

Interim Report

for 1 July – 30 September 2018



GOMSPACE

1 JULY – 30 SEPTEMBER 2018 (2017)

- Net revenues increased to T.SEK 33,608 (21,697), a growth of 55%. Without the partial elimination of the associated company, growth was 53%
- Gross margin increased to 34% (25%)
- Operating profit (loss) decreased to a negative T.SEK 30,357 (a negative 16,065)
- Earnings per share were a negative SEK 0.82 (a negative 0.58)
- Order book amounts to T.SEK 735,085 as at 30 September 2018. We expect to convert SEK 35-55 million of the current backlog into revenue during the remaining part of 2018
- The Board of Directors of GomSpace Group intends to carry out a rights issue of indicatively SEK 300 million to support the new long-term ambitions
- GomSpace Group presents new long-term ambitions. Targets are to generate sales above SEK 1.5 billion in 2023, supported by the strong underlying market as well as to target a gross margin exceeding 50%, in the medium term

1 JANUARY – 30 SEPTEMBER 2018 (2017)

- Net revenues increased to T.SEK 113,167 (66,786), a growth of 69%. Without the partial elimination of the associated company, growth was 77%
- Gross margin increased to 32% (29%)
- Operating profit (loss) decreased to a negative T.SEK 72,087 (a negative 44,514)
- Earnings per share were a negative SEK 2.13 (a negative 1.63)

Subsequent events

- Extraordinary general meeting held in GomSpace Group AB (publ)

THE THIRD QUARTER INTERIM REPORT FOR GOMSPACE GROUP AB (PUBL). THE INFORMATION IN THIS INTERIM REPORT IS SUCH THAT GOMSPACE GROUP AB IS REQUIRED TO DISCLOSE IN ACCORDANCE WITH THE EU'S MARKET ABUSE REGULATION. THE INFORMATION WAS SUBMITTED FOR PUBLICATION ON NOVEMBER 6, 2018, 08.00 (CET).

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Message from the CEO

The net revenue in the first three quarters of 2018 amounted to T.SEK 113,167 compared to T.SEK 66,786 in the first three quarters of 2017. This corresponds to a growth rate of 69%, which is in line with our new long-term ambitions. Without the impact of the elimination of sales to associated companies, the growth rate corresponds to 77%. The gross margin amounts to 32%; without elimination, it would have been 37%, which reflects a slight improvement compared to the first half of 2018.

During the summer, we have revised our 5-year business plan. This work has resulted in a new set of ambitions that was announced in a press release on 28 September 2018.

We have experienced a favorable development of our commercial situation as a high number of customers have bought or are likely to buy In Orbit Demonstration (IOD) projects from GomSpace. The IOD projects are predecessors for full constellation projects that typically contain 100-200 satellites and thus provide a great potential for GomSpace going forward. The majority of the IOD customers are new disruptive companies with new services to the market. This typically means that their business models are venture capital funded and the funding process is critical for their success.

The number of IOD customers we already have, the prospects we have identified and the new ones that will emerge, make us confident that GomSpace can achieve revenues at SEK 1.5 billion in 2023. We do, however, not expect to reach our previous revenue goal of SEK 820 million in 2021. This is primarily due to one large customer, Sky and Space Global, that we expect will not have sufficient funds to keep their own schedule. We do however believe that they will get funded enough to keep progressing, but for the time being they are only marginally included in our forward-looking expectations. We do hope that they will succeed in getting their funding in place since it is a valuecreating project with great potential.

To reach the turnover ambition in 2023 and a gross margin exceeding 50% in the medium term, we are planning to raise SEK 300 million through a rights issue. With the proceeds, we anticipate that the company will be fully financed until the company is expected to be cash flow positive.

In the first two years since the IPO we have invested in sales and market development, organizational development, industrial production facilities and last but not least in a series of new products. That has put GomSpace in a strong market position. The global market awareness of GomSpace is very strong and we are at increasing speed building up our pipeline by making continuous offers to potential customers. The organizational capabilities are being built up to our satisfaction, an ERP system has for example been implemented. We have built the basis for industrial production of nanosatellites and in the transformation to industrial production. We can see that the productivity and throughput is going up to a very satisfactory level.

The area where we have made the largest investments is in R&D. We have a series of new products that are now being finalized and made ready for sale to the customers. We have developed products that can be used in coming customer projects. This includes advanced power solutions, improved radio payload technologies and new deployable solar panel structures. We have also developed new satellite platforms that can be used for advanced customer solutions. This includes solutions for commercial satellite communication and remote sensing.

With these new products and capabilities, we now have a very strong platform on which we can build the next phase of the company and increase the commercial focus. The transition into the next phase provides great opportunities in optimising the organizational structure, reducing development costs and decreasing the burn rate. As a consequence, we are considering a reduction in the R&D staff with nearly 40 employees. This is part of our recently communicated new 5-year business plan to become cash flow positive.

I think it is important to bear in mind that we are disrupting the existing space business while creating a brand-new business segment. We must be responsive and move quickly to address new business opportunities and adjust our approach to new circumstances. We learn as we go and a recent conclusion is the importance of having several ongoing IOD projects that can become full constellations. Not all of them will successfully convert into full constellations projects in the short term but for those that do, there is a significant potential for GomSpace. We are confident that the conversion into constellations from our diversified portfolio of IOD projects and candidates will contribute strongly in making us fulfil our long-term financial ambitions.

Best regards,



Niels Buus
CEO

Significant events during the period

The Board of Directors of GomSpace Group intends to carry out a rights issue of indicatively SEK 300 million to support the new long-term ambitions

September 28, 2018 – A review of the strategy and business plan, initiated by the Board of Directors, has resulted in an upward revision of the long-term ambitions for 2023. With the updated business plan and current outlook, the review also concluded that with a SEK 300 million rights issue before issue costs, the company is expected to be fully financed until the company is expected to be cash flow positive. The Board of Directors of GomSpace Group AB (publ) therefore seeks authorization to resolve on a rights issue of indicatively SEK 300 million by an extraordinary general meeting on October 16, 2018. The SEK 300 million rights issue will replace the SEK 300 million optional agreement with the European Select Growth Opportunities Fund that has not been utilised.

GomSpace Group presents new long-term ambitions

September 28, 2018 – The Board of Directors of GomSpace Group AB has revised the company's long-term ambitions to reflect the strong underlying market potential and growth prospects. The new targets reflect the company's ambitions and focus for the coming five-year period;

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

GomSpace welcomes Chief Production Officer in the Executive and Top Management Team

August 27, 2018 – A maturing business and well-tested technology has driven GomSpace to its current orientation shifting from prototype to serial production. Already, GomSpace has a combined order book and pipeline for 500 - 700 nanosatellites and is currently setting the scene to ramp up production committed to meet orders in pipeline and more to come. Setting the team, GomSpace welcomes upfront a new member to its executive and top management team, Peter Høy, who will act as Chief Production Officer at GomSpace. GomSpace A/S has appointed Peter Høy as Chief Production Officer with effect from 15 August.

GomSpace signs contract for the supply of nanosatellites to Kleos Space

July 26, 2018 – GomSpace A/S (the "Company") and Kleos Space S.A. ("Kleos") have signed a contract for the supply of a multi-nanosatellite system. The contract value is approx. EUR 2.42 million and the delivery of the multi-nanosatellite system is expected to take place in the second quarter of 2019.

GomSpace and AISTECH sign new agreement

July 16, 2018 – GomSpace A/S (the "Company") and the Spanish company AISTECH have signed a contract for a total value of approx. EUR 1.4 million. The first part of the contract, for 6 standard nanosatellite platforms, is a follow-on order of 4 platforms ordered in September 2017, according to the Framework Delivery Agreement signed between both companies then. The second part of the contract includes Assembly, Integration and Verification of AISTECH's 10 DANU spacecraft, built on GomSpace platforms, as well as other engineering services, such as pre-launch Environmental Testing. All these activities will take place within the next 12 months at GomSpace's recently inaugurated center for constellation integration.

