an exercise price of A\$0.40.

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

Matters subsequent to the end of the financial year

On 18 February 2020, the Company secured a loan agreement of €3,410,000 (A\$5,500,000) with a Dubai-based Family Office, Winance Investment LLC ('Winance'). Proceeds of €1,857,353 (A\$3,025,000) were used to retire the existing loans outstanding.

On 20 February 2020, the Company issued 6,319,125 warrants to Winance with an exercise price of A\$0.38 and a three year term, on satisfying the conditions of the loan agreement.

The Company has agreed to issue a further 2,285,381 warrants to Winance with an exercise price of A\$0.38 and a three year term, subject to approval of shareholders at the Annual General Meeting.

No other matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

After the delay of the planned 2019 launch, the consolidated entity will deliver the launch of the first cluster of four satellites and to use the data collected by the satellites to begin generating revenue.

Kleos Space satellites provide a capability to sense and geolocate transmitters (VHF for Kleos Scouting Mission) without relying on geolocation by other means such as GPS or AIS (automatic identification system). Each of our Scouting satellites receives signals from the ground that have several measurable parameters enabling the location of the transmitter and with more satellites we collect more data more often.

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

Environmental regulation

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

The consolidated entity has obtained a licence, with specific assignments for the use of frequencies or radio channels for both transmission, and reception pursuant to the law of 30 May 2005 on the organisation and management of radio frequency spectrum. The frequency assignments are recorded by the Luxembourg Institute of Regulators, Institut Luxembourgeois de Régulation ('ILR') in a public file called "register of frequencies". The consolidated entity has obtained from the ILR a licence for the use of electronic communications networks/services. From an international regulatory perspective, the consolidated entity has registered with the International Telecommunication Union ('ITU').

CDIs under option

Unissued CDIs of the Company under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price A\$	Number under option
24/08/2018	17/08/2021	0.3000	4,000,000
06/09/2019	06/09/2022	0.4000	1,000,000
06/09/2019	06/09/2022	0.4000	1,900,000
19/12/2019	19/12/2022	0.4000	250,000
19/12/2019	19/12/2022	0.4000	475,000
		<u>1.9000</u>	<u>7,625,000</u>

CDIs under performance rights

Unissued CDIs of the Company under performance rights at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under rights
29/05/2018	26/03/2019*	€0.0000	500,000
29/05/2018	29/11/2019*	€0.0000	8,500,000
29/05/2018	29/05/2020	€0.0000	9,500,000
			<u>18,500,000</u>

* Vested during the year ended 31 December 2019.

No person entitled to exercise the performance rights had or has any right by virtue of the performance right to participate in any CDI issue of the Company or of any other body corporate.

CDIs under warrants

Unissued CDIs of the Company under warrants at the date of this report are as follows:

Grant date	Expiry date	Exercise price A\$	Number under warrants
20/02/2020*	20/02/2023	€0.3800	6,319,125

* Warrants issued to Winance on satisfying the conditions of the loan agreement as announced on ASX on 20 February 2020.

The Company has agreed to issue a further 2,285,381 warrants to Winance with an exercise price of A\$0.38 and a three year term, subject to approval of shareholders at the Annual General Meeting.

CDIs issued on the exercise of options

There were no CDIs of the Company issued on the exercise of options during the year ended 31 December 2019 and up to the date of this report.

CDIs issued on the exercise of performance rights

There were no CDIs of the Company issued on the exercise of performance rights during the year ended 31 December 2019 and up to the date of this report.

CDIs issued on the exercise of warrants

There were no CDIs of the Company issued on the exercise of warrants during the year ended 31 December 2019 and up to the date of this report.

Acquisition by the Company of its own stocks and shares

In the financial year the Company has not acquired any of its own shares.

Branches

The Company has no branches at the end of the financial year.

Research and development activities

The Company made investments in research and development in the financial year of €196,362 (2018: €113,932) recorded under the heading Research and development expenses in the Statement of profit or loss and other comprehensive income.

Allocation of the loss of the financial year

The Company resolved to carry forward the loss for the year ended 31 December 2019 amounting to €3,503,298.

Financial risk management

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

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

Related party transactions

During the year ended 31 December 2019, the Company made payments for salaries on behalf of the subsidiary, Kleos Space Ltd, amounting to €666,944 (2018: €88,147). An amount of €754,976 was due from the subsidiary as at 31 December 2019 (2018: €88,032).

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

Indemnity and insurance of officers

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

Indemnity and insurance of auditor

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

Non-audit services

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

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

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

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

Auditor

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

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

On behalf of the directors



Andy Bowyer
Director

28 February 2020
Luxembourg

We confirm to the best of our knowledge that:

- (a) The consolidated and standalone financial statements of Kleos Space S.A. presented in this report and established in conformity with International Financial Reporting Standards as adopted in the European Union give a true and fair view of the financial position and results of Kleos Space S.A. and the undertakings included within the consolidation taken as a whole; and
- (b) The Directors' report presented in this report includes a fair review of the development and performance of the business and position of Kleos Space S.A. and the undertakings included within the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

On behalf of the directors



Andy Bowyer
Director

28 February 2020
Luxembourg

Kleos Space S.A.
Statements of profit or loss and other comprehensive income
For the year ended 31 December 2019



	Note	Consolidated		Company	
		2019 €	2018 €	2019 €	2018 €
Revenue	5	600,616	827,709	600,616	827,709
Finance income		268	140	268	140
Expenses					
Operating expenses	6	(1,254,581)	(1,209,669)	(1,209,283)	(1,207,977)
Employee benefit expenses	7	(2,287,046)	(1,680,479)	(1,684,387)	(1,580,930)
Research and development expenses		(196,362)	(113,932)	(196,362)	(113,932)
Depreciation expense	8	(60,835)	(6,099)	(60,835)	(6,099)
Other expenses		(68,828)	(10,570)	(62,862)	(11,010)
Finance costs	8	(236,530)	(9,004)	(236,530)	(9,004)
Total expenses		<u>(4,104,182)</u>	<u>(3,029,753)</u>	<u>(3,450,259)</u>	<u>(2,928,952)</u>
Loss before income tax expense		(3,503,298)	(2,201,904)	(2,849,375)	(2,101,103)
Income tax expense	10	-	-	-	-
Loss after income tax expense for the year attributable to the owners of Kleos Space S.A.		(3,503,298)	(2,201,904)	(2,849,375)	(2,101,103)
Other comprehensive income					
<i>Items that may be reclassified subsequently to profit or loss</i>					
Foreign currency translation		(1,229)	482	-	-
Other comprehensive income for the year, net of tax		<u>(1,229)</u>	<u>482</u>	<u>-</u>	<u>-</u>
Total comprehensive income for the year attributable to the owners of Kleos Space S.A.		<u>(3,504,527)</u>	<u>(2,201,422)</u>	<u>(2,849,375)</u>	<u>(2,101,103)</u>
		Cents	Cents	Cents	Cents
Basic earnings per CDI	11	(3.286)	(3.440)	(2.672)	(3.283)
Diluted earnings per CDI	11	(3.286)	(3.440)	(2.672)	(3.283)

