

29 August 2022

Ms Ramona Seeto
Advisor, Listings Compliance (Sydney)
ASX
20 Bridge Street
Sydney
NSW 2000

By e-mail:

Dear Ms Seeto

Re: Kleos Space S.A. ('KSS'): Aware Query

Kleos Space S.A. (**KSS** or the **Company**) refers to your letter dated 25 August 2022, received on 26 August 2022, referencing the Company's Half Yearly Report and Accounts for the period ended 30 June 2022 (the **HY Report**).

The Company's responses to the queries in your letter are as follows:

1. For each of the following events, please state whether KSS is of the view that the information is information that a reasonable person would expect to have a material effect on the price or value of its securities: 1.1. the first satellite failure; 1.2 that KSS's revenue would not be impacted by the failure; 1.3 the second satellite failure; 1.4 that KSS's revenue would be impacted by the failure; and 1.5 the final outcome of the technical review resulting in the impairment of all four satellites.

The Company does not consider these matters to constitute information which a reasonable person would expect to have a material effect on the price or value of its securities.

2. For any events identified in question 1 where KSS's answer is "no", please advise the basis for that view.

The Company formed the view that there are primarily three elements that would play into whether a reasonable person would expect the events identified in question 1 to have a material effect on the price or valuation of the Company's securities.

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Revenue Risk

The Company notes that no existing customer contracts are dependent on the first cluster of satellites commissioned (**KSM1** cluster), nor is the Company's ability to provide services dependent on the functioning of this cluster. Therefore, no current revenue streams are impacted by the relevant failures.

Because all revenue targets have been based on the operating capability of the subsequent KSF series of satellite clusters, the expected delays in achieving targeted revenue, previously flagged by the Company in its quarterly activities report for the June 2022 quarter, are unrelated to the failure of the KSM1 satellites, and relate to timing of completion of the commissioning process for the KSF-1 and KSF-2 clusters.

Systemic Technical Risk

Because the Company does not design or manufacture the satellites itself, impairments of this nature are specific to a manufacturer. As it is public knowledge that the KSM1 satellites were designed and manufactured by a different manufacturer than the KSF series of satellites, any design/hardware issues would be limited to the KSM1 cluster only, and thus would not systemically impact the Company's overall ability to generate revenue.

Goodwill Risk

The KSM1 cluster (Scouting Mission) was intended as the demonstrator for the constellation, used for the testing and development of signal and geospatial intelligence intellectual property, which was successfully completed. As the technology was proven and the business model has always been dependent upon the more advanced KSF series of satellites, the Company formed the view that the failure of a demonstrator satellite would not have an impact on the Company's reputation with customers or on an investor's investment decision.

3. Please state the date on which KSS first became aware of each of the events referenced at question 1, and the circumstances surrounding KSS becoming aware at that time.

In January 2022, the first satellite stopped operating and the second satellite stopped operating in April 2022. Due to the complexity associated with satellites and their underlying designs, it is not uncommon for technical issues to result in extended periods of non-operation while potential solutions are being evaluated and implemented. In many instances, these technical issues are subsequently resolved, and the satellites go back into operation.

During the period between January 2022 and August 2022, the Company's management was engaged in extensive consultation with the manufacturer regarding remediation of the technical issues, as well as evaluating alternative software solutions that would maximise a cluster's revenue-generating capabilities. In mid/late August, management concluded that the KSM1 cluster would not commercially support the Company's business requirements.

4. Why did KSS not inform the market of the satellite failures prior to the release of its half year report and accounts, and why did KSS fail to release this information in the form of a standalone price-sensitive announcement?

As detailed above, KSS did not consider that the satellite failure would reasonably be expected to have a material impact on the price of its securities, given that:

1. the affected satellites were part of a developmental cluster which was not anticipated to make a material contribution to revenue in FY2022 and beyond;
2. there was no risk of this type of impairment spreading to other satellite clusters, due to the change in satellite manufacturer for the Company's revenue-generating satellite clusters; and
3. due to the nature of resolving technical issues on satellites, there was insufficient information for management to present to the Board to assist in its impairment assessment until late-August.

Due to uncertainty regarding the ability to measure the recoverable amount attributable to the cash-generating unit to which the KSM satellites belonged, the satellite cluster was impaired as a matter of prudence, given the difficulty of establishing a recoverable value for the relevant satellites, and noting that the impairment loss could be reversed in a subsequent accounting period. This was largely a technical accounting process undertaken as a matter of financial prudence by the Company's Board on 22/3 August 2022.

Following the Board's impairment decision, the failure of the satellites and subsequent impairment were prominently highlighted upfront in the HY Report, under the heading "Significant changes in the state of affairs" and the HY Report was marked as market sensitive. KSS therefore did not consider it necessary to release a further announcement on the matter.

5. Please confirm that KSS is complying with the Listing Rules and, in particular, Listing Rule 3.1.

The Company confirms that KSS is complying with Listing Rule 3.1.

6. Please confirm that KSS's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of KSS with delegated authority from the board to respond to ASX on disclosure matters.

The Company confirms that this response has been authorised and approved by its Chairman and Chief Executive Officer and communicated to the full Board.