GomSpace's CEO comments on financial arrangement

July 16, 2018 – After inquiries from our shareholders regarding the press release made public on Friday July 13, 2018, Niels Buus, CEO of GomSpace Group AB (the "Company") further clarifies that the financial arrangement with the European Select Growth Opportunities Fund is a pure call option from GomSpace's side. GomSpace can decide not to call any tranches, if we do not need it; GomSpace does not pay any interest on the convertible notes; and if needed and deemed more favourable for the Company and our shareholders, we can still raise capital through a share rights issue and/or a directed share issue. The ambitious targets for GomSpace remain the same. The growth opportunities continue to develop positively. Our orderbook is very strong and our sales opportunities for new constellations are continuing to materialize through a number of opportunities for in orbit demonstration satellites for new constellations.

GomSpace secures external financing of up to SEK 300 million

July 13, 2018 – GomSpace Group AB (publ) (the "Company" or "GomSpace") has signed an agreement relating to an investment in several optional tranches of up to SEK 300 million. The capital will mainly be used to finance and facilitate accelerated expansion, nearby acquisition opportunities and development of GomSpace, its market and its products. The transactions are to be carried out through private placements of convertible notes (the "Notes") with warrants attached (the "Warrants") in several tranches spread over 36 months (each a "Tranche"). For the avoidance of doubt, no Tranche has yet been called upon by GomSpace.

Astrocast signs contract with GomSpace Sweden to deliver propulsion systems

July 12, 2018 – GomSpace Sweden, a subsidiary of GomSpace Group AB, has received an order from Astrocast to deliver a propulsion system for each of the 10 nanosatellites composing the first orbital plane of the new Astrocast constellation. The value of this order is EUR 450,000 and delivery of the propulsion systems will be in the fourth quarter of 2018 and the first quarter of 2019. The Swiss company Astrocast is one of the leading pioneers in deploying nanosatellites to create a global Internet of Things (IoT) network. This will be the first propulsion system operating on a constellation of 3U cubesats.

GomSpace signs contract with the European Space Agency

July 11, 2018 – GomSpace A/S (the "Company") has signed a EUR 400,000 contract with ESA for the first phase of the RACE project to deliver two 6-unit CubeSats for an IOD mission to demonstrate the capability of nanosatellite systems to perform close proximity operations such as rendezvous and docking, and close fly around manoeuvres.

Significant events after the accounting period

Extraordinary general meeting held in GomSpace Group AB (publ)

October 16, 2018 – Decision was made regarding early publication of the interim report for Q3 2018. The general meeting resolved, in accordance with the proposals presented in the notice to attend the meeting (kept available at the Company's website www.gomspace.com) to authorize the board of directors to resolve upon issuance of new shares within the limits of the articles of association. It was also resolved that the board of directors shall consist of three (3) ordinary members without deputy members until the end of the next annual general meeting.

Financial Performance

Financial Review

The Interim Report for 1 July – 30 September for GomSpace Group AB also includes the companies GomSpace A/S, GomSpace Orbital ApS, GomSpace Sweden AB, GomSpace Asia Pte Ltd, GomSpace North America LLC as well as GomSpace Luxembourg S.A.R.L. Result for the period was a net loss of T.SEK 23,379 (a loss of 15,124) and a net loss of T.SEK 58,841 for the first three quarters of 2018. At 30 September 2018, equity was T.SEK 255,593 (198,851).

	2018 Jan-Sep T.SEK	2017 Jan-Sep T.SEK	Change T.SEK	2017 Jan-Dec T.SEK
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INCOME STATEMENT

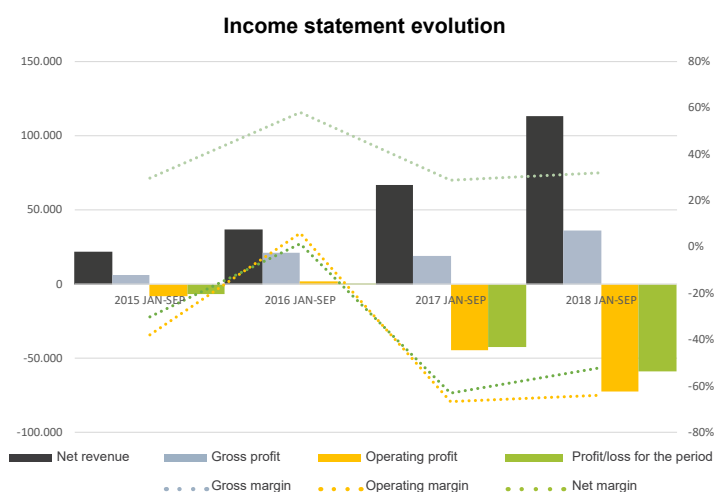
Net revenue	113,167	66,786	69%	96,405
Gross profit	36,190	19,202	88%	26,884
Gross margin	32%	29%	3 pp.	28%
Operating profit (loss)	-72,087	-44,514	-62%	-67,610
- As a percentage of revenues	-63.7%	-66.7%		-70.1%
Profit (loss) before tax	-73,357	-49,170	-49%	-66,515
- As a percentage of revenues	-64.8%	-73.6%		-69.0%
Profit (loss) for the period	-58,841	-41,904	-40%	-53,989
- As a percentage of revenues	-52.0%	-62.7%		-56.0%
Cost of goods sold	76,977	47,584	62%	69,521
- As a percentage of revenues	68.0%	71.2%		72.1%
Sales and distribution costs	26,328	20,505	28%	30,996
- As a percentage of revenues	23.3%	30.7%		32.2%
Development costs	39,404	17,671	123%	25,277
- As a percentage of revenues	34.8%	26.5%		26.2%
Administrative costs	43,408	25,540	70%	38,221
- As a percentage of revenues	38.4%	38.2%		39.6%
Earnings per share, basic, SEK	-2.13	-1.63	31%	-2.09
Earnings per share, diluted, SEK	-2.12	-1.63	30%	-2.08

Balance sheet items

Intangible assets	108,192	51,503	110%	66,074
Property, plant and equipment	33,001	11,951	176%	21,333
Working capital	-16,157	-16,531	2%	23,606
Cash and cash equivalents	65,616	83,325	-21%	95,567
Equity	255,593	198,851	29%	185,315
Liabilities	128,259	59,518	115%	127,754

The growth in revenue is 69% for the first three quarters of 2018 and Gross margin is 32%. The first three quarters of 2018 are influenced by additional hours spent on investment activities and the preparation of the new production area for large scale manufacturing of satellites. Our capacity thereby exceeds our activity level, which results in low capacity utilization. Compared to 2017, gross margin has increased from 29% to 32%.

The operating loss for the third quarter was T.SEK 30,357 (a loss of 16,065) and the loss for the first three quarters of 2018 was T.SEK 72,087 (a loss of 44,514).



Orders received and revenue

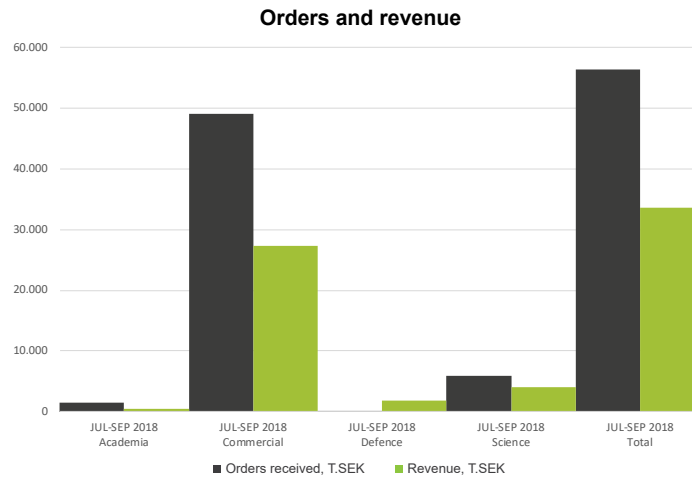
1 JULY – 30 SEPTEMBER 2018 (2017)

The orders received for the third quarter of 2018 amounted to T.SEK 56,469 and the order backlog value at the end of the third quarter of 2018 amounted to T.SEK 735,085, the most significant part of the order backlog is placed on the commercial business area.

The orders received regarding commercial orders represent 87% of total orders for the period. In July, a contract was entered with Kleos Space S.A. at a value of T.SEK 22,084 in the commercial business segment.