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

	Note	Consolidated		Company	
		2019 €	2018 €	2019 €	2018 €
Assets					
Current assets					
Cash and cash equivalents	12	292,593	4,263,626	268,928	4,260,974
Trade and other receivables	13	2,411,346	1,063,837	3,164,777	1,151,530
Total current assets		<u>2,703,939</u>	<u>5,327,463</u>	<u>3,433,705</u>	<u>5,412,504</u>
Non-current assets					
Shares in subsidiaries	14	-	-	204	115
Property, plant and equipment	15	2,442,914	1,917,761	2,442,914	1,917,761
Right-of-use assets	16	35,243	-	35,243	-
Total non-current assets		<u>2,478,157</u>	<u>1,917,761</u>	<u>2,478,361</u>	<u>1,917,876</u>
Total assets		<u>5,182,096</u>	<u>7,245,224</u>	<u>5,912,066</u>	<u>7,330,380</u>
Liabilities					
Current liabilities					
Trade and other payables	17	344,821	728,710	343,271	727,910
Accrued expenses		203,412	754,189	179,461	739,826
Borrowings	18	1,601,198	-	1,601,198	-
Lease liabilities	19	36,602	-	36,602	-
Other current liabilities	20	6,033	717	6,033	717
Total current liabilities		<u>2,192,066</u>	<u>1,483,616</u>	<u>2,166,565</u>	<u>1,468,453</u>
Total liabilities		<u>2,192,066</u>	<u>1,483,616</u>	<u>2,166,565</u>	<u>1,468,453</u>
Net assets		<u>2,990,030</u>	<u>5,761,608</u>	<u>3,745,501</u>	<u>5,861,927</u>
Equity					
Contributed equity	21	7,687,994	7,687,994	7,687,994	7,687,994
Reserves	22	709,979	459,012	710,727	458,530
Accumulated losses		(5,407,943)	(2,385,398)	(4,653,219)	(2,284,597)
Total equity		<u>2,990,030</u>	<u>5,761,608</u>	<u>3,745,501</u>	<u>5,861,927</u>

Consolidated	Contributed equity €	Reserves €	Accumulated losses €	Total equity €
Balance at 1 January 2018	12,500	-	(183,494)	(170,994)
Loss after income tax expense for the year	-	-	(2,201,904)	(2,201,904)
Other comprehensive income for the year, net of tax	-	482	-	482
Total comprehensive income for the year	-	482	(2,201,904)	(2,201,422)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 21)	7,675,494	-	-	7,675,494
Share-based payments	-	458,530	-	458,530
Balance at 31 December 2018	7,687,994	459,012	(2,385,398)	5,761,608

Consolidated	Contributed equity €	Reserves €	Accumulated losses €	Total equity €
Balance at 1 January 2019	7,687,994	459,012	(2,385,398)	5,761,608
Adjustment for adoption of IFRS 16 (note 2)	-	-	4,925	4,925
Balance at 1 January 2019 - restated	7,687,994	459,012	(2,380,473)	5,766,533
Loss after income tax expense for the year	-	-	(3,503,298)	(3,503,298)
Other comprehensive income for the year, net of tax	-	(1,229)	-	(1,229)
Total comprehensive income for the year	-	(1,229)	(3,503,298)	(3,504,527)
<i>Transactions with owners in their capacity as owners:</i>				
Value of conversion rights on convertible notes (note 22)	-	(19,369)	-	(19,369)
Net share-based payments (including cancellation)	-	271,565	475,828	747,393
Balance at 31 December 2019	7,687,994	709,979	(5,407,943)	2,990,030

Company	Contributed equity €	Reserves €	Accumulated losses €	Total equity €
Balance at 1 January 2018	12,500	-	(183,494)	(170,994)
Loss after income tax expense for the year	-	-	(2,101,103)	(2,101,103)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(2,101,103)	(2,101,103)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 21)	7,675,494	-	-	7,675,494
Share-based payments	-	458,530	-	458,530
Balance at 31 December 2018	7,687,994	458,530	(2,284,597)	5,861,927

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

Company	Contributed equity €	Reserves €	Accumulated losses €	Total equity €
Balance at 1 January 2019	7,687,994	458,530	(2,284,597)	5,861,927
Adjustment for adoption of IFRS 16 (note 2)	-	-	4,925	4,925
Balance at 1 January 2019 - restated	7,687,994	458,530	(2,279,672)	5,866,852
Loss after income tax expense for the year	-	-	(2,849,375)	(2,849,375)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(2,849,375)	(2,849,375)
<i>Transactions with owners in their capacity as owners:</i>				
Net share-based payments (including cancellation)	-	271,565	475,828	747,393
Value of conversion rights on convertible notes (note 22)	-	(19,369)	-	(19,369)
Balance at 31 December 2019	<u>7,687,994</u>	<u>710,726</u>	<u>(4,533,219)</u>	<u>3,745,501</u>

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

	Note	Consolidated		Company	
		2019 €	2018 €	2019 €	2018 €
Cash flows from operating activities					
Receipts from government grants		591,600	-	591,600	-
Receipts from participation in development program		13,216	-	13,216	-
Payments to suppliers and employees		(5,521,748)	(2,845,493)	(4,875,574)	(2,759,998)
Interest paid		(27,659)	(9,004)	(27,659)	(9,004)
Interest received		268	140	268	140
Net cash used in operating activities	29	<u>(4,944,323)</u>	<u>(2,854,357)</u>	<u>(4,298,149)</u>	<u>(2,768,862)</u>
Cash flows from investing activities					
Payments for investments		-	-	(89)	(115)
Payments for property, plant and equipment		(533,124)	(1,256,860)	(533,124)	(1,256,860)
Payments for related parties		-	-	(666,944)	(88,032)
Receipts from related parties		301	-	-	-
Net cash used in investing activities		<u>(532,823)</u>	<u>(1,256,860)</u>	<u>(1,200,157)</u>	<u>(1,345,007)</u>
Cash flows from financing activities					
Net proceeds from issue of CDI's	21	-	6,426,000	-	6,426,000
Proceeds from issue of convertible notes		1,552,840	1,492,253	1,552,840	1,492,253
Repayment of lease liabilities		(46,580)	-	(46,580)	-
Net cash from financing activities		<u>1,506,260</u>	<u>7,918,253</u>	<u>1,506,260</u>	<u>7,918,253</u>
Net (decrease)/increase in cash and cash equivalents		(3,970,886)	3,807,036	(3,992,046)	3,804,384
Cash and cash equivalents at the beginning of the financial year		4,263,626	456,590	4,260,974	456,590
Effects of exchange rate changes on cash and cash equivalents		(147)	-	-	-
Cash and cash equivalents at the end of the financial year	12	<u><u>292,593</u></u>	<u><u>4,263,626</u></u>	<u><u>268,928</u></u>	<u><u>4,260,974</u></u>

