Avanti Communications Group plc

Annual Report & Accounts 2011

Avanti Communications Group plc

New high speed communications products for high growth markets.

Highlights

- Successful launch of our first satellite, HYLAS 1.
- Modest available capacity filling fast.
- HYLAS 2 is fully financed and under construction.
- High growth markets in Africa and Asia responding very well.

This has been a landmark year for Avanti Communications Group with the successful launch of our first satellite, HYLAS 1, and the receipt of the first revenues generated by it.

John Brackenbury CBE, Chairman

Avanti owns scarce, valuable spectrum and satellite resources, in a lightly competed sub-sector of a global telecoms market which is experiencing breakneck growth in data demand through the increasing use of high data applications.

David Williams, Chief Executive

The shape of the balance sheet has changed significantly over the last 12 months. The group now has net assets of £207 million.

Nigel Fox, Group Finance Director

Business Profile
The Year in Review
Governance
Financial Statements
Shareholder Information

This year we enjoyed the successful launch of HYLAS 1, Europe's first Ka-band satellite.

Our second satellite, HYLAS 2, is fully financed and under construction. It is scheduled to launch in Q2 2012.

These satellites will operate for 15 years. Avanti is building a global business with a very long term view.

Who we are

We are bringing a new approach to the satellite communications industry

We are 125 people drawn together from space, telecoms and finance backgrounds bringing a new approach to the satellite communications industry. Our operational managers have an average of 7 years service at Avanti. We have built this company together from the beginning and have a shared long term ambition to build a global business of significant scale. We are headquartered in London but with significant operations in Cornwall, Cyprus, Germany and the USA.

What we do

We are a data communications provider

Avanti sells satellite data communications services to telecoms companies which use them to supply institutional, enterprise and consumer users. Our technology is new, but so is our flexible business model which responds to the different needs and strategies of our service providers in 50 countries.

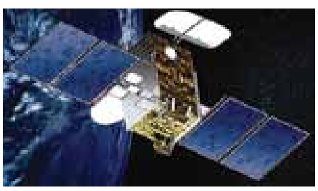
Watch the launch of HYLAS 1:

www.avantiplc.com/satellite-fleet/hylas-1

Avanti's first satellite, HYLAS 1, launched on 26 November 2010 and is the first superfast broadband satellite launched in Europe.

Our satellites

HYLAS 1



The first Ka-band satellite in Europe serves every country between Ireland and Poland. We enjoyed its successful launch in November 2010 and target to have it full by Spring 2014.

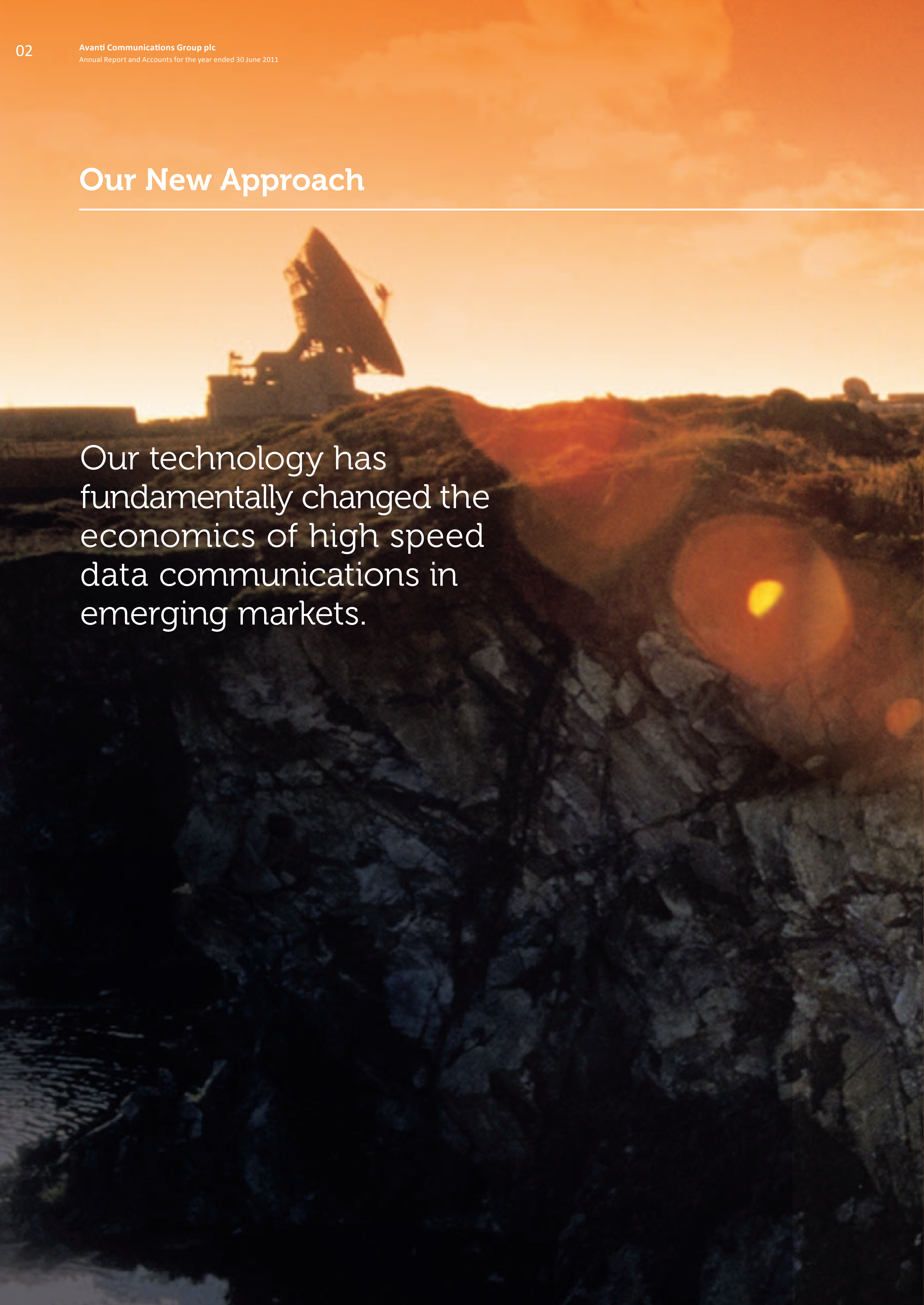
HYLAS 2

HYLAS 2, Avanti's second satellite, is being built by the Orbital Sciences Corporation in the USA. HYLAS 2 will quadruple Avanti's satellite capacity and provide new capacity across the Middle East and Africa. Thus we become predominantly an emerging markets telecoms business. The business plans seeks to fill it by 2017, but the pre-sales activity suggests we will beat this target by a long way.

HYLAS 3

HYLAS 3 is being financed with very low cost government funded debt and customer pre-sales, which over the long term greatly enhances shareholder returns. It will put new capacity into the Americas and Africa.

Our New Approach



Our technology has fundamentally changed the economics of high speed data communications in emerging markets.

The high frequency and advanced power of a Ka-band satellite enables it to carry at least 8 times more data than the lower frequency satellites used mainly for TV. This is bringing a new generation of service providers and end user customers to satellite services.

Satellite capacity is not a simple commodity.

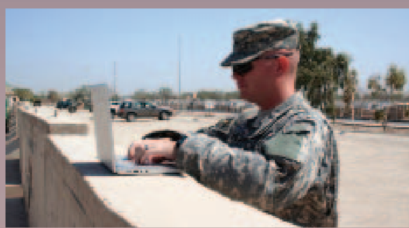
Every service provider wants something a little different, and every satellite beam delivers slightly different characteristics. We designed highly flexible technology which puts the control of network or product design into the hands of our service providers – we don't just sell a one size fits all product.

Our Customers

Our customers sell to users in the following five main markets:

Avanti sells access to a cloud to service providers who then customise products to suit their niche.

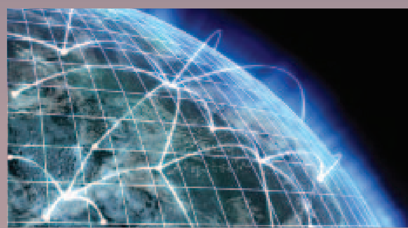
1



Government

High speed data services with large coverage areas are perfect for Government applications in supporting overseas missions and UAV operations as well as homeland security.

2



Enterprise networks

Companies which have many dispersed sites to be connected with common technology, with high resilience are increasingly choosing Ka-band satellites.

3

Wireless backhaul

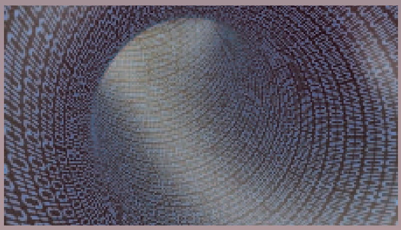
Wireless networks need to move data between core network and remote base stations. Satellites do this job well.

4

Rural broadband

In Europe, satellite will supply at least 2% of connections, and it may be much higher. In emerging markets, satellite is almost the default choice as economies leapfrog fibre and go directly to wireless.

5



Business internet continuity

Avanti has an internationally patented back up product which can restore a broken landline connection and associated IP addressing instantly. Thus an SME which relies heavily on its internet connection now has a reason to consider the use of a satellite product.

Chairman's Statement

This has been a landmark year for Avanti Communications Group with the successful launch of our first satellite, HYLAS 1, and the receipt of the first revenues generated by it.

John Brackenbury CBE
Chairman

Continued success in the construction and commercialisation of HYLAS 2

Significant increase in the number of signed customer contracts and pipeline of customer enquiries for HYLAS 1 and HYLAS 2

This has been a landmark year for Avanti Communications Group with the successful launch of our first satellite, HYLAS 1, and the receipt of the first revenues generated by it. As a result, it gives me particular pleasure to present our financial results for the year ended 30 June 2011. I am also able to report on continued success in the construction and commercialisation of HYLAS 2, which remains on target for launch in Q2, 2012. Given recent financial markets turmoil it is very satisfying that the financing decisions taken in this and the previous financial years mean that Avanti has two satellites fully funded with a very strong balance sheet and products which are selling on target.

Following the launch of HYLAS 1 and its introduction to service, we have seen a significant increase in the number of signed customer contracts and also the pipeline of customer enquiries for HYLAS 1 and HYLAS 2. Having a satellite in service as opposed to design or construction has considerably improved our profile in the market. In addition, we have seen continued strong demand across all the geographies we cover in consumer, enterprise and military sectors. New applications for our capacity, like digital cinema, have appeared on HYLAS 1. Avanti has technological advantages in a number of areas and in focussing on these we are holding pricing at good levels. Given that the HYLAS 1 satellite has relatively modest capacity available, we are confident that it will be full within the three years we have forecast. We have already sold enough capacity to fill the satellite to 36.7% usage by the end of that three year period, we are adding new customers every month and existing customers are already returning to add to their capacity commitments.

Although for most companies the general economic backdrop probably seems unhelpful, we see no sign of this in the high growth markets of Africa and the Middle East, so I believe we made good strategic decisions in that, following the launch of HYLAS 2, 75% of our capacity will address growth markets. There is strong demand for HYLAS 2 capacity from commercial customers in Africa and government customers in the Middle East and we expect to convert this demand to further significant backlog before launch. During the year we repaid our high yielding PIK bond following a £70 million equity fund raising which made our low cost Export Credit Agency HYLAS 2 financing easier to operate and generated a significant financial saving. We completed the placing of insurance for HYLAS 2 at a premium which generated a saving of some $15m against budget, which clearly demonstrates that our technology and management are well regarded in the expert space insurance market. In addition, we commenced work on the construction of HYLAS 3.

Avanti's senior management team has faced a difficult period, as some short term speculators attacked the share price. I am concerned that loyal, long term shareholders, especially private investors who are not allowed by law to receive the detailed reports produced by investment banks, have experienced temporarily diminished value, perhaps without a clear understanding of how this has come about. But it has not changed our approach to our business model at all. We have set out a five year business plan to fill our satellites. Our products and geographies are exhibiting very strong demand and I am satisfied that in the first commercial year of this plan we are achieving our objectives.

It is clear that Avanti owns scarce and valuable resources in one of the few lightly competed sub-sectors of the global telecoms industry which should see us create very significant value. I see great opportunity in emerging markets telecoms and our advantages in these markets are significant. I am grateful for the resolute support of our core long term investors. Patience and confidence in the quite exceptional and unique advantages Avanti has will be rewarded. Our pipeline of new business gives us confidence in our ability to meet expectations.

John Brackenbury, CBE
Chairman

Strong demand for HYLAS 2 capacity in Africa and the Middle East

Chief Executive's Report

I am pleased to report results for the year which include the first revenues from HYLAS 1, following its successful launch and introduction into service during this financial year.

David Williams
Chief Executive

The market for our products remains strong and is growing

In these volatile economic times, shareholders can draw great comfort from the stable long term financial resilience of our balance sheet

Introduction

I am pleased to report results for the year which include the first revenues from HYLAS 1, following its successful launch and introduction into service during this financial year. The satellite launch in November 2010 was followed by a period of in orbit testing. As we had expected, HYLAS 1 passed its tests successfully and was brought into service in April 2011. We completed the transfer of our legacy customer base from its old fashioned rented Ku-band satellite onto HYLAS 1 with its considerably faster Ka-band service by May 2011. HYLAS 2 remains on track for a launch in Q2 2012. The market for our products remains strong and is growing and the progress made in sales for HYLAS 1 and pre-sales for HYLAS 2 means we are confident in achieving our objective of selling out HYLAS 1 in three years and HYLAS 2 in five years from service launch. The growth in market demand has encouraged us to begin the early stage work for the construction of our third satellite, HYLAS 3.

Financial Review

Our result for the year produced turnover of £5.46m (2010: £5.82m) including the first two months of HYLAS 1 revenues. In the run up to the launch of HYLAS 1 we stopped selling our interim broadband service on rented satellite capacity which was highly unprofitable as a result of the high prices of legacy Ku-band capacity. We also decided that there was no merit in installing systems which would be replaced within a few months. It was however invaluable in developing and testing in a live environment the control and management software which is now being used to deliver a high quality experience for HYLAS 1 customers. The consumers on this system were successfully migrated to HYLAS 1 in the first two months of service.

As anticipated, our costs increased during the year as we recruited more staff to sell and support our products and also to manage three satellite projects instead of one. In addition we incurred our first depreciation on HYLAS 1. Our currency exposures are all hedged so that there is no cash risk, but Accounting Standards oblige us to report the notional changes in value of hedging and again this year it can be seen that our hedging strategies protected us from losses, and this manifests itself in a profit of £0.11 million (2010: profit of £0.97 million). The loss from operations was in line with our expectations at £12.86 million (2010: loss £2.44 million).

During the year we raised £70 million in an equity placing to refinance an expensive PIK bond and fund the early stage design work for HYLAS 3. In addition, with the construction of HYLAS 2 underway, we drew $190.3 million on our Export Credit Agency debt facilities of $328 million. The debt is at attractive fixed interest rates of 5.5% and is drawn down during the period up to HYLAS 2's launch and then repayable over a seven year period from December 2012. In these volatile economic times, shareholders can draw great comfort from the stable long term financial resilience of our balance sheet.

Business Overview

The successful launch and introduction into service of our first satellite has led to a significant increase in interest from potential customers in buying capacity on both HYLAS 1 and 2. Ka-band is new to Europe, but expert customers can now experience the product before buying it. As a result we are now recognised as a credible solution for our service providers as they grapple with increasing and accelerating demands for bandwidth from corporate, consumer and government customers. We are benefitting from this through the successful development of products across all our markets.