The Scouting Mission will deliver targeted daily services with the full constellation delivering near-real-time global observations. In July, a contract was also entered with AISTECH at a value of T.SEK 14,081 in the commercial business segment. The scope of the contract is the DANU constellation that will provide global air traffic detection services as well as IoT / M2M (Internet of Things / Machine to Machine) connectivity for critical asset tracking and monitoring. A contract was entered with Astrocast in July 2018 at a value of T.SEK 4,578 in the commercial business segment. This will be the first propulsion system operating on a constellation of 3U cubesats. The system will allow Astrocast to ensure a more rapid deployment of each satellite in its intended position as well as collision avoidance maneuvers. Finally, in July a contract was entered with the European Space Agency at a value of T.SEK 4,084 in the science business segment. This is for the first phase of the RACE project to deliver two 6-unit CubeSats for an IOD mission to demonstrate the capability of nanosatellite systems to perform close proximity operations such as rendezvous and docking, and close fly around manoeuvres.

In the remaining part of 2018, we expect to convert between SEK 35-55 million of the order backlog into revenue.

**Business segments**

	Academia T.SEK	Com- mercial T.SEK	Defense T.SEK	Science T.SEK	Total T.SEK
ORDER BOOK					
Order backlog 1 January 2018	6,935	696,383	3,904	16,166	723,388
Currency adjustment	-256	13,409	231	822	14,206
Order intake	1,351	19,513	3,036	20,884	44,784
Converted to revenue	-5,854	-64,729	-1,836	-7,140	-79,559
Order backlog 30 June 2018	2,176	664,576	5,335	30,732	702,819
Currency adjustment	1,475	12,180	-44	-4,207	9,404
Order intake	1,531	49,077	7	5,854	56,469
Converted to revenue	-493	-27,304	-1,750	-4,060	-33,607
Order backlog 30 September 2018	4,689	698,529	3,548	28,319	735,085

Out of the backlog as at 30 September 2018, T.SEK 623,079 in the commercial segment is related to our customer Sky and Space Global.

1 JANUARY – 30 SEPTEMBER 2018 (2017)

The orders received for the first three quarters of 2018 amounted to T.SEK 96,675. The orders received regarding commercial orders represent 68% of total orders for the period and orders received regarding science orders represent 26%. In the first three quarters of 2018, a science order was entered with ESA at a value of T.SEK 15,986 and an order at a value of T.SEK 4,084. An order was also entered with Kleos Space S.A. at a value of T.SEK 24,577 in the commercial business segment and with Astrocast at a value of T.SEK 4,578 as well as an order with AISTECH at a value of T.SEK 14,081 was signed.

Revenue

1 JULY – 30 SEPTEMBER 2018 (2017)

Revenues for the third quarter of 2018 amounted to T.SEK 33,608 (21,697), corresponding to an increase of 55% compared with the same period in 2017. The revenue includes a correction, T.SEK 2,465 (1,936), eliminating partial revenue from the associated entity, Aerial & Maritime Ltd. Had this adjustment not been carried out, the total underlying growth would have been 53%. Sky and Space Global constitutes 15% of total revenue and Aerial & Maritime Ltd. constitutes 13% of total revenue in the third quarter.

In the third quarter, we have slowed down work performed on the constellation project for Sky and Space

Global due to an overdue invoice as well as the risk of the customer's lacking financial resources. On the other hand, sales to new customers has increase during the third quarter.

The largest part of revenue is generated by European customers in the commercial segment. The Group expects to increase sales both geographically and in the segments Academia, Defense and Science in the coming years in order to strengthen the business.

In the third quarter, sales to new customers represented 22% of revenues compared to 28% of revenues in the third quarter of 2017.

1 JANUARY – 30 SEPTEMBER 2018 (2017)

Revenues for the first three quarters of 2018 amounted to T.SEK 113,167 (66,786), corresponding to an increase of 69% compared with the same period in 2017. The revenue includes a correction, T.SEK 15,169 (5,532), eliminating partial revenue from the associated entity, Aerial & Maritime Ltd. Had this adjustment not been carried out, the total underlying growth would have been 77%. Sky and Space Global constitutes 27% of total revenue in the first three quarters of 2018 whereas Aerial & Maritime Ltd. constitutes 22% of total revenue.

In the first three quarters of 2018, sales to new customers represented 11% of revenues compared to 29% of revenues in the first three quarters of 2017.

Expenses

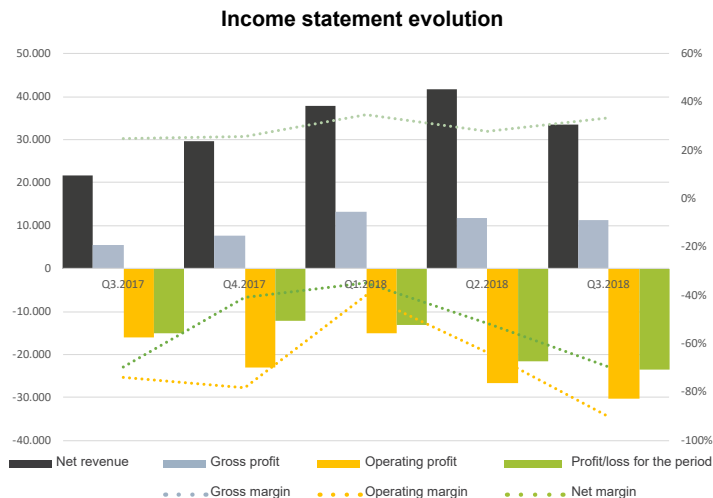
1 JULY – 30 SEPTEMBER 2018 (2017)

Operating expenses for the third quarter of 2018 amounted to T.SEK 64,006 (37,762), corresponding to an increase of 69%. Sales, distribution, development and administrative costs increased to T.SEK 41,705 (21,505), corresponding to an increase of 94%. Our sales and administrative costs have increased as expected according to our business plan, however, costs of goods sold and costs for development activities have increased significantly, primarily due to the ramp up of the production facilities as well as the adjustment to new systems and procedures in order to manufacture satellite constellations.

Compared to the third quarter of 2017 administrative costs as well as sales and distributions costs have increased, though when comparing to the general growth of the business in terms of revenue the percentage has lowered as expected.

1 JANUARY – 30 SEPTEMBER 2018 (2017)

Operating expenses for the first three quarters of 2018 amounted to T.SEK 186,117 (111,300), corresponding to an increase of 67%. Sales, distribution, development and administrative costs increased to T.SEK 109,140 (63,716), corresponding to an increase of 71%.



Profitability

1 JULY – 30 SEPTEMBER 2018 (2017)

In the third quarter 2018, gross profit amounted to T.SEK 11,307 (5,440), corresponding to an increase of 108% compared with the same period in 2017. In the third quarter 2018, the gross margin is 34% compared with the same period in 2017 where the gross margin was 25%. The impact of partial elimination is a decrease of T.SEK 2,264. The underlying gross margin without partial elimination is 38%.

Gross margin is affected by the preparation of the new production area for large scale manufacturing of satellites. Our capacity thereby exceeds our activity level, which results in low capacity utilization.

In the third quarter 2018, operating loss amounted to T.SEK 30,357 (operating loss 16,065).

1 JANUARY – 30 SEPTEMBER 2018 (2017)

In the first three quarters of 2018, gross profit amounted to T.SEK 36,190 (19,202), corresponding to an increase of 88% compared with the same period in 2017. In the first three quarters of 2018, the gross margin is 32% compared with the same period in 2017 where the gross margin was 29%. The impact of partial elimination is a decrease of T.SEK 11,728. The underlying gross margin without partial elimination is 37%.

In the first three quarters of 2018, operating loss amounted to T.SEK 72,087 (operating loss 44,514).

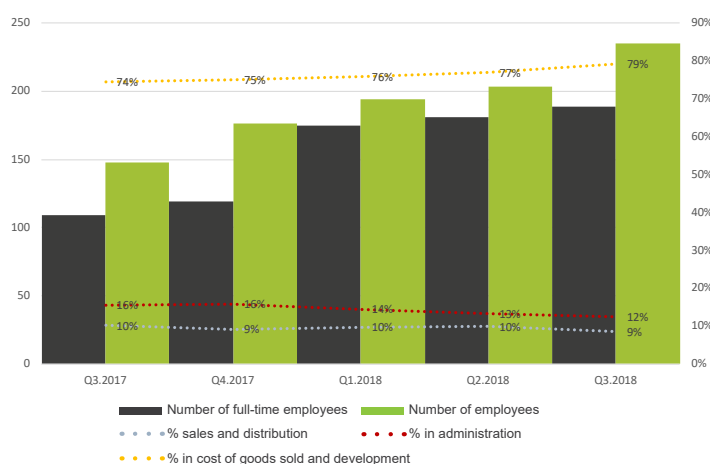
Employees

As at 30 September, GomSpace Group AB had 235 (148) employees, corresponding to 189 (109) full-time/year employees. Employees working within cost of goods sold and in development were a total of 186 (110), with sales and distribution 20 (15), and in administration there were 29 (23) employees.