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

Note 1. General information

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

The Company is a Société Anonyme - public limited liability company, incorporated and domiciled in Luxembourg. The Company is dual-listed on the Australian Securities Exchange ('ASX') and Frankfurt Stock Exchange ('FRA').

Its Australian registered office and principal place of business are:

Registered office

Level 7, 330 Collins Street
Melbourne VIC 3000
Australia

Principal place of business

26 rue des Gaulois
L-1618, Luxembourg
Luxembourg

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

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 28 February 2020. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the International Accounting Standards Board ('IASB') that are mandatory for the current reporting period and have been endorsed in the European Union.

Except for IFRS 16, the adoption of these new and amended accounting standards and interpretations did not have any significant impact on the financial performance or position of the consolidated entity during the financial year ended 31 December 2019.

Note 2. Significant accounting policies (continued)

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

Interpretation 23 Uncertainty over Income Tax

The consolidated entity has adopted Interpretation 23 from 1 January 2019. The interpretation clarifies how to apply the recognition and measurement requirements of IAS 12 'Income Taxes' in circumstances where uncertain tax treatments exist. The interpretation requires: the consolidated entity to determine whether each uncertain tax treatment should be treated separately or together, based on which approach better predicts the resolution of the uncertainty; the consolidated entity to consider whether it is probable that a taxation authority will accept an uncertain tax treatment; and if the consolidated entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates, measuring the tax uncertainty based on either the most likely amount or the expected value. In making the assessment it is assumed that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. Interpretation 23 was adopted using the modified retrospective approach and as such comparatives have not been restated. There was no impact of adoption on opening accumulated losses as at 1 January 2019.

IFRS 16 Leases (modified retrospective approach)

The consolidated entity has adopted IFRS 16 from 1 January 2019. The standard replaces IAS 17 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under IFRS 16 will be higher when compared to lease expenses under IAS 17. However, operating results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

Impact of adoption

IFRS 16 is adopted using the modified retrospective approach and as such comparatives have not been restated. The impact of adoption on opening accumulated losses as at 1 January 2019 was as follows:

	1 January 2019 €
Operating lease commitments as at 1 January 2019 (IAS 17)	98,500
Operating lease commitments discount based on the weighted average incremental borrowing rate of 20% (IFRS 16)	<u>(15,318)</u>
Lease liabilities - recognised as at 1 January 2019	<u>83,182</u>
Right-of-use assets recognised as at 1 January 2019 (IFRS 16)	88,107
Lease liabilities - current (IFRS 16)	(46,581)
Lease liabilities - non-current (IFRS 16)	<u>(36,601)</u>
Decrease in opening accumulated losses as at 1 January 2019	<u>4,925</u>

The consolidated entity and the Company did not adopt any standards, amendments or interpretation prior to their mandatory effective dates.

Going concern

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

Note 2. Significant accounting policies (continued)

During the year ended 31 December 2019 the consolidated entity incurred a net loss of €3,503,298 (2018: net loss of €2,201,904). As at 31 December 2019 the consolidated entity had net current assets of €511,873 (2018: net current assets of €3,843,847) and cash and cash equivalents of €292,593 (2018: €4,263,626).

During the year ended 31 December 2019 the Company incurred a net loss of €2,849,375 (2018: net loss of €2,101,103). As at 31 December 2019 the Company had a net current assets of €1,267,140 (2018: net current assets of €3,944,051) and cash and cash equivalents of €268,928 (2018: €4,260,974).

The consolidated entity and the Company have prepared an analysis of its cash requirements for the next 12 months which indicates that the consolidated entity and the Company have sufficient cash resources from secured income streams to fund its operations.

In order to raise sufficient additional funding to meet the requirements of the consolidated entity's future operations and to manage its cash outflows, since 31 December 2019 the consolidated entity has undertaken the following initiatives:

- developed the satellites to launch in 2020 to deliver a revenue stream commencing in 2020;
- developed additional funding routes to ensure the required funding to achieve operations;
- channel partner agreements have been signed to generate revenue post-launch of KSM;
- undertaken a programme to continue to monitor the consolidated entity's ongoing working capital requirements in line with Board approved budgets; and
- continued its focus on maintaining an appropriate level of corporate overheads in line with the consolidated entity's available cash resources and Board approved budgets.

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

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

Basis of preparation

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

Historical cost convention

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

Critical accounting estimates

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

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Kleos Space S. A. as at 31 December 2019 and the results of all subsidiaries for the period then ended.

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

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

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

Note 2. Significant accounting policies (continued)

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

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

Operating segments

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

Foreign currency translation

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

Foreign operations

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

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

Revenue recognition

The consolidated entity recognises revenue as follows:

Government grant income

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

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

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Interest

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

Research and development

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

Note 2. Significant accounting policies (continued)

Income tax

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

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

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

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

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

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

Current and non-current classification

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

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

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

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

Cash and cash equivalents

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

Receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

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

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

Note 2. Significant accounting policies (continued)

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

Investments and other financial assets

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

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Impairment of financial assets

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

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

Property, plant and equipment

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

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

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

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

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

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Note 2. Significant accounting policies (continued)

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Impairment of non-financial assets

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

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

Trade and other payables

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

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

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

On initial recognition of the convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond. The remainder of the proceeds are allocated to the conversion option that is recognised in other equity, net of transaction costs and income tax. The carrying amount of the conversion option is not subsequently remeasured. The corresponding interest on convertible notes is expensed to profit or loss.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Note 2. Significant accounting policies (continued)

Employee benefits

Short-term employee benefits

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

Share-based payments

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

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

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

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

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

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

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

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

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

Fair value measurement

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

Note 2. Significant accounting policies (continued)

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

Issued capital

CDIs are classified as equity.