Yours faithfully



Andy Bowyer, **Chief Executive Officer**

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25 August 2022

Reference: 57920

Ms Vanessa Chidrawi
Company Secretary
Kleos Space S.A

Dear Ms Chidrawi

Kleos Space S.A ('KSS'): Aware Query

ASX refers to the following:

A. KSS's announcement entitled "Half Yearly Report and Accounts" lodged on the ASX Market Announcements Platform on 24 August 2022, which disclosed (emphasis added):

i. Under 'Significant changes in the state of affairs':

"Assessed the impairment of two KSM1 demonstrator cluster satellites which experienced a technical malfunction. Subsequent to an extensive technical review including consultation with the supplier and a review of possible performance mitigations, in August 2022 it was concluded that these two satellites could no longer perform their mission. Because these satellite failures reduced the cluster's capabilities, all four satellites have been impaired at this stage. As explained in note 12 to the financial statements, the Company has therefore accounted for an impairment of €2,994,919 in the first six months of 2022, relating to satellite equipment in use."

ii. At note 12 to the financial statements:

"During the first quarter of 2022, a suspected mechanical failure was detected in one of the KSM1 Cluster satellites (KSM1-b) which was under supplier review and did not impact the revenue generating ability of the cluster. During the second quarter of 2022 a suspected technical failure was identified on a second KSM1 Cluster satellite (KSM1-a). Subsequent to an extensive technical review including consultation with the supplier and review of possible performance mitigations, in August 2022 it was concluded that these two satellites could no longer perform their mission. An impairment review was performed resulting in a zero recoverable amount. Because these satellite failures reduced the cluster's/CGU's capabilities below the minimum number of satellites required to satisfy the CGU's operational requirements, all four satellites (representing the entirety of KSM1 cluster) have been impaired. The Company has therefore accounted for an impairment of €2,994,919 in the first six months of 2022 as the initial technical issues (subsequently confirmed) giving rise to the impairment arose prior to 30 June 2022."

iii. In the audit review report:

*"We draw your attention to Notes 1 and 12 of the interim consolidated financial statements with regards to the consequences for the Group of the impairment of all satellites in Cluster 1 (KSM1) as well as the delay in completion of the commissioning of Cluster 2 (KSF1) satellites. **These technical issues have delayed the generation of revenues which indicates, amongst other matters disclosed in Notes 1 and 12, that a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.**"*

- B.** Listing Rule 3.1, which requires a listed entity to immediately give ASX any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities.
- C.** The definition of "aware" in Chapter 19 of the Listing Rules, which states that:
- "an entity becomes aware of information if, and as soon as, an officer of the entity (or, in the case of a trust, an officer of the responsible entity) has, or ought reasonably to have, come into possession of the information in the course of the performance of their duties as an officer of that entity" and section 4.4 in Guidance Note 8 Continuous Disclosure: Listing Rules 3.1 – 3.1B "When does an entity become aware of information."*
- D.** Listing Rule 3.1A, which sets out exceptions from the requirement to make immediate disclosure, provided that each of the following are satisfied.
- "3.1A Listing rule 3.1 does not apply to particular information while each of the following is satisfied in relation to the information:*
- 3.1A.1 One or more of the following applies:*
- It would be a breach of a law to disclose the information;*
 - The information concerns an incomplete proposal or negotiation;*
 - The information comprises matters of supposition or is insufficiently definite to warrant disclosure;*
 - The information is generated for the internal management purposes of the entity; or*
 - The information is a trade secret; and*
- 3.1A.2 The information is confidential and ASX has not formed the view that the information has ceased to be confidential; and*
- 3.1A.3 A reasonable person would not expect the information to be disclosed."*
- E.** ASX's policy position on the concept of "confidentiality", which is detailed in section 5.8 of Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*. In particular, the Guidance Note states that:
- "Whether information has the quality of being confidential is a question of fact, not one of the intention or desire of the listed entity. Accordingly, even though an entity may consider information to be confidential and its disclosure to be a breach of confidence, if it is in fact disclosed by those who know it, then it ceases to be confidential information for the purposes of this rule."*

Request for information

Having regard to the above, ASX asks KSS to respond separately to each of the following questions and requests for information:

1. For each of the following events, please state whether KSS is of the view that the information is information that a reasonable person would expect to have a material effect on the price or value of its securities:
 - 1.1 The first satellite failure;
 - 1.2 That KSS's revenue would not be impacted by the failure;
 - 1.3 The second satellite failure;
 - 1.4 That KSS's revenue would be impacted by the failure (as indicated at paragraph A.iii); and

- 1.5 The final outcome of the technical review resulting in the impairment of all four satellites.
2. For any events identified in question 1 where KSS's answer is "no", please provide the basis for that view.
3. Please state the date on which KSS first became aware of each of the events referenced at question 1, and the circumstances surrounding KSS becoming aware at that time.
4. Why did KSS not inform the market of the satellite failures prior to the release of its half year report and accounts, and why did KSS fail to release this information in the form of a standalone price-sensitive announcement?
5. Please confirm that KSS is complying with the Listing Rules and, in particular, Listing Rule 3.1.
6. Please confirm that KSS's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of KSS with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

This request is made under Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **9:30 AM AEST Tuesday, 30 August 2022**. You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, KSS's obligation is to disclose the information 'immediately'. This may require the information to be disclosed before the deadline set out in the previous paragraph and may require KSS to request a trading halt immediately.

Your response should be sent to me by e-mail at **ListingsComplianceSydney@asx.com.au**. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Trading halt

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in KSS's securities under Listing Rule 17.1. If you wish a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted. You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

Suspension

If you are unable to respond to this letter by the time specified above, ASX will likely suspend trading in KSS's securities under Listing Rule 17.3.

Listing Rules 3.1 and 3.1A

In responding to this letter, you should have regard to KSS's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure*: Listing Rules 3.1 – 3.1B. It should be noted that KSS's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

Release of correspondence between ASX and entity

We reserve the right to release a copy of this letter, your reply and any other related correspondence between us to the market under listing rule 18.7A.

Questions

If you have any questions in relation to the above, please do not hesitate to contact me.

Yours sincerely

Ramona Seeto
Adviser, Listings Compliance (Sydney)