Share of profit from associates

In the third quarter 2018, the share of profit from associates amounts to a negative T.SEK 775 (a negative 528) which is a share of the result from Aerial & Maritime Ltd. In the first three quarters of 2018, the share of profit from associates amounts to a negative T.SEK 1,425 (a negative 1,019).

Employee evolution



Financial income and expenses

1 JULY – 30 SEPTEMBER 2018 (2017)

Net financial items for the third quarter of 2018 had a positive effect on profit, mainly due to exchange rate adjustments. Net financial items amounted to T.SEK 803 (a negative 1,131).

1 JANUARY – 30 SEPTEMBER 2018 (2017)

Net financial items for the first three quarters of 2018 had a positive effect on profit. Net financial items amounted to T.SEK 155 (a negative 3,637).

Tax and deferred tax

1 JULY – 30 SEPTEMBER 2018 (2017)

The Group recognized a deferred tax asset at a total amount of T.SEK 5,763 (3,699) relating to tax loss carry-forward. The parent company, GomSpace Group AB, recognized a deferred tax asset at a total amount of T.SEK 611 (258) in the third quarter of 2018 relating to tax loss carry-forward.

GomSpace Group had an effective tax rate of 22.9% (14.7%) in the third quarter 2018.

1 JANUARY – 30 SEPTEMBER 2018 (2017)

The Group recognized a deferred tax asset at a total amount of T.SEK 23,424 relating to tax loss carry-forward. The parent company, GomSpace Group AB, recognized a tax loss carry forward at a total amount of T.SEK 1,481 (2,384) in the first three quarters of 2018.

GomSpace Group had an effective tax rate of 19.8% (14.8%) in the first three quarters of 2018.

Shareholder's equity

As at 30 September 2018, total shareholder's equity amounted to T.SEK 255,593 (198,851). In the first three quarters of 2018, an amount of T.SEK 6,127 (4,925) is recognized as share-based payments in relation to the warrant program established for the Group's employees.

Investments

1 JULY – 30 SEPTEMBER 2018 (2017)

Investments in intangible assets amounted to T.SEK 15,766 (7,754) whereas investments in property, plant and equipment amounted to T.SEK 6,742 (2,479). The investment activity was high during the third quarter. The main investment in intangible assets is related to in-house development projects for customer cases.

1 JANUARY – 30 SEPTEMBER 2018 (2017)

Investments in intangible assets amounted to T.SEK 47,911 (23,290) in relation to in-house development for customer cases. Investments in property, plant and equipment amounted to T.SEK 15,993 (8,121). Major investments were related to building up the new production area for large scale manufacturing of satellites.

Cash and cash equivalents, financing and financial position

1 JULY – 30 SEPTEMBER 2018 (2017)

Cash flow from operating activities amounted to a negative T.SEK 35,614 (a positive 6,517).

Working capital is decreasing and is negatively affected by trade receivables, trade payables and prepayments for goods purchased for inventory. Working capital is positively affected by contract work.

Contract work is affected positively by an invoice at an amount of T.SEK 30,888 to our customer Sky and Space Global. This invoice is overdue and therefore trade receivables affect working capital negatively. We have received T.SEK 10,296 in October and expect to receive the remaining overdue amount in the fourth quarter 2018.

Cash flow from investing activities amounted to a negative T.SEK 18,027 (a negative 10,379). The main part of the investment activities is related to in-house development projects.

1 JANUARY – 30 SEPTEMBER 2018 (2017)

Cash flow from operating activities amounted to a negative T.SEK 90,847 (a negative 24,020) during the first three quarters of 2018.

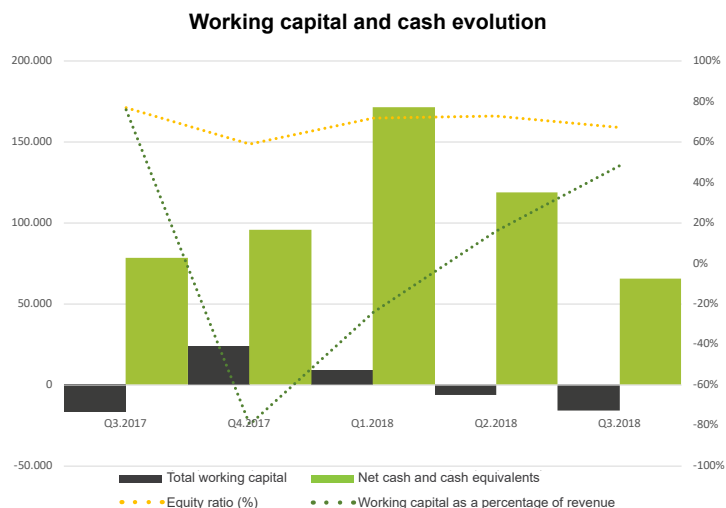
Cash flow from investing activities amounted to a negative T.SEK 59,483 (a negative 54,820).

Cash flow from financing activities amounted to T.SEK 118,702 (88,684). The financing activities are related to the share issue from 8 March which amounted to T.SEK 120,399.

Cash and cash equivalents amounted to T.SEK 65,616 (83,325) at the end of the third quarter. GomSpace Group's working capital totalled a negative T.SEK 16,157 (a negative 16,531).

Credit risks

The Group is exposed to credit risks and other financial risks, such as market risks, including foreign exchange, interest and liquidity risks. These risks are described in the Annual Report and in the Consolidated Financial Statements for 2017.



Parent Company

The parent company had total revenues of T.SEK 5,941 (5,919) in the third quarter of 2018 and T.SEK 18,776 (15,436) for the first three quarters of 2018. The parent company incurred total costs of T.SEK 8,000 (6,955) in the third quarter and T.SEK 28,329 (25,721) for the first three quarters of 2018. A total of T.SEK 4,601 (5,454) is attributable to the capital increase and has been deducted from the share premium. The operating result for the third quarter 2018 is a negative T.SEK 2,059 (a negative 1,036) and a negative T.SEK 4,952 (a negative 4,831) for the first three quarters of 2018. The net loss for the third quarter is T.SEK 388 (a net loss of 915) and a net loss of T.SEK 5,249 (a net loss of 2,535) for the first three quarters of 2018.

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

GomSpace Group AB



Market Development

A Disruptive Technology

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

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

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

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

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

Recent Launch Performance

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

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

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

Market Outlook

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

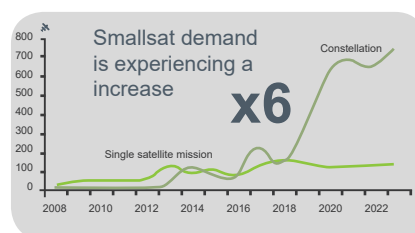
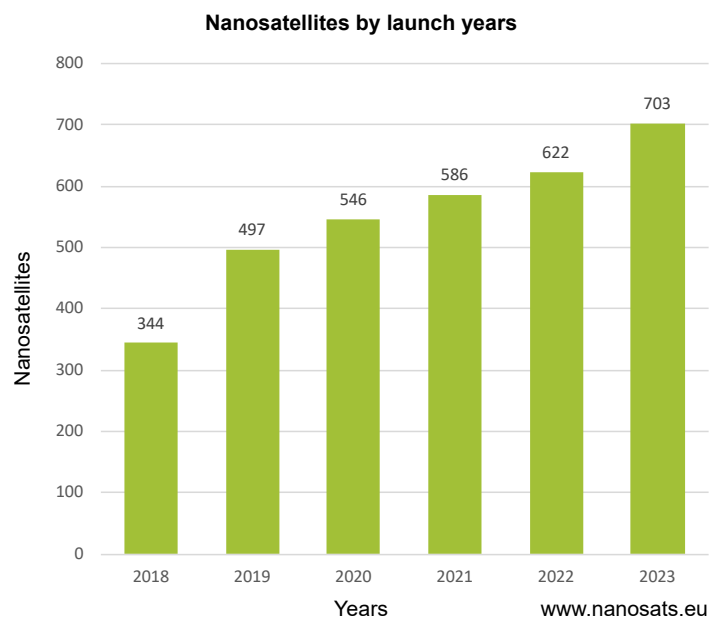