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

Business combinations

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 'Income Taxes' and IAS 19 'Employee Benefits' respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Company consolidated entity entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 'Share-based Payment' at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' are measured in accordance with that Standard.

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

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

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

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

Note 2. Significant accounting policies (continued)

Predecessor value method

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

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

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

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

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

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

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

Earnings per CDI

Basic earnings per CDI

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

Diluted earnings per CDI

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

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

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

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

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

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

Note 2. Significant accounting policies (continued)

New Accounting Standards and Interpretations not yet mandatory or early adopted

International Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 31 December 2019. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

IASB revised Conceptual Framework for Financial Reporting

A revised Conceptual Framework for Financial Reporting has been issued by the IASB and is applicable for annual reporting periods beginning on or after 1 January 2020. This release impacts for-profit private sector entities that have public accountability that are required by legislation to comply with International Accounting Standards and other for-profit entities that voluntarily elect to apply the Conceptual Framework. Phase 2 of the framework is yet to be released which will impact for-profit private sector entities. The application of new definition and recognition criteria as well as new guidance on measurement will result in amendments to several accounting standards. The issue of IASB 2019-1 Amendments to International Accounting Standards – References to the Conceptual Framework, also applicable from 1 January 2020, includes such amendments. Where the consolidated entity has relied on the conceptual framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under International Accounting Standards, the consolidated entity may need to revisit such policies.

Note 3. Critical accounting judgements, estimates and assumptions

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

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Monte Carlo model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Impairment of non-financial assets

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

Recovery of deferred tax assets

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

Development costs

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

Government grant income

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

Note 4. Operating segments

Identification of reportable operating segments

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

The operating segment information is the same information as provided throughout the financial statements and are therefore not duplicated.

Note 5. Revenue

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Government grants	587,400	827,709	587,400	827,709
Other revenue	13,216	-	13,216	-
Revenue	<u>600,616</u>	<u>827,709</u>	<u>600,616</u>	<u>827,709</u>

Government grants

Grants revenue represents funding received as part of a grant made by the European Space Agency acting on behalf of the Government of Luxembourg. To the extent that all payments are made by the Agency against relevant milestone delivery, the consolidated entity recognises revenue in profit or loss in line with expenditure, and recognises the balance as a liability in the statement of financial position. Accrued income is recognised as an asset for amount receivable against revenue recognised on milestone delivery. The consolidated entity recognised revenue of €587,400 (31 December 2018: €827,709) in line with expenditure incurred during the year ended 31 December 2019.

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

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Income recognised	200,000	436,109	200,000	436,109
Income accrued	387,400	391,600	387,400	391,600
Total grant funding	<u>587,400</u>	<u>827,709</u>	<u>587,400</u>	<u>827,709</u>

The Company received €591,600 during the year ended 31 December 2019 (31 December 2018: €nil). Total grant funding received up to the reporting date is €1,664,300 against a grant commission of €1,958,000.

Other revenue

Other revenue represents amount received from Space Capital Colorado, LLC for participation in the fourth cohort of the Catalyst Space Accelerator program.

Note 6. Operating expenses

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Administration expenses	219,010	248,369	218,370	248,369
Consulting and professional fees	840,601	740,627	836,750	738,935
Occupancy expenses	581	50,021	581	50,021
Travel expenses	194,389	170,652	153,582	170,652
	<u>1,254,581</u>	<u>1,209,669</u>	<u>1,209,283</u>	<u>1,207,977</u>

The consultancy and professional fees for the year ended 31 December 2019 and 31 December 2018 include auditor's remuneration, refer note 9.

The consultancy and professional fees for the year ended 31 December 2018 include the Company's initial public offering fees.

Note 7. Employee benefit expenses

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Salaries and benefits	1,539,652	1,217,479	936,993	1,117,930
Share-based payments	747,394	463,000	747,394	463,000
	<u>2,287,046</u>	<u>1,680,479</u>	<u>1,684,387</u>	<u>1,580,930</u>

	Consolidated		Company	
	2019	2018	2019	2018
Annual average number of employees	<u>14</u>	<u>9</u>	<u>10</u>	<u>8</u>

Note 8. Expenses

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Loss before income tax includes the following specific expenses:				
<i>Depreciation</i>				
Computer equipment	1,269	1,648	1,269	1,648
Tools and equipment	6,633	4,399	6,633	4,399
Furniture	69	52	69	52
Office premises right-of-use assets	52,864	-	52,864	-
	<u>60,835</u>	<u>6,099</u>	<u>60,835</u>	<u>6,099</u>
<i>Finance costs</i>				
Interest and finance charges	14,752	9,004	14,752	9,004
Interest and finance charges paid/payable on lease liabilities	12,520	-	12,520	-
Interest - convertible notes	208,871	-	208,871	-
Interest on trade payables	387	-	387	-
	<u>236,530</u>	<u>9,004</u>	<u>236,530</u>	<u>9,004</u>
<i>Net foreign exchange loss*</i>				
Net foreign exchange loss	33,901	10,728	29,792	11,196
* Within Other expense in the Statement of profit or loss and other comprehensive income				
<i>Leases**</i>				
Minimum lease payments	-	50,021	-	50,021

** The operating lease was capitalized as a right-of-use asset in 2019 in accordance with the implementation of IFRS 16. The depreciation of the right-of-use asset is within the Depreciation expense presented above.

Note 9. Remuneration of auditors

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

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
<i>Audit services - Deloitte Audit S.à r.l.</i>				
Audit or review of the financial statements	<u>66,675</u>	<u>62,060</u>	<u>66,675</u>	<u>62,060</u>
<i>Other services - network firms</i>				
Other services	<u>-</u>	<u>54,645</u>	<u>-</u>	<u>54,645</u>

Note 10. Income tax

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>				
Loss before income tax expense	(3,503,298)	(2,201,904)	(2,849,375)	(2,101,103)
Tax at the statutory tax rate of 24.94% (2018: 26.01%)	(873,723)	(572,715)	(710,634)	(546,497)
Tax effect amounts which are not deductible in calculating taxable income:				
Current period tax losses not recognised	873,723	572,715	710,634	546,497
Income tax expense	-	-	-	-

Given the consolidated entity is in the early stages of development, there is no certainty that taxable income will be generated and, therefore, no deferred tax assets in relation to temporary differences or tax losses have been included in the financial statements. The cumulative tax losses to the end of 2018 are €3,121,447, the tax return for 2019 has not yet been prepared, but the tax loss is expected to approximate the loss in the financial statements of €2,849,375.