Consumer Broadband

For consumers, the growth in high data rate applications such as video and cloud computing, as well as the requirement to interact on-line with many companies such as utilities providers means that fast broadband is now a requirement rather than a luxury, regardless of geographic location. Avanti provides competitively priced products at speeds of up to 10Mb/s in this market, and the contractual and technical methods by which our service providers interact with us are unique and differentiated. We have signed a number of contracts with service providers who are migrating legacy Ku-band customer bases to HYLAS which will amount to approximately 25,000 when the migrations are completed, in addition to the new business our 75 service providers are adding every day. I am pleased that the UK government made specific provision for satellite to be used in its £800m rural broadband programme, and we have already had success in the first tender to be awarded under this programme in Kent. Our history of successful projects in England, Scotland and Ireland should position us perfectly to benefit further from this work, and we are now seeing progress on projects with other European governments. The smaller companies proved to be more nimble and made the earliest commitments to us. However Avanti now has systems installed with the rural broadband projects of three of the largest incumbent telcos in Europe and progress with those projects could be very large once in full scale deployment.

Enterprise Networks

In the enterprise sector we are seeing strong demand for the provision of both back-up and primary networks. Our internationally patented back-up Business Internet Continuity product

Chief Executive's Report continued

is bundled into a telecoms service provider's offering as a cost effective alternative to a second fixed telecoms line. For primary networks we are seeing demand amongst corporates for machine to machine communication such as ATM networks, telemetry for energy producers and also companies with multiple remote locations. We have also begun work with a project to deploy digital cinema services to one major cinema operator, a market that we think is potentially very large.

Cellular Backhaul

The cellular backhaul market is well established in emerging markets because wireless providers struggle to get reliable cables to connect their remote towers. We see strong business for HYLAS 2 already in the pipeline. However we are now actively trialling our backhaul products on HYLAS 1 with wireless providers in the UK and expect to proceed to contracted roll-out soon.

Government

In the military/institutional market, we successfully completed testing of our Ka-band spectrum for its suitability for military applications with excellent results. Whilst we expect demand for military applications to be limited for HYLAS 1, given its largely European footprint, we expect to see stronger demand for HYLAS 2 with its beam configuration over the Middle East and Africa. There is currently a round of tendering taking place in several NATO countries for Ka-band capacity and as the only NATO domiciled Ka-band operator with capacity for sale across the relevant Middle Eastern countries in 2012 it seems reasonable to expect that Avanti's products will be successful in processes which should conclude before the launch of HYLAS 2.

Backlog and Pipeline

During the year we extended our customer base on HYLAS 1 so that we have sold capacity to over seventy service providers in Europe. Our customers typically commit only to enough bandwidth to serve the business they can forecast in the short term. Naturally during the first six months of service, those customers have been focussing on filling the capacity they committed to pre-launch. But we have already seen the first of these successfully sell all of the capacity they acquired from us and come back for more. We expect to continue to sign new customers and remain very confident that we will sell out all of the capacity on HYLAS 1 within 3 years of service launch. At present, our backlog of customer contracts for HYLAS 1 is £141m. Thus the backlog increased despite taking some of it to P&L in the six months since service launch. Many of our customers bought modest capacity to begin with and we expect them all to come back to us to buy more bandwidth to cope with growth. In addition, we are negotiating with new customers seeking significant capacity.

Construction of HYLAS 2 is progressing well and the satellite remains on target to launch in Q2, 2012. Pre-launch sales interest has been very strong and we expect to ink significant deals soon in Southern and Eastern Africa, Iraq and Afghanistan. The backlog of customer contracts for HYLAS 2 is £30m. In addition the options over capacity (for military use) increased to £170m. There is strong interest in Avanti's military capacity, but since we are not presently regulated to sell directly to military organisations, we sell to service providers who are, and some of those pay for options to give them an advantage in bidding processes.

The strong customer interest in our capacity is illustrated by the pipeline of new business. These represent potential contracts where a business proposal has been made to the customer and negotiations on that proposal have commenced. Our pipeline of new business for HYLAS 1 and 2 stands at £473m.

We provide an expanded definition for pipeline and backlog, and have re-introduced the peak fill rate metric in response to shareholder enquiries.

- The HYLAS 1 peak utilisation rate occurring in Year 3 based on current sales is 36.7%. We are targeting a service launch peak fill rate on HYLAS 2 of 25%.
- Pipeline is defined as the total potential value of contracts which are currently under negotiation in respect of HYLAS 1 and HYLAS 2, and only includes projects where detailed technical information and a committed price has been delivered and the customer is proceeding with work on that basis.
- Backlog includes the total value of contracts signed for sale of services.

We do not include any value for the potential renewal of the contracts we sign with service providers beyond the specified term. We do include in backlog the value of certain historic continuing business:

- The small directly contracted base of consumer broadband customers in the UK which was built under government funded projects prior to HYLAS 1 launch is assumed to roll forward, since those customers have continued with service beyond their initial term.
- We also assume that our small European consulting business which uses HYLAS 1 to create advanced new technologies for government customers continues to generate the level of turnover it has averaged in the last five years.

HYLAS 3

We have announced our intention to construct our third HYLAS satellite and have already completed the first phase of design and long lead time item work. We have received a preferred offer of highly efficient debt financing to complete the construction of HYLAS 3. The financing offer rests upon the successful pre-sale of significant capacity. We have conditionally contracted pre-sales of $120m, and are close to finalising the balance. In the satellite industry, the long term planning cycles and construction schedules can often be frustrating I know, but this is a business which should produce extraordinary cash flows over the long term and it is important that Avanti makes decisions which maximise shareholders' returns rather than jumping into expensive financing or poorly priced sales deals for the purpose of short term momentum. We hope to update the market on HYLAS 3 very soon.

Competitive Environment

There is presently only one Ka-band competitor in each of our geographies. This resembles the competitive environment in the UK mobile phone industry in the early 1990s when only BT and Racal were competing. It does not represent intense competition and as a result it is possible to win business with product differentiation, not price. Every satellite has different characteristics which fundamentally affect its suitability for specific customers such as orbital position and elevation, power and beam shapes, radio frequency specifics, and the design and characteristics of ground equipment and software. Avanti's key advantages are in several areas:

- HYLAS 1 beam coverage give us advantages in certain areas, such as very high power over Western Europe, and the ability for customers to receive satellite TV and broadband in a single dish in Iberia, which is unique.
- HYLAS 2 has highly sought after military capacity over the Middle East and military spectrum whose commercial use is unusual and we are turning the short term lead to market advantages into enduring and loyal business relationships.
- Being first into certain African countries is also important because these countries exhibit growth that is not encumbered by sovereign debt crises or recession
- Avanti sells a Virtual Network to service providers which enable them to benefit from unique advantages such as:
    - Moving capacity dynamically between beams
    - Modifying all Service parameters directly – they design their products, not us
    - Licensed use of the Avanti patented Business Internet Continuity (BIC) products

Chief Executive's Report continued

- There are also always relationship issues at play and Avanti's new fresh approach helps, but also, of course, competitors in individual markets usually want to secure separate supply chains.

Thus in lightly competed markets whose services are always bespoke, Avanti has sufficient differentiation to focus on selling to its strengths.

Trading Update

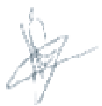
Avanti signed four contracts on 30 September 2011. The first is a contract for the sale of HYLAS 2 services to Bentley Walker for services on HYLAS 2 in Afghanistan. Avanti also added three new contracts for HYLAS 1 service.

We completed the placement of $328m of Launch plus first year insurance on HYLAS 2 at a premium which is $15m under budget, supporting our view that it is a well managed and low risk project. We are grateful for the support of our insurers.

Outlook

Avanti owns scarce and valuable spectrum resources, in a lightly competed sub-sector of a global telecoms market which is experiencing breakneck growth in data demand through the increasing use of high data applications in government, business and consumer sectors and growing penetration of consumer telecoms usage.

Avanti has excellent differentiation in its products and is winning business at good prices. Our five year business plan is well poised to deliver exceptional returns to investors and there is additional upside for us to be found in completing new projects financed with very efficient debt. Our pipeline of new business gives us confidence in our ability to meet expectations.



David Williams
Chief Executive

Finance and Operating Review

The shape of the balance sheet has changed significantly over the last 12 months. The group now has net assets of £207 million.

Nigel Fox
Group Finance Director

Accounting policies

The Group has reviewed its accounting policies in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" and determined that they are appropriate for the Group.

Operating performance

2011 saw Avanti generate revenues from its own satellite for the first time. HYLAS 1 was launched in November 2010, however commercial services were not provided until April 2011 as we fully tested the many different configurations of the satellite and drifted it through to its final orbit.

Total revenue for the year was £5.5 million (2010: £5.8 million). Cost of sales, which include depreciation of HYLAS 1 for the first time, as well as a full year of the rented satellite costs, were £7.7 million which resulted in a gross loss of £2.2 million (2010 gross profit: £2.7 million).

We continue to carefully manage our overheads ahead of generating any significant revenues. Total overheads for the year of £11.3 million were slightly distorted by the arbitration costs associated with the recovery of the SpaceX receivable – see below. Staff costs remain our largest single expenses and our average head count for the year was 97 (2010: 81) with a closing headcount of 116.

In addition there were one off costs associated with the move to Cyprus of the HYLAS 2 business of £0.8 million and a non-cash charge for share based payments of £0.78 million (2010: £0.60 million).

This has resulted in an EBITDA loss of £9.7 million (2010: £1.7 million) and a loss before taxation of £12.7 million (2010: loss £2.0 million). This is in line with our expectations for the year.

Other operating Income

During the year we were successful in our arbitration proceedings against Space Explorations in recovering monies paid against the purchase of a Falcon 9 launch vehicle. Avanti terminated this contract in June 2009 following SpaceX's failure to demonstrate a successful launch heritage in the required timeframe. This amount was shown in full in last year's Annual Report and Accounts in note 16 under other receivables. In May 2011 we recovered the $7.6 million owed to us together with interest from the date of the contract termination. This additional amount (£427k) has been shown separately under other operating income. The significant costs of the arbitration have been expensed in operating expenses.

Taxation

The group tax credit was £3,027,000 (2010: £24,000 credit), resulting in an effective tax rate of 23.8%. The rate has been negatively affected by the fall in the UK corporation tax rate from 28% to 26%, which has impacted the brought forward deferred tax asset values.

Finance and Operating Review continued

Loss per share
Basic loss per share was 12.14 pence (2010: loss 3.68 pence).

Financing and treasury
In July 2010 we completed the placing of 16.3 million shares at 430 pence which generated gross proceeds of £70 million. The majority of these funds (£53.6 million) were used to repay the original HYLAS 1 PIK bond which was raised in July 2007.

We have continued to drawdown the HYLAS 2 facility from US EXIM and COFACE. At 30 June 2011 the gross debt was $190.3 million (£118.5 million). The total facility is $328 million which will be fully utilised around the time of the launch of HYLAS 2 in the first half of 2012.

HYLAS 2 in Cyprus
As I highlighted last year we had begun the process of moving the HYLAS 2 business to Cyprus. During the year we established an office in Limassol and David Bestwick, CTO, has taken the role of Managing Director of Avanti HYLAS 2 Cyprus Limited. The Cyprus companies now directly employ 10 people and has established outsource contracts for various arms length services from other Group companies.

HYLAS 2 will cover Eastern Europe, Middle East, East and Southern Africa, and therefore Cyprus represents an ideal base from which to run this business. We have already started work on the key uplink ground station in Cyprus and have contracted for further uplinks in Germany and Goonhilly (UK).

The HYLAS 2 debt, provided by US EXIM and COFACE, remains with the Cypriots' UK parent company, Avanti HYLAS 2 Limited, and the Cyprus companies have been equity funded by this company.

All companies within the HYLAS 2 sub Group have a functional currency of US dollars since the debt is US dollar based, the assets are predominantly purchased in US dollars and we anticipate that a significant majority of revenues will be US dollar denominated.

Balance sheet
The shape of the balance sheet has changed significantly over the last 12 months. Total non-current assets have increased by £157.4 million in the period. Expenditure on HYLAS 2 has been £147 million and £43.4m on HYLAS 1.

Current assets have fallen from £52.1 million to £48.0 million mainly as a result of the fall in receivables following the receipt from SpaceX. Cash balances have increased by £4.6 million to £38.8 million.

Gross debt has increased from £49.4 million to £118.7 million. The opening figure represents the HYLAS 1 PIK bond which was repaid in the period and the closing balance is the partial drawdown of the HYLAS 2 facility with US EXIM and COFACE.

Cash flow
The loss from operations of £12.9 million has significant non-cash items, which when combined with prudent management of working capital resulted in a net cash outflow from operations of £1.0 million including the receipt of £4.7m from SpaceX (2010: inflow £2.3 million).

During the year we raised an additional £70 million of equity, which was partially used to repay the expensive PIK bond initially raised in 2007 for HYLAS 1 (repayment of £53.6 million). Furthermore, we drew down £118.5 million of the EXIM/COFACE debt facility for HYLAS 2 against capital expenditure of £119.3 million (2010: £108.8 million).

Finally in May 2011, after the successful arbitration proceedings in New York, we received full settlement of the outstanding SpaceX receivable of £4.7 million.

Net cash balances increased by £4.6 million (2010: £9.6 million).

Principal risk and uncertainty
Fill Rates on HYLAS 1 and 2
We have previously stated that we expect to fill HYLAS 1 and HYLAS 2 in 3 and 5 years respectively from the start of commercial service. In respect of HYLAS 1 we are 6 months into the 3 year target and already have a peak fill rate of 36.7%. We are therefore ahead of plan in achieving the three year target. In respect of HYLAS 2 we already have a backlog of £30 million

and £170 million of options. Furthermore we have a significant pipeline across both satellites which leads us to believe our target fill rates are achievable.

Pricing
HYLAS 1 operates in a lightly competed market place and we continue to achieve pricing in excess of our base case. HYLAS 2 will operate, primarily, in emerging markets and to date we have not seen any significant pricing pressures.

HYLAS 2 launch
HYLAS 2 remains on target for a launch in the second quarter of 2012. We have retired most of the significant risks that could cause any serious delay. HYLAS 2 will be launched on an Ariane 5 launch vehicle, which is the most reliable launch vehicle in the market. We have also completed the insurance of the HYLAS 2 project for a total sum insured of $328 million.

Financial asset
We now carry a loan receivable as a financial asset to a strategic partner. The loan accrues interest at 7%. We have assumed that this asset is fully recoverable over the term of the loan. The Group has collateral over the balance, which constitutes 75% of the equity interest in the partner, should there be a default.

Global economic environment

Poor macro-economic circumstances, particularly in Greece, Portugal, Spain and Ireland might be retarding our sales efforts. However we do not have a long standing trend with which to compare. It does however feel as though companies are only making commitments to buy services that they know they can for certain use or sell on i.e. very few clients are making highly speculative commitments. However, offsetting this effect are two positives. Firstly, telecoms services appear to remain non-cyclical. The long held belief that customers regard telecoms as an essential utility has held quite firm during the recession, with churn rates actually falling in Western Europe during 2010. Secondly, governments in Europe are spending money on broadband subsidy, especially as a result of long planned projects whereby the funding is in locked up EU budget pots.

Thus it is difficult to show that recession is affecting our business. We remain the provider of highly desirable services where demand is not met by current or planned supply, with end user consumers whose purchasing decisions are not highly price sensitive.