Figure: Smallsat demand 2008-2022 (Source: Prospects for the small satellite market, Euroconsult 2018)

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

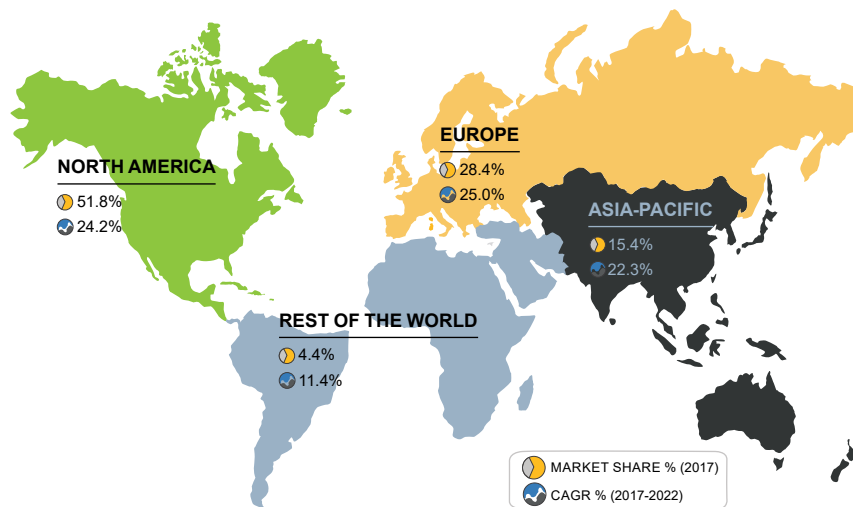
The dominant applications for constellations will be:

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

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

Capturing the Market opportunities

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



It is GomSpace's view that it has a competitive advantage in its field and assesses that its market position will be strengthened as a result of the planned launches in the coming years.

We expect GomSpace's growth to remain significantly above the market CAGR due to:

- Our focus on radio technology-related missions which in general scale to constellations with more satellites than other application areas.
- Our market traction with contracts to leading constellations customers, incl. Sky and Space Global Ltd., AISTECH as well as Aerial and Maritime Ltd.
- Our investments in increasing our international activities in growth markets, incl. establishment in the US and Singapore (North America is expected to account for 73% of the future market, Euroconsult 2018)
- Our continued investments in new technology and products to demonstrate and enable new applications.

Further, our announcement to establish satellite operations services out of Luxembourg over time will extend the scope of our offerings to address a larger part of the value chain. Our new products will ensure that the scalability of satellite operations will not become a bottleneck for the market development.

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

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

** "Nanosatellite and Microsatellite Market by Component (Hardware, Software & Data Processing, Services, Launch Services), Mass (1 kg-10 kg and 11 kg-100 kg), Application (Earth Observation & Remote Sensing), Vertical - Global Forecast to 2022", 2017, a market report published by MarketsAndMarkets.

Market Development

Potential Barriers to Growth

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

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

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

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

Product Development

Focus for our product roadmap and associated technology plan is to support our market strategy as regards increasing the number of applications supported by nanosatellites as well as maturing technologies critical for new business applications and spin-offs. In practice, this means a continuous increase of the technical performance of our satellites and at the same time reduction of unit costs, e.g. larger on-board computing power, larger data transmission rates, improved antenna technology and a design optimized towards reliability and cost.

Reliability

For commercial applications, it is key to their business case to understand the reliability of nanosatellites in Low Earth Orbit. To support this, we have developed designs for an operational life of 5 years. This is achieved and documented through GomSpace's property test and qualification processes. The GomSpace test schemes are continuously refined and optimized to support reliable missions based on nanosatellites.

Radio technology

GomSpace possesses unique competencies within radio technology and software defined radios as well as knowledge about radio-links in space. GomSpace is expanding its radio product platform for space-to-ground as well as space-to-space applications and will introduce new antennas and radios within the coming year.

Constellation management

In our Luxembourg facility, development of software for management of large constellations of satellites is progressing according to plan. The software will be used for commercial application by mid-2019, supporting GomSpace manufactured satellites as well as third party manufactured units.

Technology development

We continue making partnerships on developing and maturing new technology. As such we have started programs with Aalborg University on increased battery life of our satellites as well as project for the development of high gain antennas for small satellites.



Group - Key Figures and Ratios

	2018 Jan-Sep T.SEK	2017 Jan-Sep T.SEK	2017 Jan-Dec T.SEK
KEY FIGURES			
Net revenue	113,167	66,786	96,405
Gross profit	36,190	19,202	26,884
Operating profit (loss)	-72,087	-44,514	-67,610
Share of profit from associates	-1,425	-1,019	4,591
Net financial items	155	-3,637	-3,496
Profit (loss) before tax	-73,357	-49,170	-66,515
Profit (loss) for the period	-58,841	-41,904	-53,989
Investments in PPE	15,993	8,195	18,500
Total assets	383,852	258,369	313,069
Equity	255,593	198,851	185,315
Total liabilities	128,259	59,518	127,754
RATIOS			
Gross margin	32%	29%	28%
Operating margin	-64%	-67%	-70%
Net margin	-52%	-63%	-56%
Return on invested capital (%)	-15%	-16%	-17%
Return on equity (%)	-27%	-24%	-33%
Equity ratio (%)	67%	77%	59%
Earnings per share, basic, SEK	-2.13	-1.63	-2.09
Earnings per share, diluted, SEK	-2.12	-1.63	-2.08
Number of outstanding shares basic, average	24,658,988	25,652,555	25,805,411
Number of outstanding shares as at 30 September 2018	28,340,667	26,257,334	26,257,334

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

Consolidated Income Statement

	Note	2018 Jul-Sep T.SEK	2017 Jul-Sep T.SEK	2018 Jan-Sep T.SEK	2017 Jan-Sep T.SEK	2017 Jan-Dec T.SEK
Net revenue	4	33,608	21,697	113,167	66,786	96,405
Cost of goods sold		-22,301	-16,257	-76,977	-47,584	-69,521
Gross profit		11,307	5,440	36,190	19,202	26,884
Sales and distribution costs		-9,397	-7,543	-26,328	-20,505	-30,996
Development costs		-18,473	-5,598	-39,404	-17,671	-25,277
Administrative costs		-13,835	-8,364	-43,408	-25,540	-38,221
Other operating income		41	0	863	0	0
Operating profit (loss)		-30,357	-16,065	-72,087	-44,514	-67,610
Share of profit from associates		-775	-528	-1,425	-1,019	4,591
Finance income		1,063	1,169	6,628	1,638	4,077
Finance expenses		-260	-2,300	-6,473	-5,275	-7,573
Profit (loss) before tax		-30,329	-17,724	-73,357	-49,170	-66,515
Tax		6,950	2,600	14,516	7,266	12,526
Profit (loss) for the period		-23,379	-15,124	-58,841	-41,904	-53,989
Profit (loss) is attributable to:						
Owners of GomSpace Group AB		-23,379	-15,124	-58,841	-41,904	-53,989
		-23,379	-15,124	-58,841	-41,904	-53,989
Consolidated Statement of Comprehensive Income						
Profit (loss) for the period		-23,379	-15,124	-58,841	-41,904	-53,989
Items which may be reclassified to the income statement:						
Foreign exchange rate adjustments		-398	-203	2,593	-198	-2,867
Other comprehensive income for the period, net of tax		-398	-203	2,593	-198	-2,867
Total comprehensive income for the period		-23,777	-15,327	-56,248	-42,102	-56,856
Total comprehensive income for the period is attributable to:						
Owners of GomSpace Group AB		-23,777	-15,327	-56,248	-42,102	-56,856
		-23,777	-15,327	-56,248	-42,102	-56,856
Earnings per share, basic, SEK		-0.82	-0.58	-2.13	-1.63	-2.09
Earnings per share, diluted, SEK		-0.83	-0.57	-2.12	-1.63	-2.08
Number of outstanding shares basic, average		28,340,667	26,257,334	27,658,988	25,652,555	25,805,411
Number of outstanding shares diluted, average		28,256,777	26,359,052	27,712,322	25,700,057	25,896,226