Note 11. Earnings per CDI

	Consolidated 2019 €	Consolidated 2018 €	Company 2019 €	Company 2018 €
Loss after income tax attributable to the owners of Kleos Space S.A.	(3,503,298)	(2,201,904)	(2,849,375)	(2,101,103)
	Number	Number	Number	Number
Weighted average number of CDIs used in calculating basic earnings per CDI	106,627,500	64,006,995	106,627,500	64,006,995
	Cents	Cents	Cents	Cents
Basic earnings per CDI	(3.286)	(3.440)	(2.672)	(3.283)
Diluted earnings per CDI	(3.286)	(3.440)	(2.672)	(3.283)

At 31 December 2018, the weighted average number of CDIs has been adjusted for the effect of the share split that occurred on 28 May 2018, in accordance with IAS 33 'Earnings per share'.

At 31 December 2019, 18,500,000 (2018: 29,500,000) performance rights and 7,625,000 options (2018: 4,000,000) over CDIs have been excluded from the calculation of the weighted average number of CDIs used in calculating diluted earnings per CDI as they are anti-dilutive.

Note 12. Current assets - cash and cash equivalents

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Cash on hand	45	88	33	88
Cash at bank	277,783	4,248,766	254,130	4,246,114
Cash on deposit	14,765	14,772	14,765	14,772
	<u>292,593</u>	<u>4,263,626</u>	<u>268,928</u>	<u>4,260,974</u>

The cash and cash equivalents disclosed above and in the statement of cash flows include €14,765 (2018: €14,772) which represents deposits held by various landlords. These deposits are not available to the consolidated entity for general use.

Note 13. Current assets - trade and other receivables

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Trade receivables	387,400	391,600	387,400	391,600
Receivable from subsidiaries	-	-	754,976	88,032
Prepayments	1,786,346	520,839	1,785,602	520,839
Net VAT refundable	237,600	151,398	236,799	151,059
	<u>2,411,346</u>	<u>1,063,837</u>	<u>3,164,777</u>	<u>1,151,530</u>

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

Prepayments represents payments to Spaceflight in relation to the launch of the Satellite and also includes other prepayments for insurance and engineering services. The amount of prepayments has increased since additional milestone payments have been made for the launch as it draws nearer.

Allowance for expected credit losses

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

Consolidated	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
	2019	2018	2019	2018	2019	2018
	%	%	€	€	€	€
Not overdue	-	-	<u>387,400</u>	<u>391,600</u>	<u>-</u>	<u>-</u>

The above table also represents the ageing of the receivables of the Company. The Company performed an analysis of expected credit losses and assessed the expected credit loss as being immaterial.

Note 14. Non-current assets - shares in subsidiaries

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Shares in subsidiaries	-	-	204	115

Note 14. Non-current assets - shares in subsidiaries (continued)

Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		2019 %	2018 %
Kleos Space (Asia Pacific) Pty Ltd*	Australia	100%	100%
Kleos Space Ltd**	United Kingdom	100%	100%
Kleos Space Inc.***	United States of America	100%	-

* Dormant company, incorporated on 19 March 2018

** Incorporated on 13 November 2018

*** Incorporated on 7 October 2019

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

	Consolidated		Company	
	2019 €	2018 €	2019 €	2018 €
Computer equipment - at cost	5,149	5,149	5,149	5,149
Less: Accumulated depreciation	(2,917)	(1,648)	(2,917)	(1,648)
	<u>2,232</u>	<u>3,501</u>	<u>2,232</u>	<u>3,501</u>
Tools and equipment - at cost	67,245	67,245	67,245	67,245
Less: Accumulated depreciation	(11,032)	(4,399)	(11,032)	(4,399)
	<u>56,213</u>	<u>62,846</u>	<u>56,213</u>	<u>62,846</u>
Furniture - at cost	350	350	350	350
Less: Accumulated depreciation	(121)	(52)	(121)	(52)
	<u>229</u>	<u>298</u>	<u>229</u>	<u>298</u>
Satellite equipment (construction-in-progress)	<u>2,384,240</u>	<u>1,851,116</u>	<u>2,384,240</u>	<u>1,851,116</u>
	<u><u>2,442,914</u></u>	<u><u>1,917,761</u></u>	<u><u>2,442,914</u></u>	<u><u>1,917,761</u></u>

Note 15. Non-current assets - property, plant and equipment (continued)

Reconciliations

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

Consolidated	Computer equipment €	Tools and equipment €	Furniture €	Satellite equipment (construction- in- progress) €	Total €
Balance at 1 January 2018	-	-	-	-	-
Additions	5,149	67,245	350	1,851,116	1,923,860
Depreciation expense	(1,648)	(4,399)	(52)	-	(6,099)
Balance at 31 December 2018	3,501	62,846	298	1,851,116	1,917,761
Additions	-	-	-	533,124	533,124
Depreciation expense	(1,269)	(6,633)	(69)	-	(7,971)
Balance at 31 December 2019	<u>2,232</u>	<u>56,213</u>	<u>229</u>	<u>2,384,240</u>	<u>2,442,914</u>

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

Note 16. Non-current assets - right-of-use assets

	Consolidated		Company	
	2019 €	2018 €	2019 €	2018 €
Office premises - right-of-use	88,107	-	88,107	-
Less: Accumulated depreciation	(52,864)	-	(52,864)	-
	<u>35,243</u>	<u>-</u>	<u>35,243</u>	<u>-</u>

There were no additions to the right-of-use assets during the year ended 31 December 2019, except for the recognition upon first application of IFRS 16.

The right-of-use assets relate to the parent entity's office premises.

Note 17. Current liabilities - trade and other payables

	Consolidated		Company	
	2019 €	2018 €	2019 €	2018 €
Trade payables	344,520	728,710	343,271	727,910
Payable to related party	301	-	-	-
	<u>344,821</u>	<u>728,710</u>	<u>343,271</u>	<u>727,910</u>

Refer to note 24 for further information on financial instruments.

Trade payables primarily represents amounts due for satellite equipment and other operating expenses.

Note 18. Current liabilities - borrowings

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Convertible notes	1,601,198	-	1,601,198	-

Refer to note 24 for further information on financial instruments.

Refer to note 22 for value of the conversion rights relating to the convertible notes.