Critical accounting policies

Details of our critical accounting policies are in Note 1 to the consolidated Annual Report.

Nigel Fox
Group Finance Director

Board of Directors

John Brackenbury CBE[*,+,•]
Chairman
John was founder Chairman of Pubmaster which was sold in 2003 to Punch Taverns. He is a leading industrialist with over 40 years experience in the drinks and leisure sector. He is also President of Business in Sport and Leisure Limited, Trustee and Director of Springboard UK, Trustee and Director of Bradfield Foundation, Trustee and Director of GamCare. John is the founder Chairman and Chairman of the Nominations Committee of Avanti Communications Group plc.

David Williams
Chief Executive
David is a co-founder of the Company. Prior to this he spent ten years working in the City financing telecommunications projects.

David Bestwick
Managing Director Cyprus
David is a co-founder of the Company. David graduated from the University of Leicester in 1987 with a BSc in Physics with Astrophysics. Following three years at Marconi Research Centre (MRC), he joined VEGA Group PLC in 1990 where he worked on a wide range of satellite applications projects.

Nigel Fox
Finance Director and Secretary
Nigel is a Chartered Accountant and has held various senior finance roles before joining Avanti Communications in 2007, including Chief Financial Officer of Climax Group; Group Financial Controller at ARC International; Finance Director of Ruberoid Building Products, and Group Financial Controller of Ruberoid Plc.

Matthew O'Connor
Chief Operating Officer
Matthew joined Avanti in 2005 having worked in the telecommunications industry for 20 years initially for BT where he held a number of sales and marketing roles within the UK and International Divisions. He joined Telewest in 1996 as a Director of its Business Division, where he was part of the team that grew the business from a £30m regional business to a £300m turnover national operation in 6 years. He went on to be Managing Director of the Wholesale Division with customers that included T-Mobile, 3, Cable and Wireless, NTL, and many telecoms re-sellers.

Alan Foster+•
Non-Executive
Alan was a senior partner of de Zoete & Bevan for over twenty years and, on the creation of BZW Asset Management, he was appointed Deputy Chairman. This company was the forerunner of Barclays Global Investors. Alan is the Chairman of the Remuneration Committee of Avanti Communications Group plc.

Professor Michael Walker OBE FREng
Non-Executive
Professor Walker is adviser to Vodafone Group Technology, having spent 18 years of his professional career there culminating in the post of Group R&D Director. He is visiting professor at the University of Surrey and sits on the scientific advisory boards for the Universities of Warwick and Surrey. He also holds directorships with Alacrity Foundation, Glasswall Solutions Ltd, Mobile VCE and Walker and Associates Telecoms Consultancy Ltd.

Richard Vos*
Non-Executive
Richard is a telecommunications and satellite professional, with international experience, gained over 40 years working in the industry. His previous positions included Chairman of SatCom Group Holdings plc, Inmedia Communications Ltd. and of Inmarsat Ventures PLC, and Head of Satellite Investments for British Telecommunications plc (BT), serving as Governor for the UK and Ireland on the Board of INTELSAT and as Chairman of the Board. Richard is the Chairman of the Audit Committee of Avanti Communications Group plc.

William Wyatt*+•
Non-Executive
Will is Chief Executive Officer of Caledonia Investments plc. He is also a Non-Executive Director on the boards of Bristow Group Inc, Cobepa, Melrose Resources plc, REI plc, TGE Marine AG, and Terrace Hill plc.

* Audit committee
+ Remuneration committee
• Nominations committee

Employees

Drawing expertise from across the globe.


Sales Support
Consulting
Consulting
Networks
Space
Space
Space
Networks
Customer Support
Sales
Non-Executive
Space
Space
IT
COO
Space
Consulting
Graduate
Legal
Marketing
Space
Networks
Customer Support
Customer Support
Consulting
Networks
Graduate
General Counsel
Administration
Customer Support
Finance
Marketing
Non-Executive
Legal
Space
Marketing
Networks
Consulting
Networks
Finance
Space
Marketing
Investor Relations
Non-Executive
Consulting
Space
Space
Networks
Sales
Space
Consulting
Sales
Networks
Space
Space
Space
Sales
Space
Finance

Corporate Social Responsibility

Supporting future careers in space.

This year saw the launch of three new initiatives. These initiatives are designed to complement one another. Our aim is to attract new talent into the company whilst encouraging students to pursue a career in the space industry. By offering science students invaluable industry experience we believe we enhance their studies and career prospects.

Avanti Space Scholarship Scheme

The Avanti Space Scholarship Scheme was launched to support a number of students from underprivileged backgrounds with an interest and flair in science to pursue university studies in relevant space science degrees. Five Scholarship students have been selected for the October 2011 university undergraduate intake. All five students come from low income families and throughout their university course they will receive support from Avanti. We believe a person's background should not be a barrier to a career in the Space Industry.

This valuable scheme offers student support in a number of ways, including an annual bursary of £3,000; paid summer internships; coaching and mentoring; and a six month contract of employment on completion of their degree. It is envisaged that once graduated, these Scholarship students will naturally progress into a Graduate career at Avanti.

Graduate Recruitment Scheme

The Graduate Recruitment Scheme was launched to develop graduates with good, relevant science degrees into talented engineers within the organisation. The programme is designed to expose the graduates to all aspects of the organisation in order for them to develop their understanding of how academic theory can be dovetailed with practical industry knowledge and commercial focus. Our first four graduates started work with Avanti in September and they will have the opportunity to develop their skills in all areas of the business over the initial 2 year program. This programme also offers flexibility for them to develop in the part of the business where they have flair, whether that is satellite procurement, sales and marketing or customer services.

Apprentice Trainee Scheme

The Apprentice Trainee Scheme was launched this year. Taking advantage of the Government funded scheme we are offering young people the opportunity to gain work experience whilst earning a salary and working towards nationally recognised NVQ qualifications.

We take pride in giving young people the opportunity to learn their key skills on-the-job and develop their career within Avanti. These three schemes have been positively received by students and universities as well as industry bodies, including the UK Space Agency and The National Space Centre. Avanti believes that through this investment we develop talented, motivated and knowledgeable individuals to become the next generation of engineers at Avanti.

SOS Children is very glad to have partnered with Avanti Communications for the last 3 years.

SOS Children's Villages
Ennerdale, South Africa
This village was the first to be built in South Africa, in 1984, 30km south of Johannesburg. Today it is home to over 150 children in its 15 family homes, as well as a house for retired SOS mothers who act as grandmothers for the children.

The adjoining SOS Kindergarten has the capacity to take in up to 100 children and the SOS Social Centre, which was opened in 2000, houses a clinic, a day-care centre and an HIV/AIDS community-based child care and support programme. The clinic offers treatment to up to 2,000 patients a year and the day-care centre has a capacity to take in up to 40 children between ages 0-3. HIV/AIDS affected families receive materials, medical support, education and counselling and are supported with income generating activities. Moreover, HIV/AIDS awareness and prevention campaigns are organised.

Directors' Report

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 30 June 2011.

Principal activities and review of the business

The principal activity of the Company is the provision of satellite communication services. The services are principally provided via Ka-band satellite. The first Avanti satellite, HYLAS 1 was launched in November 2010, and brought into full commercial service in April 2011.

Business review and key performance indicators ("KPI's")

The information that fulfils the requirements of the business review can be found in the finance and operating review on pages 13 to 15, which are incorporated in this report by reference. As the company is still in the early stages of its strategy with a focus on the future, we do not currently have a focus on traditional KPI's. Instead our business model is focussed on the launch of the satellite and subsequent capacity sales. A comprehensive set of KPIs will be introduced next year reflecting a full year of service on Hylas 1. In the Chairman's statement and Finance and Operating Review, we have highlighted key financial statistics such as revenue and operating profit, however given the nature of the business at the current time, we do not consider them to be KPI's.

Results and dividends

The results for the year ended 30 June 2011 are shown on page 29. No equity dividend was paid in the year ended 30 June 2011 (2010: £nil). No final dividend is proposed at the year-end (2010: £nil). The loss for the year transferred to reserves was £9,700,000 (2010: loss of £1,932,000).

Qualitative and Quantitative disclosures about interest, foreign exchange, credit and liquidity risks

A discussion of the Group's financial risk management objectives and policies and the exposure of the group to interest rate, foreign exchange, credit and liquidity risk is included in Note 23 to the Consolidated Financial Statements.

Research and development

The Group continues to invest in new services and technology through its research and development programs which can lead to profitable exploitation of Avanti's satellite capacity. These include pure research into new products as well as developing those services which have been demonstrated to have a profitable business case.

Directors

The directors who served during the year were as follows:

F E J G Brackenbury CBE	D A Foster
D J Williams	C R Vos
D J Bestwick	W P Wyatt
N A D Fox	I C Taylor MBE (resigned 12/04/2011)
M J O'Connor	M Walker OBE (appointed 19/04/2011)

Governance

Directors' emoluments

The remuneration of the directors including the highest paid director and Chairman was as follows:

For the year ended 30 June 2011

	Salaries	Bonus	Other benefits	Post employment benefits	Total 2011
Executive					
D J Williams	300,000	144,750	46,466	95,750*	586,966
D J Bestwick	237,329	158,000	5,855	25,674	426,858
N A D Fox	170,000	93,000	9,593	20,000	292,593
M J O'Connor	160,000	98,000	2,485	20,000	280,485
Total Executive	867,329	439,750	64,399	161,424	1,586,902
Non-executive					
F E J G Brackenbury CBE	100,000	–	4,498	–	104,498
D A Foster	35,000	–	–	–	35,000
W P Wyatt	30,000	–	–	–	30,000
M Walker OBE	6,250	–	–	–	6,250
I C Taylor MBE	30,000	–	–	–	30,000
C R Vos	35,000	–	–	–	35,000
Total Non-Executive	236,250	–	4,498	–	240,748
Total	1,103,579	493,750	68,897	161,424	1,827,650

* During the year ended 30 June 2011, DJ Williams chose to take £58,250 of his bonus as additional company pension contribution.

For the year ended 30 June 2010

	Salaries	Bonus	Other benefits	Post employment benefits	Total 2010
Executive					
D J Williams	131,630*	–	19,417	103,745*	254,792
D J Bestwick	83,553*	–	1,529	78,841*	163,923
N A D Fox	150,400	–	8,467	7,020	165,887
M J O'Connor	135,840	–	2,378	6,792	145,010
Total Executive	501,423	–	31,791	196,398	729,612
Non-executive					
F E J G Brackenbury CBE	60,000	–	2,344	–	62,344
D A Foster	25,000	–	–	–	25,000
W P Wyatt	25,000	–	–	–	25,000
I C Taylor MBE	25,000	–	–	–	25,000
C R Vos	25,000	–	–	–	25,000
Total Non-Executive	160,000		2,344	–	162,344
Total	661,423	–	34,135	196,398	891,956

* During the year ended 30 June 2010, DJ Williams and DJ Bestwick made salary sacrifices of £97,170 and £75,163 respectively which the Company paid into their private pensions.

Directors' Report continued

Directors' Long Term Incentive Plans

Original allocations:

	Core	Exceptional	Extraordinary	Total
D J Williams	565,480	350,741	279,884	1,196,105
D J Bestwick	350,741	209,384	279,884	840,009
N A D Fox	137,238	50,000	50,000	237,501
M J O'Connor	139,238	69,445	69,445	278,128
Total	1,192,697	679,570	679,213	2,551,743

Outstanding allocations	Core	Exceptional	Extraordinary	Total
D J Williams	161,566	–	279,884	441,450
D J Bestwick	100,212	–	279,884	380,096
N A D Fox	39,286	–	250,000	289,286
M J O'Connor	39,782	–	269,445	309,227
Total Executive	340,846	–	1,079,213	1,420,059

All unvested shares are held in the Employee Benefit Trust (EBT).

The Long Term Incentive Plan (LTIP) has been established by the Company with approval from the Remuneration Committee to reward and incentivise the Executive Directors and senior managers of the Company.

The LTIP allocations are in separate sub funds within the EBT and are subject to a discretionary Trust. The shares are subject to automatic revocation if certain criteria (set out below) are not met and continue to be revocable for the entire Trust period.

During the year an additional 200,000 LTIP shares were issued to both Nigel Fox and Matthew O'Connor respectively. These LTIP shares are subject to automatic revocation if the criteria for the Extraordinary Achievement tranche are not met.

The allocations into the LTIP vary for each executive. The total allocation to each executive is split into three separate tranches:

i) The Core Tranche
This element of the grant becomes exercisable in 7 equal instalments. The first instalment was exercisable on grant and the second on 30 June 2008. The remaining 5 are annually thereafter. 5/7ths of this core grant is not automatically revocable.

ii) The Exceptional Achievement Tranche
This element of the grant was amended during the year. Originally, these options were only exercisable if the average market value of the share exceeded £5 for a consecutive period of six months prior to 30 June 2010. Given the unprecedented market conditions over the previous year, the remuneration committee considered that whilst the executives had performed well and that the share price had outperformed the FTSE 100 and AIM all share index since the LTIPs were granted, the target set in the LTIP rules may still not be achieved. In May 2010 the remuneration committee agreed to extend the target date to 31 December 2010 and that the six month average target price should be increased £5.50.

This benchmark was satisfied in November 2010.

iii) The Extraordinary Achievement Tranche
This element of the grant is only exercisable if the Market Value of a Share exceeds £10 for a consecutive period of six months before 30 June 2013.

Non-executive Directors' Unapproved Plans

	2011	2010
F E J G Brackenbury CBE	31,431	62,863
D A Foster	7,500	15,000
C R Vos	15,000	15,000
Total	**53,931**	**92,863**

The unapproved scheme was established during 2007. The options are issued for 10 years with 25% vesting at the end of years 3, 4, 5 and 6. There are no performance criteria associated with these options and they are exercisable as long as the option holder remains with the Company.

Directors' share interests

The following Directors held interests in the share capital of the Company:

	Fully paid Ordinary Shares of 1p each	
	30 June 2011	**30 June 2010**
D J Williams	1,587,092	1,543,905
D J Bestwick	1,211,648	1,102,264
N A D Fox	109,677	89,897
M O'Connor	154,009	144,564
F E J G Brackenbury CBE	380,432	442,891
D A Foster	388,750	359,639
W P Wyatt	25,342	11,200
C R Vos	6,030	6,030
M Walker OBE	–	–

At 31 August, the Company had been notified, pursuant to the Financial Services Authority's Disclosure & Transparency Rules, of the following notifiable voting rights in the Company's issued ordinary share capital.

Caledonia Investments plc	London	12,737,000
M&G Investment Management Ltd	London	12,507,850
Directors & Related and EBT	–	7,497,031
The Capital Group Companies, Inc.	London/Los Angeles	3,495,222
Kames Capital	Edinburgh	3,307,410

In addition, 1.4 million shares are held under LTIP. Dividend and voting rights have been waived.

Policy and practice on payment of creditors

The Group's policy and practice on payment of creditors is:

- To pay all suppliers within the time limit agreed at the start of business with that supplier;
- To ensure that suppliers are aware of the terms of payment; and
- To pay in accordance with the contractual and other legal obligations whenever it is satisfied that the supplier has provided goods and services in accordance with the agreed terms and conditions.

At 30 June 2011, the Company did not have any trade creditors (2010: nil).

Directors' Report continued

Political and charitable donations
During the year the Group made a political donation to the Conservative party of £4,000 (2010: £5,000).