Consolidated Statement of Financial Position

	Note	2018 30 Sep T.SEK	2017 30 Sep T.SEK	2017 31 Dec T.SEK
Goodwill		3,710	3,710	3,710
Technology		10,400	11,200	11,000
Completed development projects		19,090	4,675	6,363
Development projects in progress		59,780	28,780	26,576
Other intangible assets		15,212	3,138	18,425
Intangible assets	6	108,192	51,503	66,074
Property, plant and equipment		33,001	11,951	21,333
Property, plant and equipment	7	33,001	11,951	21,333
Investments in associates		33,020	33,548	41,892
Deferred tax		24,484	12,515	9,297
Other non-current assets		3,635	4,288	3,376
Non-current assets		28,119	16,803	12,673
Total non-current assets		202,332	113,805	141,972
Raw materials and consumables		27,577	7,209	9,763
Prepayments for inventories		7,705	0	0
Inventories		35,282	7,209	9,763
Contract work		18,100	31,014	22,237
Trade receivables		50,892	16,765	30,765
Tax receivable		5,642	1,312	5,426
Other prepayments		2,222	1,170	1,500
Other receivables		3,766	3,757	5,830
Receivables		80,622	54,018	65,758
Marketable securities		0	12	9
Cash and cash equivalents		65,616	83,325	95,567
Total current assets		181,520	144,564	171,097
Total assets		383,852	258,369	313,069

Consolidated Statement of Financial Position

	2018 30 Sep T.SEK	2017 30 Sep T.SEK	2017 31 Dec T.SEK
Share capital	1,985	1,839	1,839
Share premium	347,389	227,136	227,136
Translation reserve	811	887	-1,782
Retained earnings	-94,592	-31,011	-41,878
Total equity	255,593	198,851	185,315
Credit institutions	25,036	5,103	29,201
Deferred taxes	0	3,936	0
Total non-current liabilities	25,036	9,039	29,201
Current portion of non-current liabilities	8,733	2,093	4,794
Credit institutions	0	5,002	0
Trade payables and other payables	14,670	11,465	16,326
Contract work	43,414	8,545	38,391
Prepayments	11,236	14,205	7,953
Corporation tax	385	0	58
Other liabilities	24,785	9,169	31,031
Total current liabilities	103,223	50,479	98,553
Total liabilities	128,259	59,518	127,754
Total equity and liabilities	383,852	258,369	313,069

Consolidated Statement of Changes in Equity

	Share capital T.SEK	Share premium T.SEK	Translation reserve T.SEK	Retained earnings T.SEK	Total equity T.SEK
Equity 01.01.2017	1,716	137,337	1,085	5,968	146,106
Total comprehensive income for the period	0	0	-198	-41,904	-42,102
Total comprehensive income for the period	0	0	-198	-41,904	-42,102
Transactions with owners in their capacity as owners					
IPO costs	0	-550	0	0	-550
Increase in share capital	123	95,253	0	0	95,376
Increase in share capital, costs	0	-4,904	0	0	-4,904
Share-based payments	0	0	0	4,925	4,925
	123	89,799	0	4,925	94,847
Equity 30.09.2017	1,839	227,136	887	-31,011	198,851
Equity 01.10.2017	1,839	227,136	887	-31,011	198,851
Total comprehensive income for the period	0	0	-2,669	-12,085	-14,754
Total comprehensive income for the period	0	0	-2,669	-12,085	-14,754
Transactions with owners in their capacity as owners					
Share-based payments	0	0	0	1,218	1,218
	0	0	0	1,218	1,218
Equity 31.12.2017	1,839	227,136	-1,782	-41,878	185,315
Equity 01.01.2018	1,839	227,136	-1,782	-41,878	185,315
Total comprehensive income for the period	0	0	2,593	-58,841	-56,248
Total comprehensive income for the period	0	0	2,593	-58,841	-56,248
Transactions with owners in their capacity as owners					
Increase in share capital	146	124,854	0	0	125,000
Increase in share capital, costs	0	-4,601	0	0	-4,601
Share-based payments	0	0	0	6,127	6,127
	146	120,253	0	6,127	126,526
Equity 30.09.2018	1,985	347,389	811	-94,592	255,593

Consolidated Cash Flow Statement

	2018 Jul-Sep T.SEK	2017 Jul-Sep T.SEK	2018 Jan-Sep T.SEK	2017 Jan-Sep T.SEK	2017 Jan-Dec T.SEK
Profit (loss) before tax	-30,329	-17,724	-73,357	-49,170	-66,515
Reversal of financial items	-770	1,131	-123	3,637	3,496
Depreciation and amortizations	5,112	1,987	13,365	5,259	8,666
Result after tax from associates	775	0	1,425	0	987
Non-cash items	-474	4,011	12,284	6,681	592
Changes in inventories	-7,938	-1,027	-25,028	-2,940	-5,497
Changes in trade receivables	-37,296	20,803	-17,419	-2,901	-16,832
Changes in other receivables	10,295	5,596	6,484	3,666	6,012
Changes in trade and other payables	26,257	-7,317	-5,886	13,920	59,814
Cash flow from primary operating activities	-34,368	7,460	-88,255	-21,848	-9,277
Received interest financials	0	1,169	2	1,637	1
Paid interest financials cost	-1,198	-2,074	-2,603	-5,014	-1,388
Tax received	0	0	149	1,314	2,404
Tax paid	-48	-38	-140	-109	-146
Cash flow from operating activities	-35,614	6,517	-90,847	-24,020	-8,406
Investments in intangible assets	-15,766	-7,754	-47,911	-23,290	-41,923
Investments in leasehold improvement, plant and equipment	-6,742	-3,665	-15,993	-9,307	-18,500
Deposit paid	-33	0	-108	-3,357	-3,617
Government grants	4,514	1,040	4,514	1,040	8,173
Proceeds from sale of marketable securities	0	0	10	0	0
Proceeds from sale of property, plant and equipment	0	0	5	26	41
Investments in associates	0	0	0	-19,932	-24,114
Cash flow from investing activities	-18,027	-10,379	-59,483	-54,820	-79,940
<i>Financing from debt:</i>					
Borrowings	-331	0	0	0	26,982
Repayment of borrowings	-577	-376	-1,697	-1,237	-6,885
	-908	-376	-1,697	-1,237	20,097
<i>Financing from shareholders:</i>					
Capital increase	0	0	125,000	95,375	95,375
Capital increase, costs	0	0	-4,601	-5,454	-5,454
	0	0	120,399	89,921	89,921
Cash flow from financing activities	-908	-376	118,702	88,684	110,018
Net cash flow for the period	-54,549	-4,238	-31,628	9,844	21,672
Cash and cash equivalents, beginning of the period	104,404	76,458	84,170	59,803	59,803
Unrealized exchange rate gains and losses on cash	944	-292	1,661	-322	92
Change in bank deposit for security	-2,989	0	-6,393	2,603	2,603
Cash and cash equivalents, end of the period	47,810	71,928	47,810	71,928	84,170
Reconciliation of cash and cash equivalents					
Cash and cash equivalents according to the balance sheet	65,616	83,325	65,616	83,325	95,567
Bank deposit for security	-17,806	-11,397	-17,806	-11,397	-11,397
Cash and cash equivalents according to the cash flow statement	47,810	71,928	47,810	71,928	84,170

Parent Company Income Statement

	2018 Jul-Sep T.SEK	2017 Jul-Sep T.SEK	2018 Jan-Sep T.SEK	2017 Jan-Sep T.SEK	2017 Jan-Dec T.SEK
Net revenue	5,941	5,919	18,776	15,436	21,482
Gross profit	5,941	5,919	18,776	15,436	21,482
Administrative costs	-8,000	-6,955	-23,728	-20,267	-27,849
Operating profit (loss)	-2,059	-1,036	-4,952	-4,831	-6,367
Finance income	684	172	684	272	2,378
Finance expenses	376	-309	-2,462	-361	-379
Profit (loss) before tax	-999	-1,173	-6,730	-4,920	-4,368
Tax	611	258	1,481	2,385	2,256
Profit (loss) for the period	-388	-915	-5,249	-2,535	-2,112
Profit (loss) is attributable to:					
Owners of GomSpace Group AB	-388	-915	-5,249	-2,535	-2,112
	-388	-915	-5,249	-5,535	-2,112
Statement of Comprehensive Income					
Profit (loss) for the period	-388	-915	-5,249	-2,535	-2,112
Items which may be reclassified to the income statement:					
Other comprehensive income for the period, net of tax	0	0	0	0	0
Total comprehensive income for the period	-388	-915	-5,249	-2,535	-2,112