The key terms of the convertible notes payable are as follows:

Type of instrument	Secured convertible notes ('Notes') convertible into Chess Depository Interests ('CDIs') and their underlying shares at the conversion price.
First Tranche - subscription amount	A\$2,000,000 (Face value of notes A\$2,200,000, face value of each note is A\$1.10)
Second Tranche - subscription amount	A\$500,000 (Face value notes of A\$550,000, face value of each note is A\$1.10)
First Tranche - maturity date	28 February 2020
Second Tranche - maturity date	13 May 2020
Interest payable	10% per 6 months on the subscription amount, payable on the date of conversion or the maturity date whichever is earlier.
Conversion price	A\$0.50 per CDI
First Tranche - Maximum number of CDIs	Convertible to a maximum of 4,840,000 CDIs
Second Tranche - Maximum number of CDIs	Convertible to a maximum of 1,210,000 CDIs
Conversion	Investor has the right to convert the Notes and, at its election, any interest accrued, into newly issued CDIs at any time after issuance until the maturity date at the conversion price in minimum tranches of 25,000 Notes.
Redemption	Any Notes which have not been converted by the maturity date will be automatically redeemed by the Company on the maturity date, for the redemption amount equivalent to the face value of those outstanding Notes.
Security	Secured by way of a pledge, charge, mortgage, security deed or similar agreement to effect security over the material assets of the Company to be identified by the Investors, including but not limited to the cash and cash equivalents, all bank accounts, prepayments, satellite equipment and hardware (including work in progress), and all intellectual property of the Company.

Note 19. Current liabilities - lease liabilities

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Lease liabilities	36,602	-	36,602	-

Refer to note 24 for further information on financial instruments.

Lease liabilities relate to the right-of-use of the consolidated entity's office premises.

Note 20. Current liabilities - other current liabilities

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Other current liabilities	6,033	717	6,033	717

Note 21. Equity - contributed equity

	Consolidated		Company	
	2019	2018	2019	2018
	Cdis	Cdis	€	€
CHESS Depository Interests - fully paid	106,627,500	106,627,500	7,687,994	7,687,994

	Company		Company	
	2019	2018	2019	2018
	Cdis	Cdis	€	€
CHESS Depository Interests - fully paid	106,627,500	106,627,500	7,687,994	7,687,994

Movements in CDI/shares

Details	Date	Shares/CDIs	Issue price	€
Balance	1 January 2018	500		12,500
Cancellation of ordinary shares	28 May 2018	(500)	€0.0000	-
Ordinary shares split into CDIs	28 May 2018	23,460,000	€0.0000	-
Issue of CDIs - Debt to equity swap	28 May 2018	1,540,000	€0.0000	188,000
Issue of CDIs	29 May 2018	3,470,000	€0.0010	3,470
Issue of CDIs	29 May 2018	3,470,000	€0.0010	3,470
Issue of CDIs	29 May 2018	1,000,000	€0.0010	1,000
Issue of CDIs	23 August 2018	55,000,000	€0.1286	7,070,338
Issue of CDIs on conversion of convertible notes	23 August 2018	14,687,500	€0.1021	1,499,681
Issue of CDIs to Hunter Capital Advisors Pty Ltd	23 August 2018	4,000,000	€0.0010	4,000
Transactions costs		-	€0.0000	(1,094,465)
Balance	31 December 2018	106,627,500		7,687,994
Balance	31 December 2019	106,627,500		7,687,994

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

Note 21. Equity - contributed equity (continued)

All CDIs carry one vote per CDI.

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

CDI buy-back

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

Capital risk management

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

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

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

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

The capital risk management policy remains unchanged from the 2018 Annual Report.

Note 22. Equity - reserves

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Foreign currency reserve	(747)	482	-	-
Share-based payments reserve	730,096	458,530	730,096	458,530
Other reserve	(19,369)	-	(19,369)	-
	<u>709,980</u>	<u>459,012</u>	<u>710,727</u>	<u>458,530</u>

Foreign currency reserve

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

Share-based payments reserve

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

Other reserve

The reserve is the value of the conversion rights relating to the convertible notes, details of which are shown in note 18.

Note 22. Equity - reserves (continued)

Movements in reserves

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

	Foreign currency €	Share-based payments €	Other €	Total €
Consolidated				
Balance at 1 January 2018	-	-	-	-
Foreign currency translation	482	-	-	482
Share-based payments	-	458,530	-	458,530
Balance at 31 December 2018	482	458,530	-	459,012
Foreign currency translation	(1,229)	-	-	(1,229)
Share-based payments	-	271,566	-	271,566
Convertible notes	-	-	(19,369)	(19,369)
Balance at 31 December 2019	<u>(747)</u>	<u>730,096</u>	<u>(19,369)</u>	<u>709,980</u>
Company				
Balance at 1 January 2018	-	-	-	-
Share-based payments	-	458,530	-	458,530
Balance at 31 December 2018	-	458,530	-	458,530
Share-based payments	-	271,566	-	271,566
Convertible notes	-	-	(19,369)	(19,369)
Balance at 31 December 2019	<u>-</u>	<u>730,096</u>	<u>(19,369)</u>	<u>710,727</u>

Note 23. Equity - dividends

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

Note 24. Financial instruments

Financial risk management objectives

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

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

Market risk

Foreign currency risk

The consolidated entity undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Note 24. Financial instruments (continued)

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

	Assets		Liabilities	
	2019 €	2018 €	2019 €	2018 €
Consolidated				
Pound Sterling	25,210	2,991	25,590	16,041
Australian dollars	-	-	1,601,198	-
	<u>25,210</u>	<u>2,991</u>	<u>1,626,788</u>	<u>16,041</u>
	2019 €	2018 €	2019 €	2018 €
Company				
Australian dollars	-	-	1,601,198	-

At 31 December 2019, the consolidated entity had net financial liabilities denominated in foreign currency of €1,601,578 (2018: €13,050).

At 31 December 2019, the Company had net financial liabilities denominated in foreign currency of €1,601,198 (2018: €nil).

The following table demonstrates the sensitivity (at 31 December 2019) to a reasonably possible fluctuation in the Euro exchange rate:

	% change	Euro strengthened		% change	Euro weakened	
		Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
Consolidated - 2019						
Euros	10%	<u>160,158</u>	<u>160,158</u>	10%	<u>(160,158)</u>	<u>(160,158)</u>
	% change	Effect on profit before tax	Effect on equity	% change	Effect on profit before tax	Effect on equity
Company - 2019						
Euros	10%	<u>160,120</u>	<u>160,120</u>	10%	<u>(160,120)</u>	<u>(160,120)</u>

At 31 December 2018, no sensitivity analysis has been performed on the consolidated entity's and Company's net foreign currency liabilities as the exposure to foreign currency risk is not significant.

The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 12 months each year and the spot rate at each reporting date.