Directors' and Officers' liability insurance
Avanti Communications Group plc maintains appropriate insurance to cover Directors' and Officers' liability for itself and its subsidiaries. At the date upon this report was approved and for the year to 30 June 2011, the Company provided an indemnity in respect of all of the Company's Directors.

Directors' responsibilities
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In the case of each director in office at the date the directors' report is approved:

a) so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware; and

b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Approved by the Board of Directors and signed on behalf of the Board

Nigel Fox
Secretary and Group Finance Director
London

Corporate Governance Report

The Group is quoted on AIM. Although the rules of AIM do not require the Company to comply with the Combined Code 2006 on Corporate Governance ('the Code') the Company fully supports the principles set out in the Code and will seek to comply wherever practical, given both the size and resources available to the Company. Details are provided below of how the Company applies those parts of the Code which it believes to be appropriate.

The board

The Company has appointed non-executive directors to bring an independent view to the board and to provide a balance to the executive directors. The board of directors comprises four executive directors and five non-executive directors one of whom is the chairman. Despite the fact that some of the non-executive directors have share options, the board considers that each of the non-executive directors is independent. The board meets at least six times per year and receives a board pack comprising individual reports from each of the executive directors and members of the senior management team, together with any other material deemed necessary for the board to discharge its duties. The board has responsibility for formulating, reviewing and approving the Group's strategy, budgets, major items of expenditure and acquisitions.

Board committees

The Board has established three committees: audit, remuneration and nominations, all having written terms of delegated responsibilities. Each is chaired by a different non-executive director. A copy of each committee's terms of reference can be found at the Avanti website: www.avantiplc.com

Audit committee

The audit committee consists of R Vos, W Wyatt, and J Brackenbury and is chaired by R Vos. It meets at least twice a year and is responsible for ensuring that the appropriate financial reporting procedures are properly maintained and reported on and for meeting the auditors and reviewing their reports relating to the Group's accounts and internal control systems. The committee also receives all internal operational review reports.

Remuneration committee

The remuneration committee consists of A Foster, J Brackenbury, and W Wyatt and is chaired by A Foster. It meets at least twice a year and is responsible for reviewing the performance of the executive directors and other senior executives and for determining appropriate levels of remuneration.

Nominations committee

The nominations committee consists of W Wyatt, J Brackenbury and A Foster and is chaired by J Brackenbury. It meets as and when necessary and is responsible for nominating candidates for appointment as Directors to the Board, bearing in mind the need for a broad representation of skills across the Board.

Shareholder relations

The Company meets with institutional shareholders and analysts as appropriate and uses its website to encourage communication with private, existing and prospective shareholders. Avanti Communications Group plc welcomes feedback from investors about its published reports and website. Please address your feedback to our investor relations team at Redleaf Communications Limited by email info@redleafpr.com or in writing to Redleaf Communications Limited, 9-13 St Andrews Street, London EC4A 3AF.

Internal control and risk management

The Group operates a system of internal control and continues to develop and review that system in accordance with the guidance published by the Institute of Chartered Accountants in England and Wales. The internal control system is designed to manage rather than eliminate the risk of failure to achieve business objectives. The board is responsible for the system of internal control and for reviewing its effectiveness. It can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The board operates a formal process of risk assessment and reporting. Each major business unit carries out formal risk assessments annually and regularly updates those during the year. Reports on the assessments and related mitigation actions of all significant risks are provided to the board.

The Group does not have an internal audit function due to the small size of the Company's administrative function, the high level of director review and authorisation of transactions. However, the Company undertakes a programme of operational reviews designed to visit all major businesses on a regular basis. The finance director is responsible for that programme and its reporting to the audit committee. The board recognises that an essential part of its responsibility is the effective safeguarding of assets, the proper recognition of liabilities and the accurate reporting of results. The Group has a comprehensive system for regular reporting to the board. This includes an annual planning and budgeting system with budgets approved by the board.

The financial reporting system compares against budget and prior year and reconsiders its financial year forecast on a monthly basis. The board has established a formal policy of authorisation setting out matters which require its expressed approval and certain authorities delegated to the executive directors.

In compliance with AIM rules the Company has established a policy and share dealing code relating to dealing in the Company's shares by directors, employees and connected persons.

The Company maintains appropriate insurance cover in respect of legal actions against directors as well as against material loss or claims against the Group, and reviews the adequacy of cover regularly.

There were no notifiable environmental impacts at any Avanti Communications Group site during the financial year.

Independent Auditors' Report
to the members of Avanti Communications Group plc

We have audited the group and parent company financial statements (the ''financial statements'') of Avanti Communications Group plc for the year ended 30 June 2011 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the company statement of financial position, the consolidated and company statement of cash flows, the consolidated and company statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 26, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Avanti Communications Group plc Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2011 and of the group's loss and group's and parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

J. Booker (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 September 2011

Consolidated Income Statement year ended 30 June 2011

	Notes	Year ended 30 June 2011 £'000	Year ended 30 June 2010 £'000
Revenue	2	5,462	5,815
Cost of sales		(7,678)	(3,140)
Gross (loss)/profit		(2,216)	2,675
Operating expenses	3	(11,279)	(8,739)
Other operating income	6	636	3,628
Loss from operations		(12,859)	(2,436)
Finance income	7	428	1,071
Finance expense	7	(296)	(591)
Net financing income		132	480
Loss before tax		(12,727)	(1,956)
Income tax credit	8	3,027	24
Loss for the year		(9,700)	(1,932)
Attributable to:			
Equity holders of the parent		(9,700)	(1,932)
Basic (loss)/earnings per share (pence)	9	(12.14p)	(3.68p)
Diluted (loss)/earnings per share (pence)	9	(12.14p)	(3.68p)

Consolidated Statement of Comprehensive Income year ended 30 June 2011

	Year ended 30 June 2011 £'000	Year ended 30 June 2010 £'000
Loss for the year	(9,700)	(1,932)
Other comprehensive (loss)/income		
Exchange differences on translation of foreign operations and investments	(4,335)	2,194
Total comprehensive (loss)/income for the year entirely attributable to the equity holders of the parent	(14,035)	262

Consolidated Statement of Financial Position as at 30 June 2011

	Notes	30 June 2011 £'000	30 June 2010 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	315,390	170,231
Intangible assets	12	3	11
Deferred tax assets	18	3,386	268
Other financial assets	13	9,135	–
Total non-current assets		327,914	170,510
Current assets			
Inventories	16	1,284	1,398
Trade and other receivables	17	7,916	15,993
Derivative financial instruments	23	–	525
Cash and cash equivalents	19	38,829	34,181
Total current assets		48,029	52,097
Total assets		375,943	222,607
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	20	30,395	13,460
Derivative financial instruments	23	83	–
Provisions for other liabilities	21	30	30
Loans and other borrowings	22	397	269
Total current liabilities		30,905	13,759
Non-current liabilities			
Trade and other payables	20	18,997	7,228
Provisions for other liabilities	21	3	33
Loans and other borrowings	22	118,678	49,404
Total non-current liabilities		137,678	56,665
Total liabilities		168,583	70,424
Equity			
Share capital	24	849	686
Share premium	24	188,678	120,496
Foreign currency translation reserve		(2,141)	2,194
Retained earnings and other reserves		19,974	28,807
Total shareholders' equity		207,360	152,183
Total liabilities and equity		375,943	222,607

The financial statements of company number 6133927 on pages 29 to 63 were approved by the Board of Directors on 30 September 2011 and signed on its behalf by:

Nigel Fox
Finance Director

30 September 2011

Company Statement of Financial Position as at 30 June 2011

	Notes	30 June 2011 £'000	30 June 2010 £'000
ASSETS			
Non-current assets			
Deferred tax assets	18	191	62
Investments	14	84,728	41,320
Total non-current assets		84,919	41,382
Current assets			
Trade and other receivables	17	105,190	80,234
Derivative financial instruments	23	–	525
Total current assets		105,190	80,759
Total assets		190,109	122,141
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	20	3	9
Derivative financial instruments	23	83	–
Total current liabilities		86	9
Total liabilities		86	9
Equity			
Share capital	24	849	686
Share premium	24	188,678	120,496
Foreign currency translation reserve		174	174
Retained earnings and other reserves		322	776
Total shareholders' equity		190,023	122,132
Total liabilities and equity		190,109	122,141

The financial statements of company number 6133927 on pages 29 to 63 were approved by the Board of Directors on 30 September 2011 and signed on its behalf by:

Nigel Fox
Finance Director

30 September 2011

Consolidated and Company Statement of Cash Flows year ended 30 June 2011

		Group		Company	
	Notes	Year ended 30 June 2011 £'000	Year ended 30 June 2010 £'000	Year ended 30 June 2011 £'000	Year ended 30 June 2010 £'000
Cash flow from operating activities					
Loss from operations before taxation		(12,859)	(2,436)	(29)	(59)
Depreciation and amortisation	3	2,939	769	–	–
Provision for impairment of trade receivables	17	50	13	–	–
Onerous lease provision	21	(30)	(30)	–	–
Share based payments expense	25	776	602	54	54
Loss on disposal of fixed assets		11	–	–	–
		(9,113)	(1,082)	25	(5)
Movement in working capital					
Decrease/(increase) in inventories		81	(1,047)	–	–
Decrease/(increase) in trade and other receivables		3,059	(1,756)	(24,603)	(72,872)
Increase/(decrease) in trade and other payables		232	6,168	(358)	(3,092)
"SpaceX" settlement		4,716	–	–	–
Cash (absorbed by)/generated from operations		(1,025)	2,283	(24,936)	(75,969)
Interest received		38	99	–	–
Interest paid		(87)	(155)	–	–
Derivative cash received		718	–	–	–
Net cash (absorbed by)/generated from operating activities		(356)	2,227	(24,936)	(75,969)
Cash flows from investing activities					
Payments for other financial assets and investments		(8,857)	–	(43,409)	(41,031)
Payments for property, plant and equipment		(119,261)	(108,803)	–	–
Receipt on sale of motor vehicles		3	–	–	–
Net cash used in investing activities		(128,115)	(108,803)	(43,409)	(41,031)
Cash flows from financing activities					
Proceeds from borrowings	22	118,475	–	–	–
Repayment of borrowing		(53,606)	–	–	–
Proceeds from share issue		70,000	120,500	70,000	120,500
Share issue costs		(1,655)	(3,500)	(1,655)	(3,500)
Proceeds from lease and lease back		567	–	–	–
Finance lease paid		(448)	(402)	–	–
Net cash received from financing activities		133,333	116,598	68,345	117,000
Effects of exchange rate on the balances of cash and cash equivalents		(214)	(456)	–	–
Net increase/(decrease) in cash and cash equivalents		4,648	9,566	–	–
Cash and cash equivalents at the beginning of the financial year		34,181	24,615	–	–
Cash and cash equivalents at the end of the financial year	19	38,829	34,181	–	–

Consolidated and Company Statement of Changes in Equity year ended 30 June 2011

Group

	Share Capital £'000	Share premium £'000	Retained earnings £'000	Foreign currency translation reserve £'000	Total equity £'000
2010					
At 1 July 2009	449	34,041	29,974	–	64,464
Loss for the year	–	–	(1,932)	–	(1,932)
Other comprehensive income	–	–	–	2,194	2,194
Issue of share capital	237	86,455	–	–	86,692
Share based payments	–	–	602	–	602
Tax credit taken directly to reserves	–	–	163	–	163
At 30 June 2010	686	120,496	28,807	2,194	152,183
2011					
At 1 July 2010	686	120,496	28,807	2,194	152,183
Loss for the year	–	–	(9,700)	–	(9,700)
Other comprehensive loss	–	–	–	(4,335)	(4,335)
Issue of share capital	163	68,182	–	–	68,345
Share based payments	–	–	776	–	776
Tax credit taken directly to reserves	–	–	91	–	91
At 30 June 2011	849	188,678	19,974	(2,141)	207,360

£47,000 has been adjusted between opening reserves and Group share capital in respect of shares held in the Employee Benefit Trust.

Company

	Share Capital £'000	Share premium £'000	Retained earnings £'000	Foreign currency translation reserve £'000	Total equity £'000
2010					
At 1 July 2009	449	34,041	(34)	–	34,456
Profit for the year	–	–	723	–	723
Other comprehensive income	–	–	–	174	174
Issue of share capital	237	86,455	–	–	86,692
Share based payments	–	–	54	–	54
Tax credit taken directly to reserves	–	–	33	–	33
At 30 June 2010	686	120,496	776	174	122,132
2011					
At 1 July 2010	686	120,496	776	174	122,132
Loss for the year	–	–	(504)	–	(504)
Other comprehensive income	–	–	–	–	–
Issue of share capital	163	68,182	–	–	68,345
Share based payments	–	–	54	–	54
Tax expense taken directly to reserves	–	–	(4)	–	(4)
At 30 June 2011	849	188,678	322	174	190,023

Notes to the accounts

1 Accounting Policies

Statement of compliance

The Group financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU "IFRS", International Financial Reporting Interpretations Committee (IFRIC) Interpretations, and the Companies Act 2006 applicable to companies preparing their accounts under IFRS.

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

Basis of preparation

The financial statements have been prepared on the historical cost basis, with the exception of share based payments and financial derivatives, which are incorporated using fair value.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 to not present the parent company income statement.

No new standards were applied during the year ended 30 June 2011.

New standards and interpretations not applied

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 July 2010 but are not currently relevant for the Group, or have had no impact:

Annual improvements 2009 (effective 1 January 2010)
Amendment to IFRS 2, 'Share based payments – Group cash-settled share-based payment transactions' (effective 1 January 2010)
Amendments to IFRS 1 for additional exemptions (effective 1 January 2010)
Amendments IAS 32 Financial instruments: Presentation on classification of rights issues (effective 1 February 2010)
Amendment to IFRS 1, First time adoption on financial instrument disclosures (effective 1 July 2010)
IFRIC 15, 'Arrangements for construction of real estates' (effective 1 January 2009 but EU endorsed for 1 January 2010)
IFRIC 19, 'Extinguishing financial liabilities with equity instruments' (effective 1 July 2010)

New standards and interpretations
The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 July 2010 and have not been early adopted:

IAS 34, 'Interim financial reporting', has been amended by the 2010 Improvements to require the following disclosures in interim financial reports in respect of financial instruments, if they are significant: Impairments recognised on financial assets and the reversal of previous impairments; Changes in the business or economic circumstances that affect the fair value of the entity's financial assets and financial liabilities, whether those assets or liabilities are recognised at fair value or amortised cost; Transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments; Changes in the classification of financial assets as a result of a change in the purpose or use of those assets. The disclosures apply for accounting periods beginning on or after 1 January 2011.

IFRS 9, 'Financial instruments', issued in December 2009. This addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption.

Revised IAS 24, 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. The revised IAS 24 is required to be applied from 1 January 2011. Earlier application, in whole or in part, is permitted.

'Prepayments of a minimum funding requirement' (Amendments to IFRIC 14), issued in November 2009. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. The amendments are effective for annual periods beginning 1 July 2011. Earlier application is permitted.

The Directors do not anticipate that the adoption of any of the above standards, amendments or interpretations will have a material impact on the Group's financial statements on initial application.

The Group is currently assessing the impact of the standards on its results, financial position and cash flows.

The Group continues to monitor the potential impact of other new standards and interpretations which may be endorsed by the European Union and require adoption by the Group in future accounting periods.

Critical accounting estimates and management judgement
The presentation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Revenue recognition
The group uses the percentage-of-completion method in accounting for its consultancy and space projects. Use of the percentage-of completion method requires the group to estimate the services performed to date as a proportion of the total services to be performed.