Parent Company Statement of Financial Position

	2018 30 Sep T.SEK	2017 30 Sep T.SEK	2017 31 Dec T.SEK
GomSpace A/S	110,971	36,891	110,971
GomSpace Sweden AB	34,056	23,850	34,056
GomSpace Orbital ApS	65	65	65
GomSpace Luxembourg S.A.R.L.	115	115	115
GomSpace Asia Pte Ltd.	2,142	0	2,142
GomSpace North America LLC	1,105	0	1,105
Investments in subsidiaries	148,454	60,921	148,454
Aerial & Maritime Ltd.	24,115	19,932	24,115
Investments in associates	24,115	19,932	24,115
Fixed asset investments	172,569	80,853	172,569
Deferred tax	3,736	2,384	2,255
Other non-current assets	3,736	2,384	2,255
Total non-current assets	176,305	83,237	174,824
Trade receivables from subsidiaries	121,463	85,526	11,523
Trade receivables from associates	134	484	111
Other prepayments	27	151	153
Other receivables	0	268	120
Receivables	121,624	86,429	11,907
Cash and cash equivalents	48,143	48,336	38,144
Total current assets	169,767	134,765	50,051
Total assets	346,072	218,002	224,875
Share capital	1,985	1,839	1,839
Share premium	344,101	223,848	223,622
Retained earnings	-1,460	-8,903	-2,112
Total equity	344,626	216,784	223,349
Payables to subsidiaries	0	0	111
Payables to associates	0	0	0
Trade payables and other payables	727	949	826
Other liabilities	719	269	589
Total current liabilities	1,446	1,218	1,526
Total liabilities	1,446	1,218	1,526
Total equity and liabilities	346,072	218,002	224,875

Parent Company Statement of Changes in Equity

	Share capital T.SEK	Share premium T.SEK	Retained earnings T.SEK	Total equity T.SEK
Equity 01.01.2017	1,716	134,049	-6,368	129,397
Total comprehensive income for the period	0	0	-2,535	-2,535
IPO costs	0	-550	0	-550
Increase in share capital	123	95,253	0	95,376
Increase in share capital, costs	0	-4,904	0	-4,904
	123	89,799	-2,535	87,387
Equity 30.09.2017	1,839	223,848	-8,903	216,784
Equity 01.10.2017	1,839	223,848	-8,903	216,784
Profit (loss) for the period	0	0	423	423
Total comprehensive income for the period	0	0	423	423
Share-based payments	0	0	6,142	6,142
Total comprehensive income for the period	0	0	6,142	6,142
Equity 31.12.2017	1,839	223,848	-2,338	223,349
Equity 01.01.2018	1,839	223,848	-2,338	223,349
Total comprehensive income for the period	0	0	-5,249	-5,249
Increase in share capital	146	124,854	0	125,000
Increase in share capital, costs	0	-4,601	0	-4,601
Share-based payments	0	0	6,127	6,127
Total comprehensive income for the period	146	120,253	878	121,277
Equity 30.09.2018	1,985	344,101	-1,460	344,626



Notes to the Interim Consolidated Financial Statements

1. Accounting policies

Basis of preparation

The interim consolidated financial statements for the third quarter of 2018 have been prepared in accordance with IAS 34 Interim Financial Reporting and the Swedish Annual Accounts Act. The parent company applies the Swedish Annual Accounts Act and RFR 2 Reporting for legal entities.

The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2017.

Key ratios definitions

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

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

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

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

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

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

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

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

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

2. New standards adopted by the Group

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those applied in the preparation of the Group's annual consolidated financial statements as at 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments that require restatement of the opening balance. As required by IAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim consolidated financial statements of the Group.

IFRS 9 Financial Instruments

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

The Group has applied IFRS 9 prospectively, with the initial application date of 1 January 2018.

Adopting IFRS 9 has no effect for the Group.

Under IFRS 9, the Group initially measures trade receivables as a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortized cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The new classification and measurement of the Group's debt financial assets are as follows:

The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39. Similar to the requirements of IAS 39, IFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognized in the income statement.

Impairment

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

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

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

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

The Group considers a financial asset in default when contractual payment is 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

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

The Group adopted IFRS 15 using the modified retrospective method of adoption. The adopting of IFRS 15 has no effect on the consolidated financial statements for the Group.

The Group is in the business of providing satellite solutions, platforms, payloads and subsystems. The equipment and services are sold both on their own in separately identified contracts with customers and together as a bundled package of goods and/or services.

Sales of satellite solutions, platforms, payloads and subsystems

The Group is in the business of providing satellite solutions as well as sales of platforms, payloads and subsystems for nanosatellites. Platforms, payloads and subsystems are either sold as separate components to customers, integrated as a platform or as turnkey nanosatellite solutions. It has been determined that satellite solutions and platforms, payloads and subsystems meet the criteria to recognize revenue over time on a percentage of completion basis. This is due to the customization of components according to customer specifications (selected options) which means that GomSpace has no alternative use for the components once customization commences and therefore GomSpace has a right to payment regarding work completed to date. Other sales are recognized at point in time. The Group's contracts with customers for the sale of satellite solutions, platforms, payloads and subsystems generally include one performance obligation. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition.

Warranty obligations

The Group provides warranties for general repairs of defects that existed at the time of sale, as required by law. As such, most warranties are assurance-type warranties under IFRS 15, which the Group accounts for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, consistent with its practice prior to the adoption of IFRS 15.

Advances received from customers

Generally, the Group receives short-term advances from its customers. However, from time to time, the Group also receives long-term advances from customers. Prior to the adoption of IFRS 15, the Group presented these advances as Deferred revenue in the statement of financial position. No interest was accrued on the long-term advances received under the previous accounting policy.

Upon the adoption of IFRS 15, for short-term advances, the Group used the practical expedient. As such, the Group will not adjust the promised amount of the consideration for the effects of a financing component in contracts, where the Group expects, at contract inception, that the period between the time the customer pays for the goods and services and when the Group transfers the promised goods or services the customer will be one year or less.

3. Significant accounting estimates and judgments

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

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

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

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

The Group has established a warrant program from 27 April 2017 to 27 April 2021. 100% of the warrants in the first grant is vested and the management expects that 85% of the warrants will be vested in the fourth grant.

Development

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

For development projects in progress, Management estimates on an ongoing basis whether each project is likely to generate future economic benefits for the Group in order to qualify for recognition. The development projects are evaluated on technical as well as commercial criteria. The carrying amount of development projects in progress is disclosed in note 6.

Contract work

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

Revenue and Trade receivables

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

Deferred tax

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

4. Revenue

	Business segments				
	Academia T.SEK	Com- mercial T.SEK	Defense T.SEK	Science T.SEK	Total T.SEK
GEOGRAPHICAL					
Sweden	63	0	0	596	659
Denmark	1,297	2,551	0	0	3,848
Europe (excluding Sweden and Denmark)	295	54,125	6	9,929	64,355
USA	0	3,314	1,980	1	5,295
Asia	3,543	6,385	1,600	909	12,437
Rest of the world	1,149	25,336	0	88	26,573
	6,347	91,711	3,586	11,523	113,167
MAJOR GOODS/ SERVICE LINES					
Sales of satellite solutions	2,478	76,432	3,586	11,302	93,798
Sales of platforms, payloads and subsystems	3,869	14,750	0	221	18,840
Other sales	0	529	0	0	529
	6,347	91,711	3,586	11,523	113,167

5. Income tax and deferred tax

The Group had a recognized deferred tax loss carry-forward at a total amount of T.SEK 41,899 (T.SEK 18,475). The parent company, GomSpace Group AB, had a non-recognized deferred tax loss carry-forward at a total amount of T.SEK 7,105 (T.SEK 6,161). This amount can only be used by the Swedish entities and no tax profit is expected to be generated within a foreseeable future. Once the amount is recognized, this is done over equity as it regards deferred tax concerning expenses booked on equity.