Price risk

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

Interest rate risk

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

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

Note 24. Financial instruments (continued)

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

	2019		2018	
	Weighted average interest rate %	Balance €	Weighted average interest rate %	Balance €
Consolidated				
Cash at bank	-	277,783	-	4,248,766
Cash on deposit	-	14,765	-	14,772
Net exposure to cash flow interest rate risk		<u>292,548</u>		<u>4,263,538</u>

	2019		2018	
	Weighted average interest rate %	Balance €	Weighted average interest rate %	Balance €
Company				
Cash at bank	-	254,163	-	4,246,114
Cash on deposit	-	14,765	-	14,772
Net exposure to cash flow interest rate risk		<u>268,928</u>		<u>4,260,886</u>

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

Credit risk

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

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

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

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

Liquidity risk

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

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

Remaining contractual maturities

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

Note 24. Financial instruments (continued)

	Weighted average interest rate %	1 year or less €	Between 1 and 2 years €	Between 2 and 5 years €	Over 5 years €	Remaining contractual maturities €
Consolidated - 2019						
Non-derivatives						
<i>Non-interest bearing</i>						
Trade and other payables	-	344,520	-	-	-	344,520
Other current liabilities	-	6,033	-	-	-	6,033
<i>Interest-bearing - fixed rate</i>						
Convertible notes	-	1,601,198	-	-	-	1,601,198
Lease liabilities	-	36,602	-	-	-	36,602
Total non-derivatives		1,988,353	-	-	-	1,988,353

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

	Weighted average interest rate %	1 year or less €	Between 1 and 2 years €	Between 2 and 5 years €	Over 5 years €	Remaining contractual maturities €
Company - 2019						
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	343,271	-	-	-	343,271
Other current liabilities	-	6,033	-	-	-	6,033
<i>Interest-bearing - fixed rate</i>						
Convertible notes payable	-	1,601,198	-	-	-	1,601,198
Lease liabilities	-	36,602	-	-	-	36,602
Total non-derivatives		1,987,104	-	-	-	1,987,104

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

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

Fair value of financial instruments

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

Note 25. Contingent liabilities

The consolidated entity had no contingent liabilities as at 31 December 2019 and 31 December 2018.

Note 26. Commitments

	Consolidated		Company	
	2019 €	2018 €	2019 €	2018 €
<i>Capital commitments*</i>				
Committed at the reporting date but not recognised as liabilities, payable:				
Property, plant and equipment (satellite and launch)	295,900	2,159,000	295,900	2,159,000
<i>Lease commitments - operating**</i>				
Committed at the reporting date but not recognised as liabilities, payable:				
Within one year	-	59,100	-	59,100
One to five years	-	39,400	-	39,400
	-	98,500	-	98,500

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

** Operating lease for the year ended 31 December 2018 relates to lease of premises with a lease term of 2 years.

Refer to note 2 for impact of adoption of IFRS 16 Leases.

Note 27. Related party transactions

Parent entity

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

Subsidiaries

Interests in subsidiaries are set out in note 14.

Key management personnel

Disclosures relating to key management personnel are set out in note 28.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated		Company	
	2019 €	2018 €	2019 €	2018 €
Payment for goods and services:				
Payments for salaries on behalf of subsidiary	-	-	666,944	88,147

Note 27. Related party transactions (continued)

Receivable from and payable to related parties

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

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Current receivables:				
Receivable from subsidiaries	-	-	754,976	88,032
Current payables:				
Payable to immediate parent entity	301	-	-	-

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

Loans to/from related parties

On 28 May 2018, the loan with the immediate parent entity (€188,000) was converted to 1,540,000 CDIs in the Company.

Note 28. Key management personnel disclosures

Compensation

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

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Short-term employee benefits	617,952	467,888	204,408	467,888

Note 29. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Loss after income tax expense for the year	(3,503,298)	(2,201,904)	(2,849,375)	(2,101,103)
Adjustments for:				
Share-based payments	747,393	463,000	747,393	463,000
Foreign exchange differences	(1,082)	482	-	-
Depreciation	60,835	6,099	60,835	6,099
Interest on convertible notes	208,871	-	208,871	-
Change in operating assets and liabilities:				
Decrease/(increase) in trade and other receivables	4,200	(391,600)	4,200	(391,600)
Increase in other operating assets	(1,351,709)	(647,565)	(1,350,503)	(647,226)
Decrease in trade and other payables	(384,190)	(206,109)	(384,639)	(206,909)
Increase/(decrease) in other operating liabilities	(725,343)	123,240	(734,931)	108,877
Net cash used in operating activities	(4,944,323)	(2,854,357)	(4,298,149)	(2,768,862)

Note 30. Non-cash investing and financing activities

	Consolidated		Company	
	2019 €	2018 €	2019 €	2018 €
Additions to the right-of-use assets	88,107	-	88,107	-
CDIs issued on conversion of loan with immediate parent entity	-	188,000	-	188,000
CDIs issued on conversion of convertible notes	-	1,499,681	-	1,499,681
	<u>88,107</u>	<u>1,687,681</u>	<u>88,107</u>	<u>1,687,681</u>

Note 31. Changes in liabilities arising from financing activities

	Convertible notes €	Loan with immediate parent entity €	Lease liabilities €	Total €
Consolidated				
Balance at 1 January 2018	-	188,000	-	188,000
Proceeds from convertible notes	1,492,253	-	-	1,492,253
Conversion to CDIs	(1,499,681)	(188,000)	-	(1,687,681)
Exchange differences	7,428	-	-	7,428
Balance at 31 December 2018	-	-	-	-
Leases recognised on the adoption of IFRS 16	-	-	83,182	83,182
Proceeds from convertible notes	1,552,840	-	-	1,552,840
Repayment of leases	-	-	(46,580)	(46,580)
Other changes non-cash	48,358	-	-	48,358
Balance at 31 December 2019	<u>1,601,198</u>	<u>-</u>	<u>36,602</u>	<u>1,637,800</u>

The changes in liabilities arising from financing activities of the consolidated entity and the Company are the same.

Note 32. Share-based payments

Share options

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

2019		Exercise price A\$	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
Grant date	Expiry date						
24/08/2018	17/08/2021	0.3000	4,000,000	-	-	-	4,000,000
06/09/2019	06/09/2022	0.4000	-	1,000,000	-	-	1,000,000
06/09/2019	06/09/2022	0.4000	-	1,900,000	-	-	1,900,000
19/12/2019	19/12/2022	0.4000	-	250,000	-	-	250,000
19/12/2019	19/12/2022	0.4000	-	475,000	-	-	475,000
		<u>1.9000</u>	<u>4,000,000</u>	<u>3,625,000</u>	<u>-</u>	<u>-</u>	<u>7,625,000</u>
Weighted average exercise price (A\$)			0.30	0.40	-	-	0.32

Note 32. Share-based payments (continued)

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

The weighted average remaining contractual life of options outstanding at 31 December 2019 was 2.16 years (2018: 2.63 years).