Notes to the accounts continued

1 Accounting Policies continued

(b) Impairment of satellites

The carrying amount of the satellites are dependent on the Group's ability to sell sufficient capacity in the satellites over their useful economic lives. In management's view, at this early stage in the life of the HYLAS 1 satellite, the sale of capacity is progressing well and in line with plans. The Group will assess impairment annually.

(c) European Space Agency funding and sale of capacity

In April 2006 the group entered into a contract with ESA to receive funding for the build of the satellite and also giving ESA the right to use up to 10% of capacity on HYLAS 1 for a period of 3 years if the capacity is available. An assessment of the fair value of the revenues for the sale of capacity has been performed in order to account for this as a multiple element arrangement . The fair value of the capacity sales will be recognised on a straight line basis over a 3 year period commencing in this period given HYLAS 1 is now operational. Management has made their best estimate of the fair value of the revenue element of the transaction based on market prices of the capacity at the inception of the arrangement. The residual fair value represents the value of the capital grant and this will be released to other operating income over a period of 15 years to match the useful economic life of the satellite. If the fair value of the capacity sale was altered by 10% the impact on the revenue figure would be £110,000.

(d) Other financial assets

The Group carries a loan receivable as a financial asset to a strategic partner. The loan accrues interest at 7%. We have assumed that this asset is fully recoverable over the term of the loan. The Group has collateral over the balance which constitutes 75% of the equity interest in the borrower should there be a default.

Going concern

The accounts have been prepared on a going concern basis which assumes that the Group will continue in operational existence for the foreseeable future.

Basis of consolidation

Where the company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The financial statements present the results of the company and its subsidiaries, including the Employee Benefit Trust (“the group”) as if they formed a single entity. Intercompany transactions, balances, income and expenses are therefore eliminated in full. The results of subsidiaries acquired during the year are included in the consolidated income statement from the date of acquisition.

There is no minority interest in the net assets of the Group, and no goodwill arising on acquisition of subsidiaries.

The financial statements of subsidiaries are prepared for the same reporting year as the parent company using consistent accounting policies.

Revenue recognition

The group currently earns revenue primarily from the sale of satellite broadband services to customers and from providing consultancy advice connected with the exploitation of the space assets. Following the launch of HYLAS 1, revenue from the sale of satellite broadband services will be the key revenue stream of the business with space consultancy contracts being a smaller proportion of the total revenues.

Broadband satellite communications services revenues are recorded on a straight-line basis over the term of the contract concerned net of discounts, VAT and other similar allowances.

Revenues also include sales of terminals recognised upon installation when the risks and rewards of ownership have transferred to the customer.

Revenue from space consultancy and other consultancy contracts connected with the exploitation of the space assets are recognised by reference to the stage of completion of the contract activity at the balance sheet date. The contracts are broken down into separable elements which are all judged individually on a percentage of completion basis in order to ascertain the completeness of an overall project. By its nature these projects require a certain element of judgement by management. Contract costs are recognised as an expense in the period they are incurred.

Accrued income represents the excess of revenue recognised over amounts invoiced. Deferred income represents any unearned balances remaining from amounts received from customers pursuant to prepaid contracts.

Appropriate allowances for estimated irrecoverable amounts are recognised as an expense when there is objective evidence that trade receivables are impaired. Accounts receivable balances are specifically reviewed to assess a customer's ability to make payments.

Leased assets

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys the right to use the asset.

Leases of property, plant and equipment where the group holds substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired under hire purchase or a finance lease are capitalised in the balance sheet. Those held under hire purchase and finance lease contracts are depreciated over their estimated useful lives. The interest element of these obligations is charged to the profit and loss account over the relevant period. The capital element of the future payments is treated as a liability.

Leases where a significant portion of the risks and rewards are held by the lessor are classified as operating leases. Rentals are charged to the income statement on a straight line basis over the period of the lease.

Interest income and expense

Borrowing costs incurred for the construction of the satellite assets are capitalised during the period of time required to complete and prepare the assets for their intended use, in accordance with IAS 23 'Borrowing Costs'. Other borrowing costs are expensed in the Income Statement.

Interest income on cash deposits is recognised on an effective interest rate methodology, taking into account the principal amounts outstanding and the interest rates applicable.

Foreign currency

Transactions entered into by the group entities in a currency other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rate ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the income statement.

The presentational currency of the Group is sterling.

On consolidation, assets and liabilities of foreign undertakings are translated into Sterling at year end exchange rates. The results of foreign undertakings are translated into Sterling at average rates of exchange for the year (unless this average is not a reasonable approximation of the cumulative effects of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions). Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity, the foreign currency translation reserve.

In the event of the disposal of an undertaking with assets and liabilities denominated in a foreign currency, the cumulative translation difference associated with the undertaking in the translation reserve is charged or credited to the gain or loss on disposal recognised in the income statement.

Pension schemes

Employees have the option to establish their own pension scheme to which the Group will match employee contributions up to a maximum amount. There is no on-going liability to the Group beyond the period that the contributions are made. The cost of such contributions are charged to the income statement when incurred.

Share based payments

The group operates a number of equity settled share-based payment arrangements, under which the group receives services from employees as consideration for equity instruments (share options and shares) of the group. Equity settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant, but including any market-based performance criteria and the impact of non investing conditions. The fair value determined at the grant date is recognised on a straight-line basis over the vesting period, based on the group's estimate of the options or shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. Fair value is measured using either the Binomial options pricing model or Monte Carlo simulations, whichever is most appropriate to the award.

Notes to the accounts continued

1 Accounting Policies continued

Share based payments continued

Service and performance conditions are vesting conditions. Any other conditions are non-vesting conditions which have to be taken into account to determine the fair value of equity instruments granted. In the case that an award or option does not vest as a result of a failure to meet a non-vesting condition that is within the control of either counterparty, this is accounted for as a cancellation. Cancellations must be treated as accelerated vesting and all remaining future charges are immediately recognised. As the requirement to save under an employee share save arrangement is a non-vesting condition, employee cancellations must be treated as an accelerated vesting.

Current tax

The charge for taxation is based on taxable profits for the year. Taxable profits differ from profit as reported in the income statement because it excludes items of income and expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities based on tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary difference can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates that have been enacted or substantially enacted by the balance sheet date. The measurement of the deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when the group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same taxation authority on either the same taxable group company; or different group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liability simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Property plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided so as to write off the cost or valuation of assets, other than assets under construction, over their estimated useful lives using the straight-line method.

Cost includes the original purchase price of the asset and the costs directly attributable to bringing the asset to its working condition for its intended use.

Motor vehicles	25% per annum	Plant and machinery	25% per annum
Network assets	20-25% per annum	Leasehold improvements	25% per annum
Fixtures and fittings	25% per annum	Satellite in construction	Nil
Satellite in operation	6.67% per annum		

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The gain or loss arising on the disposal of assets is charged to the profit and loss account and is calculated as the difference between the disposal proceeds and the carrying amount of the assets.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Satellite in construction relate to costs (including employee related costs) directly attributable to the construction of the HYLAS satellites. Once the satellites become operational and placed into service, the assets are transferred to a space asset category and depreciated over the life of the satellites. Following its successful launch in November 2010, Hylas 1 assets have been transferred to "satellites in operation" and are being depreciated over 15 years. The first depreciation expense was recorded in the year ended June 2011.

Where the conditions are not met the costs are expensed through the income statement.

Intangible assets
Intangible assets are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided so as to write off the cost or valuation of assets, other than assets under construction, over their estimated useful lives using the straightline method. The amortisation rate on computer software is 25%.

Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

The estimated useful lives, residual values and amortisation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The gain or loss arising on the disposal of assets is charged to the profit and loss account and is calculated as the difference between the disposal proceeds and the carrying amount of the assets.

Research and development costs in relation to the satellites are capitalised if they meet the conditions set out in IAS 38 'Intangible Assets' which are that development costs are only capitalised once a business case has been demonstrated as to the technical feasibility and commercial viability. Capitalised development costs are amortised over the expected useful life of the assets.

Impairment of non-financial assets
Assets that are subject to amortisation and depreciation are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be fully recoverable. The impairment review comprises a comparison of the carrying amount of the fixed asset with its recoverable amount, which is the higher of fair value less costs to sell and value in use.

Fair value less costs to sell is calculated by reference to the amount at which the asset could be disposed of. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis.

An impairment loss is recognised in the Income Statement whenever the carrying amount of an asset exceeds its recoverable amount. The carrying amount will only be increased where an impairment loss recognised in a previous period for an asset either no longer exists or has decreased, up to the amount that it would have been had the original impairment not occurred.

For the purpose of conducting impairment reviews, CGUs are identified as groups of assets and liabilities that generate cash flows that are largely independent of other cash flow streams. The assets and liabilities include those directly involved in generating the cash flows and an appropriate proportion of corporate assets. For the purposes of impairment, individual satellites are treated as individual CGUs.

Investments
Investments are recorded at cost. Investments are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be fully recoverable. Investments in subsidiaries are stated at cost and reviewed for impairment on an annual basis.

European Space Agency (ESA) Funding
As noted in the critical estimates and judgements, an element of income from ESA represents revenue for the sale of capacity on the satellite. The fair value of the capacity sold to ESA will be recognised as revenue over 3 years on a straight line basis.

Notes to the accounts continued

1 Accounting Policies continued

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Cost is determined by the first-in first-out method.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of directly attributable issue costs.

Trade receivables and other financial assets

Trade and loan receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method where the time value of money is material. Appropriate allowances for estimating irrecoverable amounts are recognised in the Income Statement where there is evidence that the asset is impaired. This impairment would be recognised within operating expenses.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise of cash on hand and demand deposits, and other short term highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value. For the purpose of the consolidated cash flow statement, cash and cash equivalents are stated net of outstanding bank overdrafts.

Provisions

Provisions are recognised when the Group has a legal or constructive obligation to transfer economic benefits arising from past events and the amount of the obligation can be estimated reliably. Provisions are not recognised unless the outflow of economic benefits to settle the obligation is more likely than not to occur.

Borrowings

Interest-bearing bank loans and overdrafts are measured initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost.

Derivative financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

The group uses derivative financial instruments mainly to reduce exposure to foreign exchange risks. The group does not hold or issue derivative financial instruments for trading purposes. Derivatives are recognised at fair value on the date a contract is entered into and are subsequently re-measured at their fair value.

Hedge accounting is currently not applied. Changes in fair value of derivative financial instruments are recognised in the income statement as they arise.

2. Revenue

As noted in note 1, the group currently earn revenue primarily from the sale of satellite broadband services to customers and from providing consultancy advice connected with the exploitation of the space assets. On adoption of IFRS 8, 'Operating Segments', the group concluded that the Chief Operating Decision Maker (the Avanti Executive Board) manage the business and the allocation of resources on the basis of the provision of satellite services, resulting in one segment.

Revenue of £5,462,000 (2010: £5,815,000) represents invoiced sales of satellite broadband services provided to external customers, revenue on space and consultancy contracts recognised on a percentage of completion basis and the sale of terminals. As referred to in the critical estimates and judgements, revenues from ESA representing the sale of capacity on HYLAS 1 comprise 20.6% (2010: £nil) of total revenue.

The group derived £1,081,000 (2010: £1,334,000) of its turnover from European countries outside the United Kingdom, and £4,381,000 (2010: £4,481,000) from the United Kingdom.

3. Operating expenses

Operating expenses by function are as follows:

	30 June 2011 £'000	30 June 2010 £'000
Selling and distribution	990	551
Administration	10,289	8,188
	11,279	8,739
Operating profit for the year is stated after charging the following:		
Operating expenses:		
Depreciation of property, plant and equipment	805	759
Amortisation of intangible assets	8	10
Research and development costs written off as incurred	19	15
Employee benefit expense	5,433	4,542
Operating lease expenses:		
– Minimum lease payments	588	408
– Sublease payments received	(50)	(50)
– Onerous lease provision utilised	(30)	(30)
Cost of sales:		
Satellite depreciation on HYLAS 1	2,311	–
Release of ESA grant	(185)	–
Satellite services	3,005	2,183
Materials purchased	1,634	524
Sub contractors	529	146

Notes to the accounts continued

4. Auditors' remuneration

	30 June 2011 £'000	30 June 2010 £'000
Fees payable to company's auditor for the audit of parent company and consolidated financial statements	82	54
Fees payable to the company's auditor and its associates for other services:		
– The audit of company's subsidiaries pursuant to legislation	20	20
– Other services pursuant to legislation	13	13
– Tax services	541	270
– Other services	36	4
	692	361

£520,000 (2010: £244,000) of the tax services fees relate to the advice given in respect of the re-domicile of the HYLAS 2 assets to Cyprus. The remaining balance relates to fees for normal ongoing tax advice and compliance assistance.

5. Employee benefit costs

The aggregate remuneration of all employees comprised:

	30 June 2011 £'000	30 June 2010 £'000
Wages and salaries	6,073	4,898
Social security costs	666	534
Pension costs	168	229
Share based payment expense	776	602
	7,683	6,263
Less: costs capitalised as satellite in construction	(2,250)	(1,721)
	5,433	4,542

Employee numbers

The average monthly number of people (including the Executive Directors) employed during the year by category of employment:

	30 June 2011 No. employees	30 June 2010 No. employees
Operations	23	21
Sales and marketing	29	21
Development and engineering	23	21
Administration and executive	22	18
	97	81

6. Other operating income

	30 June 2011 £'000	30 June 2010 £'000
Exchange gain on trade receivables and payable balances	209	426
Interest received	427	–
Liquidated damages received	–	3,202
	636	3,628

Interest of £427,000 was received from Space Explorations Inc ("SpaceX") on settlement of their debt.

Liquidated damages were received from Astrium due to the late delivery of HYLAS 1 in November 2009. These damages compensated for the additional costs incurred as a result of the late delivery of the satellite and were recognised on a straight-line basis over the additional period that the incremental running costs were being incurred. All liquidated damages have now been recognised in the income statement.

7. Net finance income

	30 June 2011 £'000	30 June 2010 £'000
Finance income		
Fair value gain on derivatives	110	972
Interest income on bank deposits	318	99
	428	1,071
Finance expense		
Interest expense on borrowings and loans	(59)	(88)
Financing exchange loss	(214)	(456)
Finance lease expense	(23)	(47)
	(296)	(591)
Net finance income	132	480

Notes to the accounts continued

8. Income tax (credit)/expense

	30 June 2011 £'000	30 June 2010 £'000
Current tax		
Adjustment in respect of prior periods	–	76
Total current tax	–	76
Deferred tax		
Origination and reversal of temporary differences	(3,332)	(403)
Adjustment in respect of prior periods	90	278
Impact of change in UK tax rate	215	25
Total deferred tax	(3,027)	(100)
Total income tax (credit)/expense	(3,027)	(24)

The tax on the group's loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	30 June 2011 £'000	30 June 2010 £'000
Loss before tax	(12,727)	(1,956)
Tax charge/(credit) at the corporate tax rate of 27.5% (2010: 28%)	(3,500)	(548)
Tax effect of non-deductible expenses	168	145
Adjustment in respect of prior periods	90	354
Impact of change in UK tax rate	215	25
Income tax (credit)/expense	(3,027)	(24)

9. Earnings/(loss) per share

	30 June 2011 pence	30 June 2010 pence
Basic (loss)/earnings per share	(12.14)	(3.68)

The calculation of basic and diluted earnings/(loss) per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year.