	2018 30 Sep T.SEK	2017 30 Sep T.SEK
DEFERRED TAX ASSET RELATES TO:		
Intangible assets	-25,391	-5,542
Property, plant and equipment	5,576	-1,239
Short-term assets	2,400	86
Tax loss carry-forwards	41,899	18,475
	24,484	11,780
Tax loss carry-forward	49,004	24,636
Unrecognized as deferred tax asset	-7,105	-6,161
Tax loss carry-forward recognized as deferred tax asset	41,899	18,475

6. Intangible assets

	Goodwill T.SEK	Technology T.SEK	In proces development projects T.SEK	Completed development projects T.SEK	Other intangible assets T.SEK	Total T.SEK
GROUP						
Cost price at 1 January 2018	3,710	12,000	26,576	14,509	20,843	77,638
Additions during the year	0	0	47,801	0	110	47,911
Reclassification	0	0	-15,874	15,874	0	0
Exchange rate adjustment	0	0	1,277	690	801	2,768
Cost price at 30 September 2018	3,710	12,000	59,780	31,073	21,754	128,317
Amortization at 1 January 2018	0	-1,000	0	-8,146	-2,418	-11,564
Amortization	0	-600	0	-3,467	-4,030	-8,097
Exchange rate adjustment	0	0	0	-370	-94	-464
Amortization at 30 September 2018	0	-1,600	0	-11,983	-6,542	-20,125
Carrying amount at 30 September 2018	3,710	10,400	59,780	19,090	15,212	108,192
Cost price at 1 January 2017	3,710	12,000	6,197	12,054	3,623	37,584
Additions during the year	0	0	22,725	0	565	23,290
Exchange rate adjustment	0	0	-142	-14	-4	-160
Cost price at 30 September 2017	3,710	12,000	28,780	12,040	4,184	60,714
Amortization at 1 January 2017	0	-200	0	-6,021	-306	-6,527
Amortization	0	-600	0	-1,351	-476	-2,427
Exchange rate adjustment	0	0	0	7	-264	-257
Amortization at 30 September 2017	0	-800	0	-7,365	-1,046	-9,211
Carrying amount at 30 September 2017	3,710	11,200	28,780	4,675	3,138	51,503

Impairment test

The annual impairment test for goodwill is performed as at 31 December after completion of budgets and strategy plans for the next 5 years. As at 30 September 2018, management assesses that there is no indication of impairment regarding the net asset values for goodwill and intangible assets with an indefinite useful life.

7. Property, plant and equipment

	Leasehold improve- ments T.SEK	Other fixtures fittings, tool and equipment T.SEK	Total property, plant and equipment T.SEK
GROUP			
Cost price at 1 January 2018	9,963	16,372	26,335
Additions during the year	12,562	3,431	15,993
Disposals during the year	0	-203	-203
Reclassification	0	0	0
Exchange rate adjustment	468	699	1,167
Cost price at 30 September 2018	22,993	20,299	43,292
Depreciation at 1 January 2018	-852	-4,149	-5,001
Depreciation	-1,128	-4,133	-5,261
Disposals during the year	0	199	199
Exchange rate adjustment	-42	-186	-228
Depreciation at 30 September 2018	-2,022	-8,269	-10,291
Carrying amount at 30 September 2018	20,971	12,030	33,001
Cost price at 1 January 2017	2,331	5,567	7,898
Additions during the year	1,615	6,506	8,121
Disposals during the year	0	-26	-26
Exchange rate adjustment	-1	55	54
Cost price at 30 September 2017	3,945	12,102	16,047
Depreciation at 1 January 2017	-352	-1,181	-1,533
Depreciation	-450	-2,113	-2,563
Exchange rate adjustment	0	0	0
Depreciation at 30 September 2017	-802	3,294	-4,096
Carrying amount at 30 September 2017	3,143	8,808	11,951

8. Classification of financial assets and liabilities

	Financial instruments carried at fair value through profit or loss held for trading T.SEK	Invest- ments held to maturity T.SEK	Loans and receiv- ables T.SEK	Other financial liabilities T.SEK	Total T.SEK	Carrying amount T.SEK	Fair Value Level 1 T.SEK
30 SEPTEMBER 2018							
ASSETS							
Trade and other receivables	0	0	72,758	0	72,758	72,758	0
Additions during the year	0	0	65,616	0	65,616	65,616	0
Total assets	0	0	138,374	0	138,374	138,374	0
LIABILITIES							
Credit institutions	0	0	0	33,769	33,769	33,769	0
Trade payables and other payables	0	0	0	39,455	39,455	39,455	0
Prepayments	0	0	0	54,650	54,650	54,650	0
Total liabilities	0	0	0	127,874	127,874	127,874	0
30 SEPTEMBER 2017							
ASSETS							
Trade and other receivables	0	0	51,536	0	51,536	51,536	0
Marketable securities	12	0	0	0	12	0	12
Cash and cash equivalents	0	0	83,325	0	83,325	83,325	0
Total assets	12	0	134,861	0	134,873	134,861	12
LIABILITIES							
Credit institutions	0	0	0	12,198	12,198	12,198	0
Trade payables and other payables	0	0	0	20,634	20,634	20,634	0
Prepayments	0	0	0	22,750	22,750	22,750	0
Total liabilities	0	0	0	55,582	55,582	55,582	0

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

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

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

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

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

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

In the third quarter of 2018, no transfers between levels were made.

9. Share-based payment

GomSpace Group AB (publ) established warrant programs as an incentive for all the Group's employees. Board members of the Group will not be allowed to participate. The warrant activity in the first three quarters of 2018 is outlined below.

	2018 Jan-Sep T.SEK	2017 Jan-Sep T.SEK	2017 Jan-Dec T.SEK
Outstanding warrants as at 1 January	393,647	0	0
Granted	327,111	402,424	402,424
Forfeited	-15,306	0	-8,777
Exercised	0	0	0
Outstanding warrants	705,452	402,424	393,647

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

At the annual general meeting in April 2018, shareholders approved a warrant program for all the Group's employees. Board members of the Group will not be allowed to participate. Up to 450,000 warrants may be issued under this program and the exercise price is 100% of the volume weighted average last closing price for the Group's share on Nasdaq First North Premier during the period from and including 19 April 2018 until and including 25 April 2018.

The fair value of the warrants, expected to be granted until April 2021, is an amount of up to T.SEK 7,211, using the so-called Black&Scholes model based on the assumptions below.

	First award	Second award	
	Warrant program 2017/20	Warrant program 2017/20	Warrant program 2018/21
Volatility	70%	70%	58%
Risk-free interest rate	0%	0%	1%
Dividend yield	0%	0%	0%
Early-exercise date	27.04.2020	27.04.2020	26.04.2021
Expiration date	27.04.2021	27.04.2021	26.04.2022
Share price	54	58.3	60.4
Exercise price*	54.1	54.1	64.9
Outstanding warrants 30 September 2018	244,335	134,006	327,111

* Exercise price is calculated as follows:

- Warrant program 2017/20 first award is based on the volume weighted average last closing price for 20.04.2017 to 26.04.2017
- Warrant program 2017/20 second award is based on the volume weighted average last closing price for 20.04.2017 to 26.04.2017
- Warrant program 2018/21 is based on the volume weighted average last closing price for 19.04.2018 to 25.04.2018

The costs of this program will be recognized as cost in the consolidated income statement over the service period. Further details of the Warrant Program can be found on our [website](#).

10. Related parties

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

The Group has the following transactions with related parties:

	2017 Jan-Sep T.SEK	2017 Jan-Dec T.SEK
Transactions with related parties		
Sale of goods and services to associates	26,009	6,687
Administration costs from Board of Directors and management team	296	3,287
Receivables from associates on the balance sheet date	795	850

Financial Calendar

Interim report, October - December 2018 28 February 2019
Annual general meeting 26 April 2019

COMPANY INFORMATION

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AUDITORS
Ernst & Young AB

CERTIFIED ADVISOR
FNCA Sweden AB

MANAGEMENT'S STATEMENT

The CEO certifies that this Interim Report presents a true and fair view of the Group's and the parent company's assets, liabilities and financial position at 30 September 2018, and of the results of the Group's and the parent company's operations and cash flow. The Interim Report also describes the significant risks and uncertainties facing the Parent Company and other companies in the Group.

Stockholm, 6 November 2018

Executive Board

Niels Buus
CEO

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