Performance rights

Set out below are summaries of performance rights granted:

2019		Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other*	Balance at the end of the year
Grant date	Expiry date						
29/05/2018	26/03/2019	€0.0000	500,000	-	-	-	500,000
29/05/2018	29/05/2019	€0.0000	1,000,000	-	-	(1,000,000)	-
29/05/2018	29/11/2019	€0.0000	18,500,000	-	-	(10,000,000)	8,500,000
29/05/2018	29/05/2020	€0.0000	9,500,000	-	-	-	9,500,000
			29,500,000	-	-	(11,000,000)	18,500,000

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

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

Set out below are the performance rights vested at the end of the financial year:

Grant date	Expiry date	2019 Number	2018 Number
29/05/2018	26/03/2019	500,000	-
29/05/2018	29/11/2019	8,500,000	-
		<u>9,000,000</u>	<u>-</u>

The weighted average remaining contractual life of performance rights outstanding at 31 December 2019 was 0.21 years (2018: 1.04 years).

Note 32. Share-based payments (continued)

Valuation of options granted

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

Share-based payment expense

	Consolidated		Company	
	2019	2018	2019	2018
	€	€	€	€
Options	377,394	463,000	377,394	463,000
Performance rights	370,000	-	370,000	-
Total share-based payment expense	747,394	463,000	747,394	463,000

Note 33. Events after the reporting period

On 18 February 2020, the Company secured a loan agreement of €3,410,000 (A\$5,500,000) with a Dubai-based Family Office, Winance Investment LLC ('Winance'). Proceeds of €1,857,353 (A\$3,025,000) were used to retire the existing loans outstanding.

On 20 February 2020, the Company issued 6,319,125 warrants to Winance with an exercise price of A\$0.38 and a three year term, on satisfying the conditions of the loan agreement.

The Company has agreed to issue a further 2,285,381 warrants to Winance with an exercise price of A\$0.38 and a three year term, subject to approval of shareholders at the Annual General Meeting.

No other matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

To the Shareholders of
Kleos Space S.A.
26, rue des Gaulois,
L-1618 Luxembourg

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the Audit of the Consolidated and Company Financial Statements

Opinion

We have audited the consolidated and company financial statements of Kleos Space S.A. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated and company statements of financial position as at 31 December 2019, and the consolidated and company statements of profit or loss and other comprehensive income, consolidated and company statements of changes in equity and consolidated and company statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and company financial statements give a true and fair view of the consolidated and company financial position of the Group and the Company as at 31 December 2019, and of its consolidated and company financial performance and of its consolidated and company cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted in the European Union.

Basis for Opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the "Responsibilities of "Réviseur d'Entreprises Agréé" for the Audit of the Consolidated and Company Financial Statements section of our report. We are also independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated and company financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and company financial statements of the current period. These matters were addressed in the context of the audit of the consolidated and company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the Key Audit Matter was addressed in our audit
<p>Intangible and tangible assets capitalization</p> <p>Refer is made to note 13 & 15 of the Financial Statements.</p> <p>The non-current assets are mostly composed of the Satellite equipment which are under construction for an amount of EUR 2.384.240 (note 15).</p> <p>The current assets are mostly composed of the prepayment in relation to the launch of the Satellites (Note 13).</p> <p>The Company has recognized a total of EUR 196.362 (2018: 113.932) Research and development expense in the statement of profit or loss and other comprehensive income.</p> <p>During the year the company has reached milestones for the construction of its first satellites and development of its Activity Based Intelligence Technology as well as incurred additional prepayment for the launch of Satellites</p> <p>Due to the size of the balances and judgement involved regarding capitalization criteria under IAS 16 "Property, plant and equipment" or IAS 38 "Intangible Assets", we considered this area to be a key audit matter.</p>	<p>Our procedures included amongst other:</p> <ul style="list-style-type: none"> • Obtaining an understanding of Company's process for assessing whether any research and development cost has met all of the IAS 38 "Intangible assets" recognition criteria and whether prepayments for satellite construction and launch has met all capitalization criteria in accordance with the relevant accounting standard IAS 16 "Property, plant and equipment". • Testing the design and the implementation for the relevant controls identified; • Reviewing the detailed analysis prepared by Management related to research and development cost for the year; • Meeting with management and discussed the nature of the work being completed and their assessment on the stage of technical development and economic feasibility; • Considering other information obtained during the audit (performing test of details), including products and solutions being developed in relation to key customer contracts, the stage of related sales prospects, to determine whether the status of these contracts corroborated management's assertions over the technical feasibility and the ability to generate future economic benefits. <p>We also assessed the adequacy of the disclosure included in note 13 & 15 to the Financial Statements.</p> <p>Observation</p>
	<p>Our procedures did not identify material exceptions and we considered management key judgement as reasonable.</p>

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Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the Directors' report but does not include the consolidated and company financial statements and our report of the "Réviseur d'Entreprises Agréé" thereon.

Our opinion on the consolidated and company financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and company financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and company financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and Those Charged with Governance for the Consolidated and Company Financial Statements

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

In preparing the consolidated and company financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Responsibilities of the "Réviseur d'Entreprises Agréé" for the Audit of the Consolidated and Company Financial Statements

The objectives of our audit are to obtain reasonable assurance about whether the consolidated and company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "Réviseur d'Entreprises Agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law dated 23 July 2016 and with ISAs as adopted for

Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and company financial statements.

As part of an audit in accordance with the Law dated 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "Réviseur d'Entreprises Agréé" to the related disclosures in the consolidated and company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "Réviseur d'Entreprises Agréé". However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and company financial statements, including the disclosures, and whether the consolidated and company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial statements of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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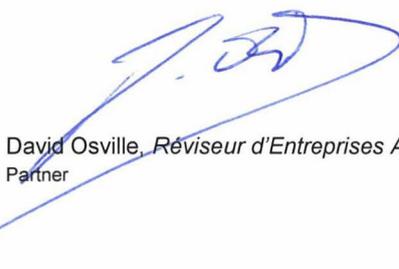
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on Other Legal and Regulatory Requirements

The Directors' report is consistent with the consolidated and company financial statements and has been prepared in accordance with applicable legal requirements.

For Deloitte Audit, *Cabinet de Révision Agréé*



David Osville, *Réviseur d'Entreprises Agréé*
Partner

February 28, 2020

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