	30 June 2011 £'000	30 June 2010 £'000
(Loss)/profit for the year attributable to equity holders of the parent company	(9,700)	(1,932)
Weighted average number of ordinary shares for the purpose of basic earnings per share	79,920,631	52,430,725

10. Profit of the parent company

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the parent Company is not presented as part of these accounts. The parent company's loss after tax for the year ended 30 June 2011 amounted to £504,000 (2010: £723,000 profit).

11. Property, plant and equipment

	Leasehold improvements £'000	Network assets £'000	Fixtures and fittings £'000	Satellite in operation £'000	Satellite in construction £'000	Motor vehicles £'000	Group total £'000
Cost							
Balance at 1 July 2009	250	3,321	515	–	49,712	112	53,910
Additions	4	2,239	92	–	117,094	27	119,456
Disposals	–	–	–	–	–	–	–
Balance at 1 July 2010	254	5,560	607	–	166,806	139	173,366
Additions	9	985	63	–	147,233	–	148,290
Transfer	–	–	–	148,730	(148,730)	–	–
Disposals	–	–	–	–	–	(44)	(44)
Balance at 30 June 2011	263	6,545	670	148,730	165,309	95	321,612
Depreciation							
Balance at 1 July 2009	181	1,809	365	–	–	21	2,376
Charge for the year	39	618	68	–	–	34	759
Disposals	–	–	–	–	–	–	–
Balance at 1 July 2010	220	2,427	433	–	–	55	3,135
Charge for the year	24	672	76	2,311	–	33	3,116
Disposals	–	–	–	–	–	(29)	(29)
Balance at 30 June 2011	244	3,099	509	2,311	–	59	6,222
Net book value							
Balance at 30 June 2011	19	3,446	161	146,419	165,309	36	315,390
Balance at 30 June 2010	34	3,133	174	–	166,806	84	170,231

At 30 June 2011 the Group held assets under finance lease agreements with a net book value of £110,625 (2010: £416,000). A depreciation charge for the year of £305,234 (2010: £331,000) has been provided on these assets. These assets are included in network assets.

HYLAS 1 launched on 26 November 2010, consequently the HYLAS 1 assets of £148,544,000 (2010: £103,166,000) have been transferred from satellites in construction to satellites in operation. The satellite in construction assets of £165,308,000 now relate to HYLAS 2 and HYLAS 3 satellites (2010: £63,640,000). Included in the satellite costs are capitalised finance costs of £15,224,096 in the HYLAS 2 satellite and £21,116,117 in the HYLAS 1 satellite (2010: £18,159,523, HYLAS 1). The finance costs on HYLAS 2 will average 5.5% over the lifetime of the facilities (2010: HYLAS 1 16.5% above LIBOR).

Satellites in operation have been depreciated from 1 April 2011 when the satellite came into commercial service.

Notes to the accounts continued

12. Intangible assets

	Computer software £'000
Cost	
Balance at 1 July 2009	395
Additions	–
Disposals	–
Balance at 1 July 2010	395
Additions	–
Disposals	–
Balance at 30 June 2011	395
Amortisation	
Balance at: 1 July 2009	374
Charge for the year	10
Disposals	–
Balance at: 1 July 2010	384
Charge for the year	8
Disposals	–
Balance at 30 June 2011	392
Net book value	
Balance at 30 June 2011	3
Balance at 30 June 2010	11

13. Other financial assets

	30 June 2011 £'000	30 June 2010 £'000
Group		
Financial assets	9,135	–

The investment is represented by a loan to a major strategic partner. The initial interest rate is 7% with interest accruing for the first 12 months and repayments starting thereafter. The loan was made in February 2011 and the group has collateral over this balance which constitutes 75% of the equity interest in the borrower should there be a default.

14. Investments

Company

Shares in subsidiary undertakings

	30 June 2011 £'000	30 June 2010 £'000
Beginning of the year	41,320	289
Capital contribution	–	15
Equity investments in Avanti HYLAS 2 Limited	43,408	41,016
End of year	84,728	41,320

The directors believe that the carrying value of the investments is supported by their underlying net assets.

A full list of the company's subsidiaries is disclosed in note 15.

15. Subsidiaries

As at the end of the year the group and company held the following investments in subsidiary companies:

Name of subsidiary	Nature of business
Avanti Communications Limited	Telecommunication consultancy
Avanti Space Limited	Satellite services
Avanti Space 2 Limited	Satellite services
Avanti Space 3 Limited	Satellite services
Avanti Launch Services Limited	Management services
Avanti Broadband Limited	Satellite broadband business
Avanti Broadband (Ire) Limited	Satellite broadband business
Avanti (NI) Limited	Satellite broadband business
Avanti Hylas 2 Limited	Satellite services
Avanti Hylas 2 Launch Services Limited	Management services
Avanti Communications Infrastructure Company Limited	Holding company
Avanti Caledonian Broadband Limited	Scottish satellite business
Avanti Employee Benefit Trust	Employee benefit trust
Avanti Hylas 2 Cyprus Limited	Satellite broadband business
Avanti Hylas 2 Services Limited	Project management services
Avanti Communications Marketing Services Limited	Sales and marketing
Avanti Communications Germany GmBH*	Satellite services
Avanti Communications Sweden AB*	Satellite services

All the above entities were incorporated in England & Wales, except for Avanti Launch Services Limited, Avanti Hylas 2 Launch Services Limited, Avanti Hylas 2 Cyprus Limited and Avanti Hylas 2 Services Limited.

Avanti Launch Services Limited, Avanti Hylas 2 Launch Services Limited were incorporated in the Isle of Man.

Avanti Hylas 2 Cyprus Limited and Avanti Hylas 2 Services Limited were incorporated in Cyprus.

The company holds 100% ownership interest and voting power in all the above entities.

* These entities were incorporated during the 2011 financial year

Notes to the accounts continued

16. Inventories

	30 June 2011 at cost £'000	30 June 2010 at cost £'000
Group		
Finished goods	1,284	1,398

Finished goods represent customer premises equipment which includes dishes, modems and outdoor unit transceivers.

The cost of inventories recognised as an expense during the period was £1,538,000 (2010: £448,000).

There have been no write-downs of inventory during the year.

17. Trade and other receivables

	Group		Company	
	30 June 2011 £'000	30 June 2010 £'000	30 June 2011 £'000	30 June 2010 £'000
Trade receivables	1,170	611	–	–
Less provision for impairment of trade receivables	(53)	(3)	–	–
Net trade receivables	1,117	608	–	–
Accrued income	3,133	8,545	–	–
Prepayments	2,640	1,185	3	6
Amounts due from group companies	–	–	105,187	80,228
Other receivables	1,026	5,655	–	–
	7,916	15,993	105,190	80,234

For discussion of credit risk, refer to Note 23(b).

18. Deferred taxation

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	Group		Company	
	30 June 2011 £'000	30 June 2010 £'000	30 June 2011 £'000	30 June 2010 £'000
Deferred tax assets	14,658	6,157	191	62
Deferred tax liabilities	(11,272)	(5,889)	–	–
	3,386	268	191	62
The gross movement on the deferred income tax account is as follows:				
Balance at 1 July	268	5	62	102
Income tax (expense)/credit	3,027	100	133	(73)
Tax credited directly to equity	91	163	(4)	33
Balance at 30 June	3,386	268	191	62

Group	Opening balance £'000	Charged to the income statement £'000	Charged to equity £'000	Closing balance £'000
30 June 2011				
Tax assets				
Provisions and deferred income	1,806	4,797	–	6,603
Share based payment	302	112	91	505
Unused tax losses	4,049	3,501	–	7,550
Total tax assets	6,157	8,410	91	14,658
Tax liabilities				
Property, plant and equipment	(5,889)	(5,383)	–	(11,272)
Total tax liabilities	(5,889)	(5,383)	–	(11,272)
Net deferred tax asset/(liability)	268	3,027	91	3,386

Notes to the accounts continued

18. Deferred taxation continued

Group	Opening balance £'000	Charged to the income statement £'000	Charged to equity £'000	Closing balance £'000
30 June 2010				
Tax assets				
Provisions and deferred income	817	989	–	1,806
Share based payment	110	29	163	302
Unused tax losses	2,690	1,359	–	4,049
Total tax assets	3,617	2,377	163	6,157
Tax liabilities				
Property, plant and equipment	(3,612)	(2,277)	–	(5,889)
Total tax liabilities	(3,612)	(2,277)	–	(5,889)
Net deferred tax asset/(liability)	5	100	163	268

Company	Opening balance £'000	Charged to the income statement £'000	Charged to equity £'000	Closing balance £'000
30 June 2011				
Tax assets				
Share based payment	60	11	(4)	67
Unused tax losses	2	122	–	124
Total tax assets	62	133	(4)	191

Company	Opening balance £'000	Charged to the income statement £'000	Charged to equity £'000	Closing balance £'000
30 June 2010				
Tax assets				
Share based payment	23	4	33	60
Unused tax losses	79	(77)	–	2
Total tax assets	102	(73)	33	62

At 30 June 2011, none of the deferred tax asset of £14.7m (2010: £6.2m) is expected to be recovered in the next 12 months.

At 30 June 2011, none of the deferred tax liability of £11.3m (2010: £5.9m) is expected to be settled in the next 12 months.

Deferred tax assets have been recognised despite recurring losses as the group has strong expectations of future profits due to the recent launch of Hylas 1 and forthcoming launch of HYLAS 2.

19. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include cash in hand and at banks net of outstanding overdrafts.

Cash and cash equivalents at the end of the financial year as shown in the cash flow statement can be reconciled to the related items in the balance sheet as follows:

Group	30 June 2011 £'000	30 June 2010 £'000
Cash and bank balances	38,125	918
Short term deposits	704	33,263
Net cash and cash equivalents	38,829	34,181

20. Trade and other payables

	Group		Company	
	30 June 2011 £'000	30 June 2010 £'000	30 June 2011 £'000	30 June 2010 £'000
Current				
Trade payables	17,961	7,118	–	–
Social security and other taxes	218	177	–	–
Other payables	2,524	1,104	–	–
Accruals	9,692	5,061	3	9
	30,395	13,460	3	9
Non-current				
Accruals and deferred income	18,997	7,228	–	–
Included in the deferred income are grants from ESA as follows:				
Current portion	5,300	–		
Non-current portion	18,876	7,228		
	24,176	7,228		

21. Provisions for other liabilities

Group	Current £'000	Non-current £'000	Total £'000
Onerous lease provision			
Balance at 1 July 2010	30	33	63
Used during the year	–	(30)	(30)
Balance at 30 June 2011	30	3	33

The Group leases premises at Hoxton Square and sublets the premises to a third party. The amount that the Group pays for the lease is not covered by the rent received in respect of the premises. As a result, an onerous lease provision has been recorded and is being released over the life of the committed lease period.

During the year, the Group has released £30,000 to the income statement. The remaining £32,500 will be released over the next 13 months.

Notes to the accounts continued

22. Loans and other borrowings

	Current		Non-current	
	30 June 2011 £'000	30 June 2010 £'000	30 June 2011 £'000	30 June 2010 £'000
Secured at amortised cost				
Bank loans	–	–	118,475	49,191
Finance lease liabilities (i)	397	269	203	213
	397	269	118,678	49,404

(i) Finance lease obligations are secured by retention of title to the related assets. The borrowings are on fixed interest rate debt with repayment periods not exceeding 5 years.

In December 2009 the group announced that it had agreed debt financing for HYLAS 2 with US Exim bank and COFACE. The total drawdown in this agreement is $328.2m.

In accordance with IAS 23 – Borrowing Costs, qualifying borrowing costs have been capitalised as part of the cost to HYLAS 1, recognised as Satellite in Construction in Note 11.

23. Financial instruments and risk management

Group

The Group is subject to the risks arising from adverse movements in interest rates and foreign currency. The Group uses a variety of derivative financial instruments to manage these risks. The managing of these risks, along with the day-to-day managing of treasury activities is performed by the Finance team.

All financial instruments have been measured at amortised cost, except for derivative assets recognised as fair value through the income statement. As such, financial assets being cash and cash equivalents and trade and other receivables are classified as 'Loans and Receivables' and financial liabilities being trade and other payables and interest bearing liabilities have been classified as 'Other Financial Liabilities'.

a) Market risk

i) Foreign exchange risk management

The Group trades in currency other than its functional currency and to hedge the foreign currency risk it enters into forward contracts or natural hedges. These risks are assessed on a continual basis.

The derivative liability is in respect of two forward contracts hedging future Euro receivables.

The procurement of our second satellite HYLAS 2 has transactions mainly executed in US dollars. This is hedged naturally against the corresponding financing loan denominated in US dollars.

At 30 June 2011, if the Euro had weakened/strengthened against the sterling by 5% with all other variables held constant, post tax loss would have improved by £68,954 or worsened by £76,212 (2010: post tax profit would have worsened by £19,316 or improved by £21,349).

At 30 June 2011, if the US dollar had weakened/strengthened against the sterling by 5% with all other variables held constant, post tax loss would have improved by £367,971 or worsened by £406,704 (2010: post tax profit would have worsened by £153,114 or improved by £162,232). The US dollar cash reserves and US dollar loan are held in a US dollar denominated company and are revalued through reserves upon consolidation.

Management believes that a 5% sensitivity rate provides an adequate analysis of the expected changes in foreign exchange rates. This is the assumption we used last year and management feel it is still valid.

ii) Interest Risk Management
The Group borrows in pounds sterling and US dollars at floating and fixed rates of interest and does not seek to mitigate the effect of adverse movements in interest rates. Cash and deposits earn interest at floating rates based on banks' short term treasury deposit rates. Short-term trade and other receivables are interest free.

b) Credit risk management
The Group's principal financial assets are cash and short term deposits and trade and other receivables. The Group has no significant concentrations of credit risk with the exception of the other financial assets. Cash and cash equivalents are deposited with high-credit quality financial institutions with a minimum rating of A+ and trade receivables are principally from well established corporations. The credit quality of major customers is assessed before trading commences taking into account its financial position, past experience and other factors. In respect of other financial assets, the group has collateral over this balance which constitutes 75% of the equity interest in the borrower should there be a default.

	2011 £'000
Trade receivables	1,119
Other financial assets	9,135
Total	10,254

	2010 £'000
Trade receivables	608
Other financial assets	–
Total	608

The ageing of trade receivables which have not been impaired was as follows:

	Not past due £'000	1-30 days £'000	31-60 days £'000	60+ days £'000	Total £'000
30 June 2011	9,870	330	39	15	10,254
30 June 2010	89	60	135	324	608

Movements in the provision for impairment of trade receivables are as follows:

	30 June 2011 £'000	30 June 2010 £'000
At 1 July 2010	3	16
Allowances made in the period	53	21
Amounts used and reversal of unused amounts	(3)	(34)
At 30 June 2011	53	3

The provision of £52,719 (2010: £2,986) has been raised against gross trade receivables of £1,117,000 (2010: £5,657,000). Every major customer is assessed on an individual basis and we provide for bad debts when an impairment has been identified. Generally when the balance becomes more than 60 days past its due date it is considered that the amount will not be fully recoverable.

c) Liquidity risk management
The group's exposure to liquidity risk management is minimised due to the prudent monitoring of all of the groups liabilities. Cash and cash forecasts are monitored on a daily basis and our cash requirements are met by a mixture of short term cash deposits, debt and finance leases.

Notes to the accounts continued

23. Financial instruments and risk management continued

The following table analyses the Group's financial liabilities into relevant maturity groupings based on the expected undiscounted cash flows.

	Within 1 year £'000	1 to 2 years £'000	2 to 5 years £'000	Over 5 years £'000	Contractual amount £'000	Carrying amount £'000
30 June 2011						
Bank loans	1,051	7,611	58,683	85,908	153,253	118,476
Finance leases	602	–	–	–	602	600
Trade Payables	17,961	–	–	–	17,961	17,961
30 June 2010						
Bank loans	53,606	–	–	–	53,606	49,191
Finance leases	262	220	–	–	482	519
Trade Payables	7,118	–	–	–	7,118	7,118

The table below summarises the derivatives as at 30 June 2011 and 2010:

		Derivative fair value	
	Notional Principal £'000	Asset £'000	Liability £'000
30 June 2011			
Foreign currency forward contracts	1,750	–	83
30 June 2010			
Foreign currency forward contracts	12,236	525	–

All derivatives are held in the company.

In addition the company has intercompany balances carried at £105,187,000 (2010: £80,228,000). The contractual amount is equal to the carrying amount.

d) Fair value of financial instruments
The directors consider the carrying value of all financial assets and liabilities to be approximate to their fair values.

e) Capital risk management
The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Group consists of debt, which includes the borrowings disclosed in (Note 22), cash and cash equivalents (Note 19) and equity attributable to equity holders of the parent, comprising ordinary share capital, share premium, other reserves and retained earnings.

We endeavour to maximise earnings and minimise risk through an appropriate balance of debt and equity.

As well as the debt outlined in Note 22, the Group have a total debt facility of $328.2m in relation to Hylas 2 expenditure and is fully funded in this respect.

Company
The company does not have a material exposure to interest rate risk and foreign exchange risk.

Overall market risk, credit risk and liquidity risk are managed on a group wide basis. Derivatives are measured at fair value and intercompany balances and accruals are measured at amortised cost. All intercompany balances are repayable on demand and accruals and derivatives mature in less than 1 year.

There is no provision for impairment against any of the company's financial assets.

24. Share capital – issued and fully paid

	Number of shares '000	Group and company ordinary shares £'000	Group and company share premium £'000
30 June 2010			
At 1 July 2010	68,672	686	120,496
Shares issued	16,279	163	69,837
Less transaction costs	–	–	(1,655)
At 30 June 2011	84,951	849	188,678

On 12 July 2010, the Group issued 16,279,070 shares at £4.30 per share.

The total authorised number of ordinary shares is 100 million shares (2010: 100 million) at £0.01 each.

25. Share based payments

The fair value of share options charged to the income statement in the period was £776,000 (2010: £602,000). The full fair value of these options is recognised over the vesting period for those options. All share based payment plans are equity settled and details of these plans are set out below.

The Company has established eight share option schemes:

– Enterprise Management Incentives scheme (EMI)
– Long Term Incentive Plan (LTIP)
– Unapproved share option plan (2007)
– Unapproved share option plan (March 2010)
– Unapproved share option plan (July 2010)
– Unapproved share option plan (October 2010)
– Unapproved share option plan (April 2011)
– Save As You Earn scheme (SAYE)

The 2011 charges and weighted average fair value for each of the plans above were as follows:

	EMI	LTIP schemes	Unapproved 2007	Unapproved March 2010	Unapproved July 2010	Unapproved Oct 2010	Unapproved April 2011	SAYE scheme
2011 charge	£96,279	£440,203	£24,285	£63,281	£96,917	£35,396	£3,234	£13,704
Weighted average fair value	£2.04	£3.11	£1.76	£0.66	£2.95	£1.81	£0.80	£0.79
2010 charge	£150,000	£405,000	£47,000					
Weighted average fair value	£2.04	£2.72	£2.42					

To date all options (with exception of the SAYE scheme) have been granted with a strike price of 1 penny. The strike price on the SAYE scheme is £4.70.

Financial Statements

Notes to the accounts continued

25. Share based payments continued

In July 2007 an Employee Benefit Trust (EBT) was established. The EBT is managed by Bedell Trustees in Jersey. The results of the EBT have been consolidated into the Group's results.The options granted under each scheme are as follows:

2011

	Outstanding at start of year	Granted during year	Forfeited in year	Exercised during the year	Outstanding at end of year
EMI					
Number of options	249,303	–	(6,000)	(58,488)	184,815
Weighted average exercise price	£0.01	–	£0.01	£0.01	£0.01
Unapproved scheme (est. 2007)					
Number of options	107,863	–	–	(38,932)	68,931
Weighted average exercise price	£0.01	–	–	£0.01	£0.01
Unapproved scheme (est. March 2010)					
Number of options	289,490	58,000	(33,000)	–	314,490
Weighted average exercise price	£0.01	£0.01	£0.01	–	£0.01
Unapproved scheme (est. July 2010)					
Number of options	–	50,000	–	–	50,000
Weighted average exercise price	–	£0.01	–	–	£0.01
Unapproved scheme (est. Oct 2010)					
Number of options	–	99,000	–	–	99,000
Weighted average exercise price	–	£0.01	–	–	£0.01
Unapproved scheme (est. April 2011)					
Number of options	–	62,000	–	–	62,000
Weighted average exercise price	–	£0.01	–	–	£0.01
SAYE scheme (est. July 2010)					
Number of options	–	66,437	(7,483)	–	58,954
Weighted average exercise price	–	£4.70	£4.70	–	£4.70

2010

	Outstanding at start of year	Granted during year	Forfeited in year	Exercised during the year	Outstanding at end of year
EMI					
Number of options	339,505	–	(51,000)	(39,202)	249,303
Weighted average exercise price	£0.01	–	£0.01	£0.01	£0.01
Unapproved scheme (est. 2007)					
Number of options	107,863	–	–	–	107,863
Weighted average exercise price	£0.01	–	–	–	£0.01
Unapproved scheme (est. 2010)					
Number of options	–	292,490	(3,000)	–	289,490
Weighted average exercise price	–	£0.01	£0.01	–	£0.01

The weighted average share price for the year ended 30 June 2011 was £5.40.

27,046 (2010: 17,926) of the EMI options, 30,715 of the unapproved 2007 scheme, 16,667 of the unapproved July 2010 scheme, and 1,629,898 (2010: 170,423) of the LTIP options had vested and were exercisable from 30 June 2011.

The exercise price of options outstanding at 30 June 2011 was £0.01 and the weighted average remaining contractual life was 4.6 years.

Each model has slightly different exercise criteria and therefore separate valuation models were used.

EMI Scheme

The EMI scheme was used to issue options to staff on 24 July 2007 at an exercise price of 1p. The new options are issued for 10 years with 25% vesting at the end of years 3, 4, 5 and 6. Those staff who had previously held unvested options in the former parent company at the time of the de-merger were given a shorter vesting period for these new options. There are no performance criteria associated with these options and they are exercisable as long as the option holder remains an employee of the Company.

The weighted average inputs to the Black-Scholes model are as follows:

Share price at date of Grant	£2.16
Weighted average exercise price	£0.01
Expected volatility	35%
Expected Life	4 years
Risk free rate	5.5%
Expected dividend yield	1%

Expected volatility was determined by calculating the actual volatility of the Group’s share price since flotation. The expected life used in the model has been adjusted, based on management’s best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Notes to the accounts continued

25. Share based payments continued

Long Term Incentive Plan

The LTIP has been established by the Company with approval from the Remuneration Committee to reward and incentivise the Executive Directors and senior managers of the Company.

The LTIP allocations are in separate sub funds within the EBT and are subject to a discretionary Trust. The shares are subject to automatic revocation if certain criteria (set out below) are not met and continue to be revocable for the entire Trust period.

Additional grants to further incentivise management were made during the year to two executive directors of 200,000 options each into the exceptional achievement tranche. The exercise criteria of the grants is as shown below.

The allocations into the LTIP vary for each executive. The total allocation to each executive is split into three separate tranches:

i) The Core Tranche

This element of the grant becomes exercisable in 7 equal instalments. The first instalment was exercisable on grant and the second on 30 June 2008. The remaining 5 are yearly thereafter.

ii) The Exceptional Achievement Tranche

This element of the grant was amended during 2010. Originally, these options were only exercisable if the average market value of the share exceeded £5 for a consecutive period of six months prior to 30 June 2010. Given the unprecedented market conditions over the previous year, the remuneration committee considered that whilst the executives had performed well and that the share price had outperformed the FTSE 100 and AIM all share index since the LTIPs were granted, the target set in the LTIP rules may still not be achieved.

In May 2010 the remuneration committee agreed to extend the target date to 31 December 2010 and that the six month average target price should be increased £5.50.

iii) The Extraordinary Achievement Tranche

This element of the grant is only exercisable if the Market Value of a Share exceeds £10 for a consecutive period of six months before 30 June 2013.

	Allocations to 1 July 2010							
	Core	Exceptional	Extraordinary	Additional grant July 2010	Revised allocation	Core vested	Exceptional vested	Unvested balance outstanding
Number of options:								
Executive Directors	1,192,960	679,570	679,213	400,000	2,951,743	(852,114)	(679,570)	1,420,059
Senior managers	125,000	62,500	62,500	–	250,000	(35,714)	(62,500)	151,786
	1,317,960	742,070	741,713	400,000	3,201,743	(887,828)	(742,070)	1,571,845

The criteria for the exceptional achievement tranche was achieved in November 2010.

The Core Tranche has been modelled using the Black-Scholes model while the Exceptional and Extraordinary Tranches have been modelled using the Monte-Carlo model, allowing for the market-based performance conditions.

The weighted average inputs to both models are as follows:

Share price at date of Grant	£1.67
Weighted average exercise price	£0.01
Expected volatility	34%
Expected Life	5 years
Risk free rate	5.1%
Expected dividend yield	1%

The weighted average inputs to the Black-Scholes model in relation to the additional 400,000 options granted in July 2010 are as follows:

Share price at date of Grant	£4.44
Weighted average exercise price	£0.01
Expected volatility	25%
Expected Life	3 years
Risk free rate	1.5%
Expected dividend yield	1%

Expected volatility was determined by calculating the actual volatility of the Group's share price since flotation and also taking into account historic volatility of other companies within the same sector who have been listed for longer periods. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Unapproved Scheme (est. 2007)

The unapproved scheme was established during 2007. The options are issued for 10 years with 25% vesting at the end of years 3, 4, 5 and 6 (with the exception of one former employee who had the ability to exercise in April 2009). There are no performance criteria associated with these options and they are exercisable as long as the option holder remains with the Company.

The weighted average inputs to the Black-Scholes model are as follows:

Share price at date of Grant	£1.86
Weighted average exercise price	£0.01
Expected volatility	35%
Expected Life	3 years
Risk free rate	5.5%
Expected dividend yield	1%

Expected volatility was determined by calculating the actual volatility of the Group's share price since flotation. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Unapproved Scheme (est. March 2010)

The unapproved scheme was established in March 2010. The options are issued for 10 years with 33% vesting at the end of years 3, 4 and 5. In order for the vesting conditions to be met the market value of the shares must be £10.00 or more per share for a consecutive period of six months.

The weighted average inputs to the Monte Carlo model are as follows:

Share price at date of Grant	£4.33
Weighted average exercise price	£0.01
Expected volatility	21%
Expected Life	3 years
Risk free rate	2.1%
Expected dividend yield	1%

Expected volatility was determined by calculating the actual volatility of the Group's share price since flotation. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Notes to the accounts continued

25. Share based payments continued

Unapproved Scheme (est. July 2010)

The unapproved scheme was established in July 2010 and granted to one employee. The options are issued for 10 years with 33% vesting in January 2011, January 2012 and January 2013. There are no performance criteria associated with these options and they are exercisable as long as the option holder remains with the Company.

The weighted average inputs to the Black Scholes model are as follows:

Share price at date of Grant	£4.50
Weighted average exercise price	£0.01
Expected volatility	24%
Expected Life	3 years
Risk free rate	1.8%
Expected dividend yield	1%

Expected volatility was determined by calculating the actual volatility of the Group's share price since flotation. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Unapproved Scheme (est. Oct 2010)

The unapproved scheme was established in October 2010. The options are issued for 10 years with 33% vesting at the end of years 3, 4 and 5. In order for the vesting conditions to be met the market value of the shares must be £10.00 or more per share for a consecutive period of six months.

The weighted average inputs to the Monte Carlo model are as follows:

Share price at date of Grant	£6.20
Weighted average exercise price	£0.01
Expected volatility	20%
Expected Life	3 years
Risk free rate	1.8%
Expected dividend yield	1%

Expected volatility was determined by calculating the actual volatility of the Group's share price since flotation. The expected life usedin the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Unapproved Scheme (est. April 2011)

The unapproved scheme was established in April 2011. The options are issued for 10 years with 33% vesting at the end of years 3, 4 and 5. In order for the vesting conditions to be met the market value of the shares must be £10.00 or more per share for a consecutive period of six months.

The weighted average inputs to the Monte Carlo model are as follows:

Share price at date of Grant	£4.48
Weighted average exercise price	£0.01
Expected volatility	24%
Expected Life	3 years
Risk free rate	1.8%
Expected dividend yield	1%

Expected volatility was determined by calculating the actual volatility of the Group's share price since flotation. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Save as you earn (SAYE) scheme
The save as you earn scheme was established in July 2010 and was open to all employees of the company at the time.

Save as you earn is an HMRC approved all employee savings-related share option scheme under which employees save up to a limit of £250 on a four-weekly basis with an option to buy shares in the company at the end of a three-year at a discount of up to 20% of the market value on the grant date. Options are not subject to performance conditions. All options are exercisable from 1 July 2013 which is three years from the date of grant. All options expire six months from their exercise date (i.e. on 1 January of the relevant year).

The weighted average inputs to the Black-Scholes model are as follows:

Share price at date of Grant	£4.50
Weighted average exercise price	£4.70
Expected volatility	21%
Expected Life	3 years
Risk free rate	2.1%
Expected dividend yield	1%

Expected volatility was determined by calculating the actual volatility of the Group's share price since flotation. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

26. Obligations under finance leases

Leasing arrangements
Finance leases relate to capital equipment with lease terms of 5 years. The Group has the option to purchase the equipment for a nominal value at the conclusion of the lease agreement. The Group's obligations under finance leases are secured by the lessor's title to the leased assets.

Finance lease liabilities

	Minimum lease payments		Present value of lease payments	
	30 June 2011 £'000	30 June 2010 £'000	30 June 2011 £'000	30 June 2010 £'000
No later than one year	400	299	397	269
Later than 1 year no later than 5 years	202	220	203	213
	602	519	600	482
Less future finance charge	(2)	(37)	–	–
	600	**482**	**600**	**482**

	30 June 2011 £'000	30 June 2010 £'000
Included in the financial statements as:		
Current borrowings	397	269
Non-current borrowings	203	213
Present value of minimum lease payments	**600**	**482**

Notes to the accounts continued

27. Obligations under operating leases

The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	30 June 2011		30 June 2010	
	Land & buildings £'000	Other £'000	Land & buildings £'000	Other £'000
No later than one year	345	18	345	–
Within 1 to 5 years	794	30	874	–
After 5 years	595	–	860	–
	1,734	48	2,079	–

Operating lease commitments principally relate to leased office space of the Group's head office located at 74 Rivington Street, London. New operating leases entered into in the year include a fleet of 4 vans.

The total of future sub-lease payments expected to be received under non-cancellable sub leases at 30 June 2011 is £50,000 over 1 year (as at 30 June 2010: £100,000 over 2 years).

28. Capital commitments

As at 30 June 2011 the group has contracted but not provided for $50.8m. This amount relates to the procurement of Hylas 2, Avanti's second satellite. These commitments are fully funded by the Exim/COFACE facility outlined in note 22.

29. Related party transactions and directors' emoluments

Transactions with Directors

Details of the Directors' remuneration are set out below in aggregate for each of the categories specified in the Companies Act 2006.

	30 June 2011 £'000	30 June 2010 £'000
Salaries and other short term employee benefits	1,172	693
Bonus	494	–
	1,666	693
Payments into defined contribution schemes	161	196
Gain on exercise of share options	189	–
	2,016	889

Pension contributions amounting to £161,424 (2010: £196,000) were made into personal pension schemes in respect of four (2010: four) of the Directors.

The emoluments of the highest paid Director totalled £586,966 (2010: £255,000), made up of:

Total emoluments	30 June 2011 £'000	30 June 2010 £'000
Salaries and other short term benefits	346	151
Bonus	145	–
Payments into defined contribution schemes (current year)	96	104
Total emoluments	587	255

Transactions with Directors and key management personnel - Group and company

Details of the remuneration of Directors and key management personnel are set out below in aggregate for each of the categories specified in IAS 24 "Related Party Disclosures".

	Group		Company	
	30 June 2011 £'000	30 June 2010 £'000	30 June 2011 £'000	30 June 2010 £'000
Salaries and other short term employee benefits	1,517	1,053	364	255
Bonus	667	–	82	–
Payments into defined contribution schemes	221	265	–	–
Share based payments	488	474	52	19
	2,893	1,792	498	274

Other related party transactions

Subsidiaries

Intra-group transactions are eliminated on consolidation and are not reported in the group accounts. The company charged the following management fees to its subsidiaries:

	30 June 2011 £'000	30 June 2010 £'000
Avanti Communications Limited	755	688
Avanti Broadband Limited	1,829	1,368
Avanti Space Limited	459	1,212
Avanti (NI) Limited	969	1,172
Avanti Caledonian Broadband Limited	1,634	784
Avanti Hylas 2 Limited	213	–
	5,859	5,224

The parent company had the following intercompany balances outstanding at the year end:	30 June 2011 £'000	30 June 2010 £'000
Avanti Communications Limited	42,244	73,662
Avanti Space Limited	2,456	1,997
Avanti Space 2 Limited and Avanti Space 3 Limited	–	(130)
Avanti Broadband Limited	3,144	1,315
Avanti Hylas 2 Limited	(141)	(494)
Avanti Communications Infrastructure Limited	57,484	3,878
	105,187	80,228

Intercompany balances are unsecured and repayable on demand.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company for 2011 will be held on 24 November 2011 at 9.00 am at 74 Rivington Street, London EC2A 3AY, for the following purposes:

Ordinary business

1. To receive the accounts for the year ended 30 June 2011, together with the reports of the Directors and Auditors therein.
2. To re-elect Nigel Fox as a Director of the Company.
3. To re-elect William Wyatt as a Director of the Company.
4. To elect Michael Walker as a Director of the Company.
5. To re-elect PricewaterhouseCoopers LLP as auditors to the Company.

Special business

6. That the Directors are generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (The "Act") (in substitution for all or such existing authorities which are hereby revoked) to allot shares in the Company, and grant rights to subscribe for or to convert any security into shares of the Company (such shares, and rights to subscribe for or to convert any security into shares of the Company being "relevant securities") at such times and to such persons, on such terms and in such manner as they think fit, up to an aggregate nominal amount of £60,000, such authority to expire on 28th February 2012 or at the conclusion of the Annual General Meeting next following the date on which this resolution is passed (whichever is earlier), save that the Company may before such expiry make any offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement as if that authority had not expired.

Special resolutions

7. That, in substitution for any equivalent authorities and powers granted to the directors prior to the passing of this resolution, the directors be and they are hereby empowered pursuant to section 570(1) of the Act to allot equity securities (as defined in section 560 of the Act) of the Company wholly for cash pursuant to the authority of the directors conferred by resolution 6 above, and/or where such an allotment constitutes an allotment of equity securities by virtue of section 560(2) of the Act, as if section 561(1) of the Act did not apply to such allotment provided that the power conferred by this resolution shall be limited to:

   (a) the allotment of equity securities in connection with an invitation or offer of equity securities to the holders of ordinary shares in the capital of the Company (excluding any shares held by the Company as treasury shares (as defined in section 724(5) of the Act)) on a fixed record date in proportion (as nearly as practicable) to their respective holdings of such shares or in accordance with the rights attached to such shares (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or as a result of legal or practical problems under the laws of, or the requirements of any regulatory body or any stock exchange in any territory or otherwise howsoever);

   (b) the allotment of equity securities pursuant to the exercise of any options granted by the Company at the date of this resolution; and

   (c) the allotment, otherwise than pursuant to paragraph (a) above, of equity securities up to an aggregate nominal value equal to £60,000, and unless previously renewed, revoked, varied or extended, this power shall expire on the earlier of the date falling 15 months after the date of the passing of this resolution and the conclusion of the next annual general meeting of the Company except that the Company may at any time before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if this power had not expired.

By Order of the Board

Nigel Fox
Secretary

Registered office: 74 Rivington Street, London EC2A 3AY
Registered number: 6133927
30 September 2011

Notes to Notice of Annual General Meeting

1. Proxies
A member who is entitled to attend, speak and vote at the Annual General Meeting may appoint a proxy to attend, speak and vote instead of him. A proxy need not be a member of the Company but must attend the meeting in order to represent you. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares (so a member must have more than one share to be able to appoint more than one proxy). A Form of Proxy accompanies this document. The notes to the Form of Proxy include instructions on how to appoint the Chairman of the Annual General Meeting or another person as a proxy and how to appoint a proxy electronically. To be valid the Form of Proxy must reach the Company's registrar, Neville Registrars at Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA by at least 48 hours before the Annual General Meeting.

2. Documents on display
The following documents are available for inspection at the registered office of the Company during the usual business hours on any weekday (Saturday, Sunday or public holidays excluded) from the date of this notice until the conclusion of the Annual General Meeting and will also be available for inspection at the place of the Annual General Meeting from 9:30 a.m. on the day of the Annual General Meeting until its conclusion:

(a) copies of the executive directors' service contracts with the Company and any of its subsidiary undertakings and letters of appointment of the non-executive directors; and

(b) the Register of Directors' Interests in the share capital of the Company.

3. Right to attend and vote
The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company at 9.00 a.m. on 24 November 2011 (or, if the Annual General Meeting is adjourned, 2 working days before the time fixed for the adjourned Annual General Meeting) shall be entitled to attend and vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. In each case, changes to the register of members after such time shall be disregarded in determining the rights of any person to attend or vote at the Annual General Meeting.

4. Please note that communications regarding the matters set out in this Notice of Annual General Meeting will not be accepted in electronic form, other than as specified in the accompanying Form of Proxy.

5. In order to facilitate voting by corporate representatives at the Annual General Meeting, arrangements will be put in place at the Annual General Meeting so that (a) if a corporate shareholder has appointed the chairman of the Annual General Meeting as its corporate representative to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the Annual General Meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (b) if more than one corporate representative for the same corporate shareholder attends the Annual General Meeting but the corporate shareholder has not appointed the chairman of the Annual General Meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of appointment letter if the chairman is being appointed as described in (a) above.

Introduction
After his opening remarks, the Chairman will explain in the detail the procedures for the conduct of the meeting, particularly for asking questions. The resolutions which are set out in the Notice of Meeting will then be put to the meeting.

How to ask questions
At the meeting, shareholders will be given the opportunity to ask questions. Please explain the nature of your question and give your name and address. You may be asked to wait until called upon to speak. Please remember to state your name before asking your question.

Time
The doors will open at 8.30 am and the meeting will start promptly at 9.00 am.

Cameras, tape recorders etc.
No cameras, video recorders, tape recorders or mobile phones will be allowed into the meeting.

Notes to Notice of Annual General Meeting continued

Registration
To ensure your entrance to the meeting is dealt with promptly, please bring your attendance card with you and register at the registration desk inside the building.

Shareholder information
If you have any questions concerning your shareholding, please speak to Avanti Communications Group plc staff.

Important
If you have questions about the meeting, or if you need any assistance, please telephone Georgina Campbell-Harris at Avanti Communications Group plc on 0207 749 1600 during normal working hours.

Analysis of Shareholders

Range of holdings	Number of shares	Number of shareholders
Less than 10,001	3,604,946	2,214
10,001-20,000	1,101,597	75
20,001-50,000	2,187,758	71
50,001-100,000	2,160,449	29
100,001-150,000	1,963,502	16
150,001-300,000	6,009,844	28
300,001-500,000	6,023,984	16
500,001-1,000,000	11,379,105	17
1,000,001 +	50,519,950	14

Financial Calendar
November 2011
Annual General Meeting

February 2012
Interim results for the six months ended 31 December 2011

September 2012
Preliminary results for the year ended 30 June 2012

Shareholder information
Annual General Meeting
The Annual General Meeting will be held at 74 Rivington Street, London, EC2A 3AY.

Details of the resolutions to be proposed at the Annual General Meeting are contained in the Notice of Annual General Meeting on page 64.

Dividend
The Directors have not recommended the payment of a dividend for the year ended 30 June 2011.

Listing
Ordinary shares of Avanti Communications Group plc are traded on AIM.
The share price is available from the Avanti website at www.avantiplc.com and in The Financial Times and The Times.

Registrars
All administrative enquiries relating to shareholdings should be directed to The Registrar, Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA.

Avanti's services
Information about Avanti's services can be found at www.avantiplc.com

Form of Proxy for Avanti Communications Group plc

(incorporated and registered in England and Wales under number 6133927) (the 'Company')

For use by holders of ordinary shares of 1p each in the Company (the 'Shareholders') at the annual general meeting of the Company to be held at 74 Rivington Street, London EC2A 3AY at 9.00 am on 24 November 2011 (the 'AGM'). Please read the Notice of AGM and associated notes.

I/We*

of

being Shareholder(s)* entitled to attend and vote at meetings of Shareholders, hereby appoint the Chairman of the AGM †

as my/our proxy to attend, speak and vote for me/us and on my/our behalf at the AGM and at any adjournment thereof in relation to the resolutions specified in the notice of the AGM dated 30 September 2011 (the "Resolutions") and any other business (including adjournments and amendments to the Resolutions) which may properly come before the AGM or any adjournment thereof.

† If it is desired to appoint some other person to be your proxy:
(i) delete 'the Chairman of the AGM';
(ii) initial the alteration; and
(iii) insert the full name, title and address of the person you wish to appoint as your proxy IN BLOCK CAPITALS.

* Delete as appropriate.

Please indicate with an 'X' in the appropriate space how you wish your proxy to vote on the Resolutions set out in the Notice

	Ordinary Resolutions	**For**	**Against**	**Vote withheld (note 2)**	**Discretionary (note 2)**
1	To receive the accounts for the year ended 30 June 2011, together with the reports of the Directors and Auditors therein.				
2	To re-elect Nigel Fox as a Director of the Company.				
3	To re-elect William Wyatt as a Director of the Company.				
4	To elect Michael Walker as a Director of the Company.				
5	To re-elect PricewaterhouseCoopers LLP as auditors to the Company.				
	Special Business				
6	To authorise directors to allot shares				
	Special Resolutions				
7	To disapply the statutory pre-emption rights in certain circumstances.				

Number of shares: Class of shares:

This proxy appointment is one of a multiple proxy appointment (Note 4)

Dates: Signed:

Tear along perforation

Form of Proxy for Avanti Communications Group plc continued

(incorporated and registered in England and Wales under number 6133927) (the 'Company')

1. Only holders of ordinary shares of 1p each in the capital of the Company are entitled to attend, speak and vote at the AGM and may appoint one or more proxies to attend, speak and vote instead of them.

2. Please indicate by inserting an 'X' in the appropriate box how you wish your vote to be cast on the Resolutions. If you mark the box "vote withheld" it will mean that your proxy will abstain from voting and, accordingly, your vote will not be counted either for or against the relevant resolution. If you mark the box "discretionary" or fail to select any of the given options, the proxy can vote as he or she chooses or can decide not to vote at all.

3. If the proxy is being appointed for less than your full entitlement, please indicate above your signature the number and class of shares in relation to which that person is authorised to act as your proxy. If left blank, your proxy will be deemed to be authorised in respect of your full entitlement.

4. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares (so a member must have more than one share to be able to appoint more than one proxy). A separate form of proxy must be deposited for each proxy appointed. Further copies of this form may be obtained by contacting Neville Registrars Limited between 9.00am and 5.00pm (London time) Monday to Friday on 0121 585 1131 from within the UK or +44 121 585 1131 if calling from outside the UK or you may photocopy this form. If you appoint multiple proxies, please indicate above your signature the number and class of shares in relation to which the person named on this form is authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. All forms must be signed and returned to Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA together in the same envelope. Where multiple proxies are appointed, failure to specify the number of shares to which this proxy appointment relates, or specifying a number which exceeds the number held by the member when totalled with the number specified on other proxy appointments by the same member, will render all appointments invalid.

5. To be valid, this form of proxy together with any power of attorney or other authority under which it is signed or a notarially certified copy of such power or authority must reach the Company's registrars, Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA by no later than 48 hours before the time of the AGM (or if the AGM is adjourned, 48 hours before the time fixed for the adjourned AGM).

6. The appointment of a proxy will not preclude a member from attending the AGM and voting in person but if he or she does so this proxy appointment will terminate automatically.

7. In the case of a company, this form of proxy must be executed under the common seal or signed on its behalf by an officer or attorney of the company.

8. In the case of joint holders, the proxy appointment of the most senior holder will be accepted to the exclusion of any appointments by the other joint holders. For this purpose, seniority is determined by the order in which the names are stated in the register of members of the Company in respect of the joint holding.

9. Any alterations made to this form of proxy should be initialled.

10. A member wishing to change his or her proxy instructions should submit a new proxy appointment using the methods set out in note 4 above. A member who requires another form of proxy should contact Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA. The time limits for proxy appointments in note 5 also apply to changes to proxy instructions. Any change to proxy instructions received after that time will be disregarded. If a member submits more than one valid proxy appointment, the appointment received last before the time limit in note 3 will take precedence.

11. A member wishing to revoke his or her proxy appointment should do so by sending a notice to that effect to the Company's registrars to the address set out in note 5. The revocation notice must be received by the Company's registrars by the time limit set out in note 5. Subject to note 6, any revocation notice received after this time will not have effect.

12. Please note that communications regarding the matters set out in this form of proxy will not be accepted in electronic form.

Officers and Professional Advisers

Directors

F E J G Brackenbury CBE
Chairman

D J Williams
Chief Executive

D J Bestwick
Managing Director Cyprus

N A D Fox
Group Finance Director

M J O'Connor
Chief Operating Officer

D A Foster
Non-Executive Director

W P Wyatt
Non-Executive Director

C R Vos
Non-Executive Director

M Walker OBE
Non-Executive Director

Secretary

N A D Fox

Registered Office

74 Rivington Street
London
EC2A 3AY

Company Number

6133927

Bankers

HSBC Bank Plc
70 Pall Mall
London
SW1Y 5EZ

Solicitors

Osborne Clark
2 Temple Black East
Temple Quay
Bristol
BS1 6EG

Registered Auditors

PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

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